

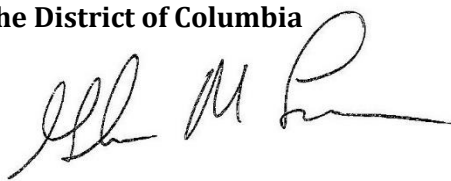
Government of the District of Columbia
Office of the Chief Financial Officer



Glen Lee
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Glen Lee
Chief Financial Officer 

DATE: October 18, 2022

SUBJECT: Fiscal Impact Statement – New Markets Tax Credit Real Property Tax
Exemption Amendment Act of 2022

REFERENCE: Bill 24-798, Committee Print as provided to the Office of Revenue
Analysis on October 18, 2022

Conclusion

Funds are sufficient in the fiscal year 2023 through fiscal year 2026 budget and financial plan to implement the bill.

Background

The New Markets Tax Credit (NMTC) program is a federal program that incentivizes development through the use of tax credits to attract private investment to distressed communities.¹ When nonprofit organizations that are otherwise entitled to exemption on their properties engage in a construction or rehabilitation project in the District, they sometimes take advantage of New Market Tax Credits to help finance the construction. To legally establish NMTC financing of these projects, separate legal entities are often established, including qualified active low-income community businesses (QALICBs)² to formally receive the federal tax credits and to own the property being developed with the NMTC financing. Because the property being developed could have been entitled to an exemption from District real property taxes based on its use had it remained under the ownership of a nonprofit organization within the recognized classes of exemption, a special category of exemption is needed for properties transferred to QALICBs. This eliminates the need for QALICBs to seek a special legislative exemption from taxation.

¹ <https://www.cdfifund.gov/programs-training/programs/new-markets-tax-credit>

² As defined in § 45D of the Internal Revenue Code of 1986 (26 U.S.C. § 1 et seq.).

The bill authorizes the Office of the Chief Financial Officer to grant tax exemptions for property belonging to QALICBs participating in NMTC related transactions where all the ownership or membership interest of the QALICBs are vested in one or more nonprofit legal entities within specified categories of exemption, such as public charities, churches and schools, and where the property is used by such organizations for the purposes identified under those specified exemption categories.³ QALICBs must apply to the OCFO to request an exemption. The OCFO must decide on the exemption within 60 days of receipt of a properly completed application, and conduct an inspection of the property within a three-year period to verify the property is being used for the purposes stated. If the property is not being used as required, the exemption will be rescinded retroactive to the initial grant of the exemption, subject to appeals.

Financial Plan Impact

Funds are sufficient in the fiscal year 2023 through fiscal year 2026 budget and financial plan to implement the bill. Properties operated and used for purposes such as public charity, religion and teacher-student education are generally already exempt from real property tax due to the nature of their ownership and use. Authorizing the OCFO to continue to exempt these properties even if they become owned by different legal entities due to a New Markets Tax Credit financing transaction does not impact expected revenue in the financial plan.

³ under paragraphs (5) through (20), D.C. Official Code Section 47-1002