



## PARTNERSHIP FOR JOB CREATION

### STATEMENT FOR THE RECORD

#### HEARING ON CERTAIN EXPIRING TAX PROVISIONS SUBCOMMITTEE ON SELECT REVENUE MEASURES THURSDAY, APRIL 26, 2012

The Partnership for Job Creation is an alliance of stakeholders in the New Markets Tax Credit (NMTC) industry, including community development entities (CDEs), investors, and accounting or consulting firms. The Partnership appreciates this opportunity to share its statement on the importance of the New Markets Tax Credit and the need for a long-term or permanent extension of the credit as a part of reform of the tax code.

The NMTC (I.R.C. Sec. 45D(f)(1)) provides investors with federal tax credits in exchange for making equity investments in investment vehicles known as Community Development Entities (CDEs). In turn, CDEs provide low-rate financing to transformative projects and small businesses in highly distressed communities across the country. Each year, CDEs vie for allocations in a competitive, blindly scored application process overseen by the Department of Treasury's CDFI Fund. Since the program's creation in 2000, the CDFI Fund has allocated \$33 billion in tax credit authority at a total actual cost of just of roughly \$13 billion to the Treasury Department, as only 39% of the allocation authority can be claimed as tax credits.

The New Markets Tax Credit enjoys a long history of bipartisan support. The credit was passed by a Republican Congress and signed into law by President Clinton in 2000. It was implemented by President George W. Bush, whose administration strengthened the credit by adding new accountability measures. That spirit of bipartisan endures today. Sixty-four House members, including 14 on the Ways and Means Committee, have already signed on to H.R. 2655 (New Markets Tax Credit Extension Act of 2011), which seeks a five-year extension of the credit. A companion bill in the Senate, S. 996, also enjoys the bipartisan support of 24 senators.

The Partnership does support a short-term extension in the interim until comprehensive tax reform is undertaken, but we strongly believe that making the NMTC a permanent part of the Internal Revenue Code would make this credit even more successful than it is today.

The Partnership was pleased that, in his opening statement, Subcommittee Chairman Tiberi advocated that *“with a few exceptions, temporary tax provisions that are worthy should be made*

*permanent.*” The NMTC is a perfect example of a temporary provision that, if made permanent, would result in an even more successful program.

The NMTC meets the criteria Subcommittee Chairman Tiberi identified as necessary to evaluate whether tax provisions are effective: whether they create jobs and whether they still serve their intended purpose. The NMTC creates jobs and meets its intended purpose by creating a business-led expansion of investment, job creation, and economic opportunity in communities afflicted by high unemployment and poverty. As Congressman Gerlach (R-PA) stated during the hearing, 88% of NMTC-financed investments would not have been made without the help of the credit.

Innumerable local small businesses have been financed to open or expand in struggling areas, providing a sustainable economic engine that will drive community development and job creation well beyond the lifespan of the tax credits. Beyond the direct job-creation benefits accrued as a result of any single project, the subsequent economic activity that increases as a neighborhood redevelops around a NMTC-anchored project generates additional job growth, additional economic activity, and additional tax revenue.

The NMTC program is among the Top 25 programs given the prestigious “Innovations in American Government Award,” administered by the Harvard University Kennedy School of Government. That recognition is due in large part to the credit’s transparency and its use of business-oriented mechanisms to accomplish social and economic missions, in a process known as “community capitalism.”

What makes this credit so cost-effective for taxpayers is the extraordinary amount of private capital that is unlocked through the initiative. According to data from the Treasury Department, for every one dollar of federal tax credit, \$8 of private capital is leveraged.

The construction or expansion of retail centers, factories, job training centers, small businesses, charter schools, and health centers are just a sampling of the array of catalyzing projects that have been made possible by the NMTC. Such variety is due to the flexibility of the tax credit in allowing local market forces to decide which projects and businesses are financed, so long as the project meets the basic criteria of being located in an economically distressed census tract, with the intention of galvanizing economic growth, creating local jobs, and improving struggling communities.

While the NMTC has a long history of success, it would be even more successful if it were included as a permanent part of the tax code. Certainty in the tax code would attract even more investors and allow for long-term planning and increased job creation. Periodic, temporary, or retroactive extensions undermine the effectiveness of valuable initiatives, such as the New Markets Tax Credit. When uncertainty reigns, investors sit on the sidelines. As Subcommittee Chairman Tiberi noted, “Making tax policy this way [yearly extensions] wreaks havoc on the ability of families and businesses to plan for the future with some certainty.” Simply put, capitalism can’t work without capital – and uncertainty makes capital harder to come by.

The NMTC galvanizes community development, generates economic activity, and provides a substantial return for taxpayers, making it a prime example of sound tax policy. Yet, communities and investors are unable to realize the full potential of the program because of its temporary nature. Making the credit a permanent fixture of the tax code would allow CDEs to

plan and finance multi-year investments more efficiently and attract more investor demand for the credits, thus resulting in an even greater impact on communities, more job creation, and a higher return on investment for the taxpayer.

The Partnership certainly understands the current fiscal environment and supports a short term extension of the NMTC if Congress is unable to make the program permanent until it tackles tax reform. However, for the reasons noted above, the program would be even more successful if there was the certainty of permanence, rather than yearly extensions. The Partnership appreciates the opportunity to share its thoughts on this importance issue and urges Congress to help the NMTC Program exceed its current potential by providing certainty by making the Program a permanent part of the tax code.