**TO: Members of the Employment and Community Development Task Force**

**FROM: Partnership for Job Creation**

**DATE: June 17, 2019**

**RE: Response to Request for Information from the Senate Finance Committee's Employment and Community Development Task Force**

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Thank you for the opportunity to submit comments to the Employment and Community Development Task Force's request for information on the New Markets Tax Credit ("NMTC"). The Partnership for Job Creation was founded in 2011 and is a broad coalition of NMTC practitioners engaged in advocacy efforts to highlight the positive economic impact of the tax credit, a vital community development tool that has helped to transform communities in its nearly twenty years of existence. Please let us know if you need any additional information.

**1) In your view, what was the original purpose and legislative intent of this provision? How has the provision met the original intent?**

Established under the Community Renewal Relief Act of 2000, the NMTC was created to encourage taxpayers to make investments and loans in low-income communities by establishing a new tax credit for investments made to acquire stock or a partnership interest in a selected community development entity ("CDE"). [1] A CDE's primary mission is to serve distressed communities. CDEs do so by leveraging tax credit equity over 2x with private capital to make investments in low-income communities. Passed on the heels of welfare reform in 2000, the original legislation's intent was to provide jobs and community services to low-income residents and access to capital to businesses and projects in economically depressed areas.

Since its implementation, the NMTC has fulfilled the intent of the legislation in exemplary fashion. It is estimated that the NMTC has generated $8 of private investment for every dollar invested by the federal government.[2] As a result, private investors have injected much needed investment into low-income communities. The NMTC has exceeded expectations by driving

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[1] JCT, "General Explanation Of Tax Legislation Enacted In The 106th Congress," JCS-2-01 (April 19, 2001).

[2] KPMG, "U.S. Treasury awards $3.5 billion in NMTC allocation," https://home.kpmg/us/en/home/insights/2019/05/tnf-us-treasury-awards-nmtc-allocations.html.

investments to the most capital-starved and economically depressed communities. Indeed, the most recent year's available data shows that more than 83% of NMTC-financed projects were in our nation's most severely distressed communities, far exceeding the statutorily required investment levels.[3] By investing more than $48.6 billion into these communities, NMTC investments have created or enabled the retention of more than 800,000 jobs and contributed directly to the construction or rehabilitation of more than 205 million square feet of commercial real estate.[4] In 2017 alone, KPMG LLP estimates that projects financed by NMTC award recipients created over 60,000 jobs in impoverished rural and urban areas.[5]

**2) Since the provision was enacted, have there been policy changes that have altered the purpose of this provision? How have these changes impacted the ability to meet the original intent? Have these changes improved the provision?**

***and***

**3) Since the provision was enacted, have there been other external changes that have altered the purpose of this provision?**

Since its enactment, both Congress and regulators have made changes to the NMTC program to allow taxpayers the flexibility to make investments in a more diverse range of communities, businesses, and ventures, broadening the impact of the credit. In addition, IRS rule changes have helped taxpayers invest in projects beyond real estate-related projects and allowed NMTC investors greater access to investments in operating businesses.[6] Similarly, these rules have connected low-income communities to traditional banking capital (as well as public and philanthropic lenders) as the federal subsidy incentivizes lenders to provide the private sector capital referenced in Question 1 into the NMTC structure to enable CDEs to make investments in businesses and projects that may not otherwise meet traditional underwriting standards.[7] Further, the discretion of the Community Development Financial Institution Fund ("CDFI") in allocating awards has increased the diversity and number of CDEs, expanding the reach of the program across the country.[8] The CDFI has also adopted policies to ensure that rural areas receive NMTC investments as well as states that lag behind in NMTC investment volume.

Congress originally allocated $15 billion to the NMTC program from 2001 to 2007. Since then, with broad bipartisan support, Congress has extended the NMTC program six times (most

[3] "New Markets Tax Credit Progress Report 2018," New Markets Tax Credit Coalition, nmtccoalition.org/progress-report.

[4] KPMG, "U.S. Treasury awards $3.5 billion in NMTC allocation," https://home.kpmg/us/en/home/insights/2019/05/tnf-us-treasury-awards-nmtc-allocations.html.

[5] *Id*.

[6] New Markets Tax Credit Non-Real Estate Investments, Federal Register, Vol. 77, No. 189, pp. 59544–59547, September 28, 2012.

[7] OCC, "New Markets Tax Credits: Unlocking Investment Potential" pg. 21, https://www.occ.gov/topics/community-affairs/publications/insights/pub-insights-jun-2013.pdf.

[8] *Id*.

recently in the PATH Act through 2019) at $3.5 billion per year, altered the statute to better serve rural communities,[9] and increased the total allocation authority to $61 billion overall.

These policy changes to the NMTC have allowed the program to evolve as low-income community needs changed and connected investors and banks to such communities, furthering the legislative intent of incentivizing investment in the most capital-deprived parts of the nation.

**4) As currently drafted, does the provision achieve its stated purpose?**

***and***

**5) Are there potential reforms to this provision that would strengthen it and allow it to better achieve its stated purpose?**

The NMTC provision achieves its stated purpose as currently enacted, but with simple yet important changes, the program could be made even more effective in carrying out its mission of driving capital to low-income communities. Passage of S. 750, the New Markets Tax Credit Extension Act of 2019,[10] would provide greater certainty for investors, promote competition in the application process to bid for credit allocations and lead to greater efficiencies and outcomes in targeted communities. S. 750 would make the NMTC permanent, index to inflation the amount of credits annually available under the NMTC program and remove the NMTC from the Alternative Minimum Tax ("AMT").

Greater certainty as to the permanency of the NMTC will lead investors to increase capital inflows to CDEs. As a result of the heightened capital available for investment, the bidding process among CDEs for credit allocation will become more competitive, resulting in more efficient and impactful investments that provide capital injections into the nation's most economically distressed communities. Indeed, the data indicates that heightened competition in the NMTC program led to more CDE investments in qualified businesses and developments in communities with a 30% poverty rate, rather than the statutorily required 20% poverty rate.

**6) How has the temporary nature of the provision affected its ability to achieve its stated purpose, if at all?**

Markets crave certainty. The NMTC universe of investors, CDEs and leverage lenders that occupy the "private" side of the public-private partnership that is the NMTC program is no different. The temporary nature of the program is a barrier to the program's ability to achieve its full potential. All participants have invested money and time in building the NMTC infrastructure that enables the credit to do the great work that it has done. The impermanent nature of the NMTC program, however, creates uncertainty which effects a CDE's ability to

[9] For example, the Tax Relief and Health Care Act of 2006 extended the NMTC through 2008 and required that a proportional amount of NMTC credits be allocated to non-metro area projects. Since this change, non-metro area investment has commanded around 20% of NMTC investment.

[10] Sponsored by Senators Blunt (R-MO) and Cardin (D-MD), S. 750 is a bipartisan bill with more than 20 cosponsors, 9 of which are members of the Senate Finance Committee.

maintain proper staffing and most efficiently and effectively source investments. Permanency will enable the NMTC program to reach its full potential.

**7) Are there any other special considerations that you would like to identify relative to this provision?**

We support the changes made to the NMTC in S. 750 as stated in our response to Question 5.

**8) Can you quantify or elaborate on the full scope of the impact of the provision as currently drafted, including but not limited to the total numbers and defining characteristics of the beneficiaries of the provision?**

In addition to the positive effects created by shepherding much-needed capital to the most economically distressed communities, the NMTC produces significant positive fiscal and economic effects. A 2012 study authored by the Partnership for Job Creation shows that the NMTC program provides outstanding return on investment to taxpayers.[11] Return on investment to taxpayers under low-end scenarios was estimated to be 2.2 times greater than the value of the tax credit, middle-level scenarios estimated that the return was 7.4 times greater, and higher-end estimates indicated that return on investment to taxpayers was 14.8 times greater than the value of the credit. In addition to the positive fiscal effects of the credit, the study showed that the economic impact of businesses financed through the NMTC program creates hundreds of thousands of jobs, directly and indirectly, in targeted communities throughout the country.

[11] Ellen D. Harpel, Ph.D., "Return on Investment: Fiscal and Economic Impacts of the New Markets Tax Credit Program," Partnership for Job Creation (2012) https://www.akingump.com/images/content/2/0/v4/20213/Fiscal-and-Economic-Impacts-of-the-New-Markets-Tax-Credit-103839.pdf.