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Tax Credits Considered Critical to White House-Proposed 'Promise Zones.'

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Earlier in the day, the White House announced the designation of its first set of “promise zones” in five areas: southeastern Kentucky, Los Angeles, Philadelphia, San Antonio, and the Choctaw Nation of Oklahoma. Those zones are part of a program proposed in Obama’s fiscal 2014 budget plan to encourage economic growth in economically disadvantaged communities.

According to the Treasury Department’s green book explanation of the fiscal 2014 budget’s revenue proposals, the administration proposed two tax incentives for promise zones. The first is an employment credit for businesses employing promise zone residents, applicable to the first \$15,000 of an eligible employee’s wages. The credit rate would be 20 percent for residents also working within the zone and 10 percent for residents working outside the zone. Under the second proposal, qualified property placed in service within the zone would be eligible for additional first-year depreciation of 100 percent of the adjusted basis of the property.

Under the administration’s proposal, a total of four sets of five promise zones are planned, with each set going into effect in 2015, 2016, 2017, and 2018. The zones and the available tax incentives would be in effect for 10 years.

“Yes, these promise zones will work without the tax credits. No, they won’t work to full capacity,” Donovan said in a conference call with reporters after Obama delivered a speech at the White House on the zones.

Although Congress has not considered the administration’s promise zone proposal, Senate Minority Leader Mitch McConnell, R-Ky., and Sen. Rand Paul, R-Ky., who both attended Obama’s speech, recently introduced the Economic Freedom Zones Act of 2013 (S. 1852), which also ties tax incentives to designated areas in need of economic growth.

McConnell on January 9 called on Senate Majority Leader Harry Reid, D-Nev., to allow a vote on an amendment incorporating his bill as part of the chamber’s consideration of an emergency unemployment compensation extension bill.

by Meg Shreve

