

# IDAs

*Individual Development Accounts in Kansas*

## FISCAL FOCUS

Budget and Tax Policy in Perspective

### Introduction

The long-term economic strength of our state is closely tied to the ability of individual Kansas families to save and build financial assets. One of the ways the state encourages families to save is through matched savings accounts called Individual Development Accounts (IDAs). These accounts are designed to help lower-income Kansans position themselves for major purchases, such as a home, repairs to a home, an education, starting a business or expanding an existing business. These accounts and the behaviors they encourage help the state in both the short-term and the long-term. In the short-term, they inject funding from a number of sources - including the federal government and charitable foundations - into local economies through the savings match. In the long-term, the assets that are acquired by low-income IDA participants help them become more financially stable members of their communities.

### Individual Development Accounts in Kansas

Utilizing funding from private foundations and the federal government, IDAs have provided incentives for lower-income Kansans to save since the American Dream Demonstration in 1998. However, the state-level policy for funding these matched savings accounts has been a work in progress. Recent adjustments to the way existing Kansas IDA tax credits are administered will result in a more effective funding source for IDAs in the state.

### IDA Tax Credit Laws

Kansas has two sets of laws that provide funding for IDAs through tax credits. The first of these relates specifically to IDAs for the purpose of purchasing assistive devices for individuals with disabilities. The second set of laws provides a funding mechanism for traditional IDAs. In the case of the traditional IDA tax credits, there is a maximum of \$500,000 in statewide credits each year.

### ■ Tax Credits for Assistive Technology IDAs

In 2001, Kansas lawmakers passed a law creating tax credits for the purpose of supporting matched accounts for individuals with disabilities to save for the purchase of assistive devices, which can be very costly. This policy provides a tax credit equal to 25 percent of a donation made to a community-based organization that administers an assistive IDA program. Participation in this type of IDA program has a higher income threshold of 300 percent of the federal poverty level.<sup>1</sup>

### ■ Tax Credits for Traditional IDAs

The policy providing tax credits for traditional IDAs was adopted in 2005. Under this law, IDA savings may be utilized to pay for:

- Higher education;
- Job training for family members over age 18;
- Purchase of a first home;
- Major repairs or improvements to a home; or
- Business start-up or expansion

Like the tax credits for assistive technology IDAs, these tax credits are available for donations made to a community-based organization that administers an IDA program. However, the traditional IDA credits are worth 50 percent of the donation as opposed to 25 percent for the assistive technology credits. Another notable difference between the two types of credits is that participation in traditional IDA programs is limited to Kansans with a household income at 200 percent or less of the federal poverty level.<sup>2</sup>

### IDA Tax Credit Usage

The tax credit system for funding IDAs has proven difficult for many community-based organizations interested in administering IDA programs. In particular, these organizations report that they either don't have staff members that are knowledgeable about the credits or they



don't have enough staff to devote someone to marketing the credits. Some organizations also report that they don't have sufficient donors in their area to allow them to simultaneously fundraise for both their organization and for the IDA tax credits.

As a result of these challenges, the utilization of IDA tax credits was lower than anticipated in the early years of the program. This led the Kansas Department of Commerce, the agency administering the state's tax credit program, to explore ways of maximizing tax credit utilization.

### Allocation of Kansas Tax Credits

TAX YEAR	COMMUNITY-BASED ORGANIZATIONS RECEIVING TAX CREDIT ALLOCATIONS	NUMBER OF FILERS	AMOUNT OF CREDITS ALLOWED
2005	Information not available	16	\$10,468
2006	Mid-Kansas CAP, Inc. The Family Conservancy	7	\$9,594
2007	The Family Conservancy	36	\$41,893
2008	The Family Conservancy Interfaith Housing Services Mid-Kansas CAP KIL, Inc.	52	\$64,084

Source | Kansas Department of Commerce and the Kansas Department of Revenue

### Policy Shift in Administration of IDAs

In an effort to maximize the usage of Kansas IDA tax credits, the Kansas Department of Commerce moved to a system where all of the tax credits allocated in a particular year were awarded to one community-based organization. This shift is designed to streamline the process and the cost of marketing the tax credits, resulting in more state funding to match IDAs.

Interfaith Housing Services, Inc., based in Hutchinson, was the first community-based organization to receive all of the annual IDA tax credit allocation. Prior to the policy change, this organization had received an allocation of IDA tax credits for two-and-a-half years, raising a total of \$71,000 in 2007, \$124,000 in 2008 and \$184,000 in 2009.<sup>3</sup> Their success in marketing the IDA tax credits made them a prime candidate to serve as the sole community-based organization marketing the IDA tax credits under the administrative policy shift.

The Kansas IDA tax credits provide the necessary matching money for Interfaith to apply for federal Assets for Independence grants. This serves as an additional source of funding for Interfaith's program, which provides a \$2 match for every dollar that a participant saves.

While the majority of Interfaith's work is centered in their service area in central Kansas, the organization's goal is to provide IDA opportunities and funding in communities across the state.

### Conclusion

The Kansas IDA Tax Credit program got off to a slow start in terms of the number of credits that were utilized in the first few years after the program was enacted. However, changes made in the administration of the program have simplified the process for utilizing the credits and put the program on track to improve the financial stability of lower-income Kansans across the state.

### Sources and Notes

- 1 K.S.A. 65-7101 through 65-7107.
- 2 K.S.A. 74-50,201 through 74-50,208.
- 3 Information provided by Interfaith Housing Services, Inc.



This report was written and published by Kansas Action for Children as part of its Fiscal Focus Initiative. The Fiscal Focus Initiative is funded, in part, by The Annie E. Casey Foundation and the United Methodist Health Ministry Fund. The findings and conclusions presented are those of Kansas Action for Children and do not necessarily reflect the opinions of the funders.

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