

House Committee on Ways and Means – Select Revenue Measures Subcommittee hearing on Hearing on Certain Expiring Tax Provisions

I. Contact Information

Arlen Kangas, President

Midwest Minnesota Community Development Corporation (MMCDC)

119 Graystone Plaza, Suite 100

Detroit Lakes, MN 56501

218-847-3191

akangas@mmcdc.com

II. Purpose of Statement

To support extension of the New Markets Tax Credit, which expired on December 31, 2011 and HR 2655, the New Markets Tax Credit Extension Act of 2011.

III. NMTC History

The New Markets Tax Credit program is the product of a bi-partisan effort between then President Clinton and then Speaker Hastert to revitalize urban and rural communities by using tax incentives to attract private sector capital, rather than federal grants. MMCDC has deployed over \$300 million of these tax credits for a wide variety of uses and has created eight 'funds' from which we make loans at target much smaller businesses. Thus we can use this program to finance large businesses or small ones.

IV. Benefits of NMTCs

- a. NMTCs have drawn new players into making investments in projects that we finance and has provided us the ability to finance more and larger transactions.
- b. The program has been particularly effective during the recent economic downturn with lenders and investors both skittish about making either loans or investments.
- c. As the industry becomes more familiar with the program the delivery system has improved dramatically and so has the interest by entities seeking an allocation. Since the first allocation in 2003, overall demand for Credits has exceeded the amount available by over \$190 billion;

V. Return on Investment

As Congress considers extending NMTC, it is important to consider the cost of the Credit, in terms of revenue forgone. By any measure, NMTC provides a substantial return. Given that the impact of these investments is in low-income census tracts, the impact is directed to areas with the greatest need.

VI. Targeted Impact of NMTC

All NMTC transactions are in targeted communities; most of them hard hit by current economic circumstances. All NMTC investments benefit businesses located in low income communities where poverty rates are 20% or more and where incomes do not exceed 80% of area median. There is a provision to encourage investing in rural areas which offers distributional balance to the program.

VI. Support for HR 2655

The key components of the New Markets tax Credit Extension Act are: A long term extension—5 years, an increase in Credit authority—\$ 5 billion in annual Credit authority and an exemption from the Alternative Minimum Tax for NMTC investments.

There is enormous demand for New Markets Tax Credits. Since the program was rolled out in 2003, demand for NMTC has exceeded \$225 billion. A total of \$33 billion in Credit has been available. Just as important as the demand is the impact that NMTC has had on economically distressed communities. Billions of dollars has flowed to communities traditionally left out of the investment mainstream and hard hit by the recession.

Examples of the businesses we have assisted include:

- A Veteran's Museum in the small town of Perham, MN
- An expanded tractor production facility in Southern Minnesota that re-domesticated production of tractors from France
- A new unit train loading facility to be built in the state of Washington to minimize semi-truck traffic and lower transportation costs

Greater certainty regarding the existence of the credit will help investors and tax credit allocatees sustain the infrastructure necessary to implement the program.

Exemption from the AMT provisions will encourage new, and smaller, investors into the program. With added competitiveness more capital will flow into low-income areas.