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Office of Community Planning and Development

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Congress approves 9 new EZs, 40 Renewal Communities, and more money for Round II EZs

On December 15, 2000, Congress approved additional FY 2001 funding for Round II urban Empowerment Zones (EZs), increasing a previously-approved amount to a total of approximately \$185,000,000, or \$12.3 million for each EZ. In addition, Congress approved legislation to designate nine new EZs, seven in urban areas and two in rural areas. HUD will designate the seven new EZs in 2001. The legislation also provided for the extension of EZ treatment for all Round 1 and II EZs through December 31, 2009. Other highlights of the legislation include the following:

1. Designation of 40 Renewal Communities, 28 in urban areas and 12 in rural areas. With respect to the first 20 designations, a preference shall be provided to those nominated areas which are EZs or ECs. Urban renewal communities will be areas that experience pervasive poverty, unemployment and general distress. Actions to address the problems within these communities could involve reducing tax rates or fees within the communities, increasing the level of efficiency of local services, and involving private entities and community groups to provide jobs and training for residents and businesses. The designations will be in effect from January 1, 2002 through December 31, 2009. However, the designation of any area as an EZ or EC may cease to be in effect as of the date that the designation of any portion of such area as a renewal community takes effect.
2. Extension of the EZ employment credit to all Round II Zones. This credit, formerly available only to Round I EZs, now gives all Round I and II businesses an incentive to retain or hire individuals who both live and work in an EZ. Businesses can claim a credit of as much as \$3,000 per qualified EZ employee each year. This tax credit is attractive to businesses that are looking to reduce tax liability or that are considering expanding or relocating to a Zone.
3. Increased expensing (up to \$35,000 from \$20,000) under Section 179 of the Internal Revenue Code. This new expensing applies after December 31, 2001 to EZs and developable sites. Section 179 of the Internal Revenue Code allows businesses to deduct costs of certain qualifying property in the year they place it in service. Businesses can do this instead of recovering the cost by taking depreciation deductions over a specified recovery period. The increase to \$35,000 will be favorable to EZ businesses with relatively small equipment needs in any taxable year and to businesses moving into an EZ from another location that own the majority of their equipment but have additional new equipment needs.
4. Higher limits on tax-exempt empowerment zone facility bonds. Local governments can issue these bonds (as a type of tax-exempt facility bond) to make loans at lower interest rates to Enterprise Zone Businesses to finance Qualified Zone Properties. The legislation provides also for non-recognition of gain on roll-over of EZ investments and increased exclusion of gain on the sale of EZ stock.
5. Improvements in low-income housing credits, including the following:

- 1) Modification of State ceilings on low-income housing credits
 - 2) Modification of criteria for allocating housing credits among projects
 - 3) Additional responsibilities of housing credit agencies, and
 - 4) Modifications to rules relating to the basis for determining eligibility of buildings for the credit
6. Approval of a new markets tax credit, including the following provisions:
- 1) Credits to be available to qualified community development entities for qualified community investments, and
 - 2) The tax credit limitation is \$1,000,000,000 for 2001 and increases to \$3,500,000,000 for 2006 and 2007

For more information, contact Phil Graham of the HUD EZ/EC Office at 202/708-6339.