

January 21, 2002

BUSH ADMINISTRATION ANNOUNCES RENEWAL COMMUNITY INITIATIVE; HUD ANNOUNCES CHATTANOOGA SELECTED A RENEWAL COMMUNITY

ELIGIBLE FOR \$17 BILLION IN TAX INCENTIVES

CHATTANOOGA – The Department of Housing and Urban Development today announced Chattanooga will be designated a “Renewal Community,” eligible to share in an estimated \$17 billion in tax incentives to stimulate job growth, promote economic development and create affordable housing. The 2000 Community Renewal Tax Relief Act established the Renewal Community Initiative that will encourage public-private collaboration to generate economic development in 40 distressed communities around the country.

As a result of this Renewal Community designation, Chattanooga will receive regulatory relief and tax breaks to help local businesses provide more jobs and promote community revitalization.

“These tax incentives will help businesses grow in some of our country’s most challenging communities,” said HUD Regional Director Jim Chaplin. “By creating the incentives that will promote job growth and economic development, we are joining with the private sector to restore economic vitality and restore whole communities in the process.”

“Thanks to the leadership of President Bush and Secretary Martinez, and using the power of public-private partnerships, these Renewal Communities will provide the incentives to grow jobs, build affordable housing, and promote economic development in Chattanooga,” said Mayor Bob Corker. “We are thrilled that Chattanooga is one of the first cities to receive this designation.”

“For years I have been active in the effort to create community renewal legislation that provides tax benefits for inner-city areas,” Congressman Zach Wamp said. “This Administration knows the importance of economic development in areas such as Alton Park in south Chattanooga. These communities are a prime example of where these tax incentives will encourage reinvestment to grow business opportunities, create jobs and make housing more affordable.”

Renewal Communities will use the power of public and private partnerships to build a framework of economic revitalization in areas that experience high unemployment and shortages of affordable housing. An estimated \$6 billion in tax incentives are exclusively available for Renewal Communities across the country. As distressed areas, Renewal Communities will also be eligible to share in an additional \$11 billion in Low-Income Housing and New Market Tax Credits.

These new RCs can take advantage of wage credits, tax deductions, capital gains exclusions and bond financing to stimulate economic development and job growth. Each incentive is tailored to meet the particular needs of a business and offers a significant inducement for companies to locate and hire additional workers.

The median income in the Chattanooga Renewal Community is less than a than a third of the Metropolitan Statistical Area. By reducing tax burdens, improving local services and reducing crime, the City hopes to attract businesses into the area that will make up its Renewal Community. In addition, Chattanooga anticipates that all Brownfields located within the Renewal Community will be redeveloped and that 900 jobs will be created over the next 10 years.

TAX CREDITS

- *Wage credits* are especially attractive to businesses looking to grow. These businesses are able to hire and retain RC residents and apply the credits against their federal tax liability. Businesses operating in the new Renewal Community will enjoy up to a \$1,500 credit for every newly hired or existing employee who lives and works in the RC.
- *Work Opportunity Credits* provide businesses in Renewal Communities with up to \$2,400 against their Federal tax liability for each employee hired from groups with traditionally high unemployment rates or other special employment needs, including youth who live in the RC.

- *Welfare to Work Credits* offer businesses a credit of up to \$3,500 (in the first year of employment) and \$5,000 (in the second year) for each newly hired long-term welfare recipient.

TAX DEDUCTIONS

- *Commercial Revitalization Deductions* permit a State with one or more RCs to deduct \$12 million per RC per year, up to \$10 million per project for commercial or industrial buildings developed in the RCs. A business can deduct up to \$5 million in the year the building is placed in service or deduct the full amount of eligible expenditures pro rata over 10 years.
- *Section 179 Deductions* under the tax code allow a qualified Renewal Community business to expense up to \$35,000 of additional qualified property such as equipment and machinery acquired each year during the period of the RC designation, 2002 through 2009.
- *Environmental Cleanup Cost Deductions* allow businesses to deduct qualified cleanup costs in Brownfields.

CAPITAL GAINS EXCLUSIONS

Zero Percent Capital Gains Rate applies to an interest in, or property of, certain businesses operating in a Renewal Community, if the asset is acquired during the period of the RC designation and held for at least 5 years.

BOND FINANCING

Qualified Zone Academy Bonds allow state and local governments to match no-interest loans with private funding sources to finance public school renovations and programs.

In addition to the incentives described above, HUD will provide technical assistance to these communities to help make businesses fully aware of the many opportunities available to them. To make certain the Renewal Communities are successful in the initial stages of their designations, HUD will host an Implementation Conference in the spring of 2002 where the newly designated RCs will meet to hear from experts in the fields of business, taxes and economic development.

OTHER INCENTIVES

Like all distressed communities, Renewal Communities will also be able to take advantage of the *New Markets Tax Credits* that provide investors with a credit against their federal taxes of 5 to 6 percent of the amount invested in a distressed area. Also available to Renewal Communities is the *Low-Income Housing Tax Credit* providing credit against Federal taxes for owners of newly constructed or renovated rental housing.

The 2000 Community Renewal Tax Relief Act authorized HUD to designate 40 Renewal Communities and seven new urban Empowerment Zones. HUD received more than 100 Renewal Community applications from communities around the country. Urban RC applicants were ranked according to their 1990 Census rates of poverty, unemployment and low-income households. Rural RC applicants were exempt from the household income factor. Bonus points were given for having low crime and having been identified by GAO as an extremely distressed area. In other words, the most economically distressed communities were awarded designation. Existing EZ/ECs also received a preference in rating and ranking.

EDITOR NOTE: For more information about Renewal Communities, visit <http://www.hud.gov/offices/cpd/ezec/index.cfm>