Federal budget proposes permanent reauthorization of New Markets Tax Credit

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In brief

The Budget of the United States Government, Fiscal Year 2014, contains several proposals impacting the New Markets Tax Credit (NMTC) and other credits. The budget proposes to:

- permanently reauthorize the NMTC in 2014

- request $5 billon of annual NMTC allocation authority

- request authority to use NMTC to offset the alternative minimum tax

- establish a new Manufacturing Communities Tax Credit (MCTC) with $2 billion in tax credit authority in each of the three years through 2016

- extend the Community Development Financial Institutions (CDFI) Bond Guarantee Program through fiscal year 2015 and support up to $1 billion in aggregate guarantee authority.

The Budget provides that the NMTC allocations will expand the availability of affordable financing for operating businesses and real estate projects in low-income communities (such as renewable energy projects, charter schools, health care centers, manufacturing facilities, and retail centers), and the MCTC will support investments in communities affected by military base closures or mass layoffs.

The CDFI program will support lending and investment activity by providing a source of long-term capital in low-income and underserved communities. The proceeds of these bonds are intended to help spur job creation among small businesses and entrepreneurs, and provide needed financing for infrastructure development projects such as charter schools and affordable housing.

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Click the following link for our insight into the FY2014 Budget, *Obama Administration FY 2014 budget focuses on tax reform, deficit reduction, and new initiatives.*

Click here for an article by Myriam Simmons regarding how the New Markets Tax Credit supports economic development.

The takeaway

The NMTC program was created in 2000 to help spur economic and community development and job creation in "low-income communities" (LICs). The

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program provides a credit against federal income taxes to investors that make qualified investments into Community Development Entities (CDEs).

Many companies often miss non-traditional methods to reduce costs associated with expansion and everyday operations. Most companies think that assistance to help lessen those costs only comes from economic development agencies and governmental entities. Equally available, and potentially more

beneficial, is money available through partnering with regional and/or national Community Development Entities that have received funding through federal and state New Market Tax Credit Programs. These programs provide the potential to receive 15%-20% up-front cash benefits for qualified projects, thereby increasing company cash flow, lowering operational costs, and increasing company ROI.

Two aspects of the budget should cause some excitement regarding the

NMTC program. First, the annual wait-and-see whether the program will be renewed (since the NMTC has only recently been renewed on a year-by-year basis) may thankfully come to an end with the budget proposing to make the program permanent. Second, the $5 billion of allocations equals the largest authorization amount in the program's history. Both the permanent renewal and the large allocation amount suggest that the budget drafters acknowledge the value in supporting the NMTC program.

Let's talk

If you have any questions about the NMTC program, please contact any of the following professionals:

Credits and incentives practice

Michael Harris
Partner, *Kansas City*
+1 (816) 218-1667
michael.a.harris@us.pwc.com

Myriam Simmons
Director, *Stamford*
+1 (203) 539-4231
myriam.simmons@us.pwc.com

Michael Santoro
Director, *Chicago*
+1 (312) 298-2917
michael.v.santoro@us.pwc.com

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