

1 HB257  
2 137490-3  
3 By Representatives Ison, Barton, Fincher, Buskey, Kennedy and  
4 Davis  
5 RFD: Economic Development and Tourism  
6 First Read: 09-FEB-12

1 ENGROSSED

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4 A BILL  
5 TO BE ENTITLED  
6 AN ACT  
7

8 Relating to low-income communities; to establish  
9 state income, financial institution excise, and premium tax  
10 credits for investments in businesses in impoverished and low  
11 income communities within a downtown core area or central  
12 business district.

13 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

14 Section 1. This act shall only apply to those areas  
15 within the State of Alabama which qualify as a "low income  
16 community" pursuant to Section 45D of the Internal Revenue  
17 Code.

18 Section 2. This act shall be known as the Alabama  
19 New Markets Development Act.

20 Section 3. As used in this act, the following terms  
21 shall have the following meanings:

22 (1) APPLICABLE PERCENTAGE. In the downtown core area  
23 or central business district, zero percent for the first  
24 credit allowance date, ~~8~~ 8.33 percent for the next ~~five~~ six  
25 credit allowance dates, ~~and 10 percent for the seventh credit~~  
26 ~~allowance date,~~ for the total of 50 percent. In areas other  
27 than the downtown core area or central business district, zero

1 percent for the first credit allowance date, seven percent for  
2 the second through sixth credit allowance dates, and four  
3 percent for the seventh credit allowance date, for a total of  
4 39 percent.

5 (2) CREDIT ALLOWANCE DATE. With respect to any  
6 qualified equity investment, the date on which such investment  
7 is initially made and each of the six anniversary dates of  
8 that date thereafter.

9 (3) DEPARTMENT. The Alabama Development Office.

10 (4) DOWNTOWN CORE AREA or CENTRAL BUSINESS DISTRICT.  
11 The designation by a municipal corporation in the municipal  
12 zoning ordinance for the geographical area of the city center.

13 (5) LONG-TERM DEBT SECURITY. Any debt instrument  
14 issued by a qualified community development entity, at par  
15 value or a premium, with an original maturity date of at least  
16 seven years from the date of its issuance, with no  
17 acceleration of repayment, amortization, or prepayment  
18 features prior to its original maturity date. The qualified  
19 community development entity that issues the debt instrument  
20 may not make cash interest payments on the debt instrument  
21 during the period beginning on the date of issuance and ending  
22 on the final credit allowance date in an amount that exceeds  
23 the cumulative operating income, as defined by regulations  
24 adopted under Section 45D, Internal Revenue Code of 1986, as  
25 amended, of the qualified community development entity for  
26 that period prior to giving effect to the expense of such cash  
27 interest payments. The foregoing shall in no way limit the

1 holder's ability to accelerate payments on the debt instrument  
2 in situations where the issuer has defaulted on covenants  
3 designed to ensure compliance with this act or Section 45D of  
4 the Internal Revenue Code of 1986, as amended.

5 (6) PURCHASE PRICE. The amount paid to the issuer of  
6 a qualified equity investment for that qualified equity  
7 investment.

8 (7) QUALIFIED ACTIVE LOW-INCOME COMMUNITY BUSINESS.  
9 The same meaning given that term in Section 45D(d)(2) of the  
10 Internal Revenue Code of 1986, as amended, but without Section  
11 45(D)(d)(2)(A)(v) thereof. A business shall be considered a  
12 qualified active low-income community business for the  
13 duration of the qualified community development entity's  
14 investment in, or loan to, the business if the entity  
15 reasonably expects, at the time the qualified community  
16 development entity makes the investment or loan, that the  
17 business may continue to satisfy the requirements for being a  
18 qualified active low-income community business throughout the  
19 entire period of the investment or loan.

20 (8) QUALIFIED COMMUNITY DEVELOPMENT ENTITY. The same  
21 meaning given that term in Section 45D of the Internal Revenue  
22 Code of 1986, as amended; provided, that the entity has  
23 entered into, or is controlled by an entity that has entered  
24 into, an allocation agreement with the Community Development  
25 Financial Institutions Fund of the U.S. Treasury Department  
26 with respect to credits authorized by Section 45D of the  
27 Internal Revenue Code of 1986, as amended, which includes the

1 State of Alabama within the service area set forth in that  
2 allocation agreement. The term shall include affiliated  
3 entities and subordinate community development entities of any  
4 such qualified community development entity.

5 (9) QUALIFIED EQUITY INVESTMENT. Any equity  
6 investment in, or long-term debt security issued by, a  
7 qualified community development entity that does all of the  
8 following:

9 a. Is acquired after the effective date of this act  
10 at its original issuance solely in exchange for cash.

11 b. Has at least 85 percent of its cash purchase  
12 price used by the issuer to make qualified low-income  
13 community investments in qualified active low-income community  
14 businesses located in the State of Alabama by the first  
15 anniversary of the issuance of the qualified equity  
16 investment.

17 c. Is designated by the issuer as a qualified equity  
18 investment under this act and is certified by the department  
19 as not exceeding the limitation contained in Section 6. This  
20 term includes any qualified equity investment that does not  
21 meet the provisions of paragraph a., if the investment was a  
22 qualified equity investment in the hands of a prior holder.

23 (10) QUALIFIED LOW-INCOME COMMUNITY INVESTMENT. Any  
24 capital or equity investment in, or loan to, any qualified  
25 active low-income community business. With respect to any one  
26 qualified active low-income community business, the maximum  
27 amount of qualified low-income community investments made in

1 that business, on a collective basis with all of its  
2 affiliates that may be counted towards the satisfaction of  
3 subdivision (9), shall be ~~five million dollars (\$5,000,000)~~  
4 ten million dollars (\$10,000,000) whether issued by one or  
5 several qualified community development entities.

6 (11) TAX CREDIT. A credit against the tax otherwise  
7 due under Section 27-4A-3, 40-16-4, 40-18-5, or 40-18-31 of  
8 the Code of Alabama 1975. A taxpayer claiming a credit against  
9 state premium tax liability earned through a qualified equity  
10 investment is not required to pay any additional retaliatory  
11 tax levied by law as a result of claiming that credit.

12 (12) TAXPAYER. Any individual or entity subject to  
13 the tax imposed in Section 27-4A-3, 40-16-4, 40-18-5, or  
14 40-18-31 of the Code of Alabama 1975.

15 Section 4. The purchaser of the qualified equity  
16 investment, or subsequent holder of the qualified equity  
17 investment, earns a vested right to a tax credit and shall be  
18 entitled to utilize a portion of such tax credit during the  
19 taxable year including that credit allowance date equal to the  
20 applicable percentage for such credit allowance date  
21 multiplied by the purchase price paid to the issuer of the  
22 qualified equity investment. The amount of the tax credit  
23 claimed shall not exceed the amount of the taxpayer's state  
24 tax liability for the tax year for which the tax credit is  
25 claimed. The basis of any qualified equity investment shall be  
26 reduced by the amount of any credit determined under this  
27 section with respect to such investment.

1           Section 5. Tax credits claimed under this act shall  
2 be transferable on the open market. Tax credits earned by a  
3 partnership, limited liability company, S corporation, or  
4 other "pass-through" entity may be allocated to the partners,  
5 members, or shareholders of that entity for their direct use  
6 in accordance with the provisions of any agreement among the  
7 partners, members, or shareholders. Any amount of tax credit  
8 that the taxpayer, or partner, member, or shareholder thereof,  
9 is prohibited from claiming in a taxable year may be carried  
10 forward to any of the taxpayer's subsequent taxable years.

11           Section 6. Once the department has certified a  
12 cumulative amount of qualified equity investments that can  
13 result in the utilization of twenty million dollars  
14 (\$20,000,000) of tax credits in any tax year, the department  
15 may not certify any more qualified equity investments under  
16 Section 7. This limitation shall be based on the scheduled  
17 utilization of tax credits without regard to the potential for  
18 taxpayers to carry forward tax credits to later tax years.

19           Section 7. (a) A qualified community development  
20 entity that seeks to have an equity investment or long-term  
21 debt security designated as a qualified equity investment and  
22 eligible for tax credits under this act shall apply to the  
23 department. The qualified community development entity shall  
24 submit an application on a form that the department provides  
25 that includes all of the following:

1           (1) The name, address, tax identification number of  
2 the entity, and evidence of the entity's certification as a  
3 qualified community development entity.

4           (2) A copy of any allocation agreement executed by  
5 the entity, or its controlling entity, and the Community  
6 Development Financial Institutions Fund.

7           (3) A certificate executed by an executive officer  
8 of the entity attesting that the allocation agreement remains  
9 in effect and has not been revoked or cancelled by the  
10 Community Development Financial Institutions Fund.

11           (4) A description of the proposed amount, structure,  
12 and purchaser of the equity investment or long-term debt  
13 security.

14           (5) The name and tax identification number of any  
15 taxpayer eligible to utilize tax credits earned as a result of  
16 the issuance of the qualified equity investment.

17           (6) Information regarding the proposed use of  
18 proceeds from the issuance of the qualified equity investment.

19           (7) A nonrefundable application fee of five thousand  
20 dollars (\$5,000). This fee shall be paid to the department and  
21 shall be required of each application submitted.

22           (b) The department shall review the application and  
23 shall independently verify that the above requirements in  
24 subsection (a) have been met.

25           (c) Within 60 days after receipt of a completed  
26 application containing the information necessary for the  
27 department to certify a potential qualified equity investment,

1 including payment of the application fee, the department shall  
2 grant or deny the application in full or in part. If the  
3 department denies any part of the application, it shall inform  
4 the qualified community development entity of the grounds for  
5 the denial. If the qualified community development entity  
6 provides any additional information required by the department  
7 and otherwise completes its application within 15 days of the  
8 notice of denial, the application shall be considered  
9 completed as of the original date of submission. If the  
10 qualified community development entity fails to provide the  
11 information or complete its application within the 15-day  
12 period, the application shall remain denied and shall be  
13 resubmitted in full with a new submission date.

14 (d) If the application is deemed complete, the  
15 department shall certify the proposed equity investment or  
16 long-term debt security as a qualified equity investment that  
17 is eligible for tax credits under this section, subject to the  
18 limitations contained in Section 6. The department shall  
19 provide written notice of the certification to the qualified  
20 community development entity. The notice shall include the  
21 names of those taxpayers who are eligible to utilize the  
22 credits and their respective credit amounts. If the names of  
23 the taxpayers who are eligible to utilize the credits change  
24 due to a transfer of a qualified equity investment or a change  
25 in an allocation pursuant to Section 5, the qualified  
26 community development entity shall notify the department of  
27 the change.

1           (e) The department shall certify qualified equity  
2     investments no earlier than 30 days following the U.S.  
3     Department of Community Development Financial Institutions  
4     (CDFI) Fund announcement of its annual awarding of tax credit  
5     allocation authority under the Federal New Markets Tax Credit  
6     program in the order applications are received by the  
7     department. Applications received on the same day shall be  
8     deemed to have been received simultaneously. For applications  
9     received on the same day and deemed complete, the department  
10    shall certify, consistent with remaining tax credit capacity,  
11    qualified equity investments in proportionate percentages  
12    based upon the ratio of the amount of qualified equity  
13    investment requested in an application to the total amount of  
14    qualified equity investments requested in all applications  
15    received on the same day.

16           (f) Once the department has certified qualified  
17    equity investments that, on a cumulative basis, equal the  
18    total allowable tax credits under Section 6, the department  
19    may not certify any more qualified equity investments. If a  
20    pending request cannot be fully certified, the department  
21    shall certify the portion that may be certified unless the  
22    qualified community development entity elects to withdraw its  
23    request rather than receive partial credit.

24           (g) Within 180 days after receiving notice of  
25    certification, the qualified community development entity  
26    shall issue the qualified equity investment in the amount of  
27    the certified amount. The qualified community development

1       entity shall provide the department with evidence of the  
2       receipt or issuance of the qualified equity investment, or  
3       both, within 30 business days after receipt or issuance, or  
4       both. If the qualified community development entity does not  
5       issue the qualified equity investment within 180 days  
6       following receipt of the certification notice, the  
7       certification shall lapse and the entity may not issue the  
8       qualified equity investment without reapplying to the  
9       department for certification. A certification that lapses  
10      shall revert to the department and may be reissued only in  
11      accordance with the application process outlined in this  
12      section.

13               Section 8. (a) The Department of Revenue shall  
14      recapture, from the taxpayer that claimed or is entitled to  
15      claim the credit on a return, the tax credit allowed under  
16      this act if, at any time during the seven-year period  
17      beginning on the date of the original issue to the qualified  
18      equity investment in a qualified community development entity,  
19      there is a recapture event, as that term is defined in Section  
20      45D(g) (3) of the Internal Revenue Code.

21               (1) Where any amount of the federal tax credit  
22      available with respect to a qualified equity investment that  
23      is eligible for a tax credit under this act is recaptured  
24      under Section 45D of the Internal Revenue Code of 1986, as  
25      amended, the Department of Revenue's recapture shall be  
26      proportionate to the federal recapture with respect to that  
27      qualified equity investment, and may then reallocate the

1       recaptured credits to other qualified taxpayers in the year of  
2       recapture, without regard for the annual allocation limitation  
3       found in Section 6.

4               (2) The Department of Revenue shall recapture any  
5       allocated tax credit where the issuer fails to invest at least  
6       85 percent of the purchase price of the qualified equity  
7       investment in qualified low-income community investments in  
8       the State of Alabama within 12 months of the issuance of the  
9       qualified equity investment and fails to maintain such level  
10      of investment in qualified low-income community investments in  
11      Alabama until the last credit allowance date for the qualified  
12      equity investment. An investment shall be considered held by  
13      an issuer even if the investment has been sold or repaid;  
14      provided that the issuer reinvests an amount equal to the  
15      capital returned to or recovered by the issuer from the  
16      original investment, exclusive of any profits realized, in  
17      another qualified low-income community investment in this  
18      state within 12 months of the receipt of that capital. An  
19      issuer shall not be required to reinvest capital returned from  
20      low-income community investments after the sixth anniversary  
21      of the issuance of the qualified equity investment, the  
22      proceeds of which were used to make the qualified low-income  
23      community investment, and the qualified low-income community  
24      investment shall be considered held by the issuer through the  
25      seventh anniversary of the qualified equity investment's  
26      issuance.

1           (3) ~~The~~ Subject to the reinvestment provisions to  
2 avoid recapture in subdivision (2), the issuer shall redeem or  
3 make principal repayment with respect to a qualified equity  
4 investment prior to the seventh anniversary of the issuance of  
5 such qualified equity investment. ~~In such case, the~~ The  
6 department's recapture shall be proportionate to the amount of  
7 the redemption or repayment with respect to such qualified  
8 equity investment.

9           (b) The Department of Revenue shall provide notice  
10 in accordance with the procedures outlined in Section 40-2A-7  
11 of the Code of Alabama 1975, to the qualified community  
12 development entity of any proposed preliminary assessment of  
13 recapture of tax credits pursuant to this act. The entity  
14 shall have 90 days to cure any deficiency indicated in the  
15 Department of Revenue's preliminary assessment and avoid  
16 recapture. If the entity fails or is unable to cure the  
17 deficiency within the 90-day period, the Department of Revenue  
18 shall provide the entity and the taxpayer from whom the credit  
19 is to be recaptured with a final assessment of recapture in  
20 accordance with the procedures stated in Section 40-2A-7 of  
21 the Code of Alabama 1975. Any tax credit for which a final  
22 assessment has been issued may be recaptured by the Department  
23 of Revenue from the taxpayer who claimed the tax credit on a  
24 tax return in accordance with the Taxpayers' Bill of Rights  
25 and the Uniform Revenue Procedures contained in Chapter 2A of  
26 Title 40 of the Code of Alabama 1975.

1           Section 9. (a) On or before the 30th day prior to  
2 the third and sixth anniversaries of the issuance of each  
3 qualified equity investment, the issuer of such qualified  
4 equity investment shall submit a report on a form that the  
5 department provides that includes all of the following:

6           (1) The name, address, and tax identification number  
7 of the issuer.

8           (2) The name, address, and tax identification number  
9 of the qualified active low-income community business.

10           (3) A certificate executed by an executive officer  
11 of the issuer attesting to the number of qualified jobs and  
12 corresponding payroll created at the qualified active  
13 low-income community business, the average of the salaries of  
14 such jobs, and the date each job was created and, if  
15 applicable, terminated.

16           (4) A certificate executed by an executive officer  
17 of the issuer attesting to all of the following:

18           a. The value of buildings and commercial real  
19 estate, as recorded in the balance sheet of the qualified  
20 active low-income community business.

21           b. State, county, and municipal sales, use, income,  
22 and property taxes paid, as recorded in the financial  
23 statement of the qualified active low-income community  
24 business.

25           (5) Further information supporting the creation of  
26 such jobs as the department shall request.

1 (b) The department shall review the report and  
2 conduct other investigations as it deems necessary or  
3 appropriate to determine if standards have been met on or  
4 prior to the third and sixth anniversary of the issuance of  
5 the qualified equity investment.

6 Section 10. (a) The department may conduct  
7 examinations to verify that the tax credits under this act  
8 have been received and applied according to the requirements  
9 of this act and to verify that no event has occurred that  
10 would result in a recapture ~~or forfeiture~~ of tax credits under  
11 Section ~~7~~ or 8.

12 (b) The department and the Department of Revenue  
13 shall prescribe such rules as may be appropriate to carry out  
14 their respective duties under this section and may issue  
15 advisory letters to individual qualified community development  
16 entities and their investors that are limited to the specific  
17 facts outlined in an advisory letter request from a qualified  
18 community development entity. The rulings cannot be relied  
19 upon by any person or entity other than the qualified  
20 community development entity that requested the letter and the  
21 taxpayers that are entitled to any tax credits generated from  
22 investments in the entity.

23 (c) In rendering advisory letters and making other  
24 determinations under this act, to the extent applicable, the  
25 department and the Department of Revenue shall look for  
26 guidance to Section 45D of the Internal Revenue Code of 1986,  
27 as amended, and the rules and regulations issued thereunder.

1 (d) If the qualified equity investment in the  
2 qualified active low-income community business is used for the  
3 development of real estate in the taxable year in which a tax  
4 credit has been allocated to a taxpayer and the real estate is  
5 placed in service, the qualified community development entity  
6 shall deliver to the department an appraisal prepared by an  
7 independent MAI designated and licensed real estate appraiser  
8 that includes a valuation and description of the improvements.  
9 The department shall provide a copy of the appraisal to the  
10 taxing authority responsible for the assessment of ad valorem  
11 taxes. Upon notification, the taxing authority responsible for  
12 the assessment of ad valorem taxes shall complete a new  
13 assessment for the real estate to be used in the assessment of  
14 ad valorem taxes for the tax year in which the real estate was  
15 placed in service.

16 Section 11. Notwithstanding the foregoing, no  
17 landfill or dump, regardless of nature, toxic substance,  
18 trash, waste, household, chemical, or otherwise, shall qualify  
19 for any tax credit permitted by this bill.

20 Notwithstanding any other provisions of this act, a  
21 "Qualified Active Low-Income Community Business" shall not  
22 include a business which is a "nuisance" as defined in Section  
23 6-5-120 of the Code of Alabama, 1975.

24 Section 12. This act shall become effective for the  
25 taxable year beginning January 1, 2013, and continuing  
26 thereafter, following its passage and approval by the  
27 Governor, or its otherwise becoming law.

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House of Representatives

Read for the first time and re-  
ferred to the House of Representa-  
tives committee on Economic Devel-  
opment and Tourism..... . . . . 09-FEB-12

Read for the second time and placed  
on the calendar with 1 substitute  
and..... . . . . 23-FEB-12

Read for the third time and passed  
as amended..... . . . . 06-MAR-12

Yeas 75, Nays 22, Abstains 0

Greg Pappas  
Clerk