

Neighborhood Assistance Program Enterprise Zone Program Tax Credit

Program Guidelines | May 2008

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Section I – Introduction

The Act of March 4, 1971 (P.L. 6, No. 2) (72 P.S. §8901-A et. seq.), as amended, known as the Neighborhood Assistance Act, empowers the Pennsylvania Department of Community and Economic Development (the “Department”) to administer the Neighborhood Assistance Program (NAP). There are four components to this program: the NAP Tax Credit, the Neighborhood Partnership Program (NPP), the Enterprise Zone (EZP) Tax Credit, and the Special Program Priorities (SPP).

The purpose of these guidelines is to define the eligibility requirements and procedures necessary for a Private Company(s) in a Distressed Area(s) designated as an Enterprise Zone, to utilize or obtain tax credits for an investment in rehabilitating, expanding or improving buildings or land that promotes Community Economic Development. Tax credits are authorized in the amount of 25 percent of funds invested, up to a maximum of \$500,000. The EZP Tax Credit is designed to complement and supplement the Department’s Enterprise Zone Program.

Section II – Definitions

The following words and terms shall have the following meanings, unless the context clearly indicates otherwise:

Business Firm: A business entity authorized to conduct business in this Commonwealth and subject to taxes imposed under Articles III (Personal Income Tax), IV (Corporate Net Income Tax), VI (Capital Stock and Foreign Franchise Tax), VII (Bank and Trust Company Shares Tax), VIII (Title Insurance Company Shares Tax, IX (Gross Premiums Tax) or XV (Mutual Thrift Institutions Tax) of the Tax Reform Code of 1971. The term “Business Firm” includes Pass-Through Entities, defined below.

Community Economic Development: Activities that revitalize or stabilize Distressed Areas through one or more of the following: (1) The construction or rehabilitation of commercial or industrial buildings that will result in employment opportunities; (2) the removal or elimination of physical blight or (3) for the NPP, multi-year initiatives that will have a significant impact in a distressed area or toward Neighborhood Conservation.

Department: The Department of Community and Economic Development

Distressed Area: Any impoverished area in this Commonwealth that is certified as distressed by the Department and the certification is approved by the Governor. The certificate shall be made on the basis of federal census studies and current indices of social and economic conditions. The area must demonstrate, in comparison to county and statewide averages, a high incidence of one or more of the demographic factors set forth below: persistent unemployment, or underemployment, dependence upon public assistance, overcrowded, unsanitary or inadequate housing, crime and delinquency, school dropouts or other evidence of low educational attainment, vacant and dilapidated properties, blight or other generally accepted indicators of widespread social problems. The following are deemed Distressed Areas: Enterprise Zones, Keystone Opportunity Zones, Keystone Opportunity Expansion Zones, Keystone Opportunity Improvement Zones, Federal Enterprise Communities, Empowerment Zones, Act 47 Municipalities, Cities of the First Class, Cities of the Second Class, Cities of the Second Class A or Cities of the Third Class and former commercial and industrial sites that have been vacant for at least one year prior to application.

Enterprise Zone: A specific location with identifiable boundaries within a Distressed Area that is designated by the Secretary as an Enterprise Zone. See “Enterprise Zone” guidelines on www.newpa.com for further details.

Enterprise Zone Tax Credit Program: A program administered by the Department under the Neighborhood Assistance Act, which provides tax credits to Private Companies that make qualified investments to promote Community Economic Development by rehabilitating, expanding or improving buildings or land in an Enterprise Zone.

Neighborhood Organization: A nonprofit organization approved by the Department which performs community services, offers neighborhood assistance, provides job training, education or crime prevention or promotes Community Economic Development in a Distressed Area, which holds a ruling from the Internal Revenue Service that the organization is exempt from the income taxation under the provisions of the Internal Revenue Code.

Neighborhood Conservation: Projects or services that address the decline of a neighborhood or the needs of a vulnerable population and have a primary or secondary benefit to the stabilization of a Distressed Area.

Notification Letter: A letter from the Department to a Private Company that states the approval of a project and requests proof of contribution to receive the awarded tax credits.

Private Company: Any agricultural, industrial, manufacturing or research and development enterprise, as defined in the Pennsylvania Industrial Development Authority Act or any commercial enterprise, as defined in the Pennsylvania Economic Development Financing Law.

Qualified Investment: A qualified investment constitutes funds used by the Private Company to rehabilitate, expand, or improve buildings or land located within an Enterprise Zone. A lender that issues loan funds used to rehabilitate, expand, or improve buildings or land located within an Enterprise Zone is not a "Private Company" for EZP purposes.

Secretary: The Secretary of the Department of Community and Economic Development.

Section III – Program Administration

A. Submission of Application

To apply for funding, the applicant must submit the electronic on-line DCED Single Application for Assistance located at <http://www.newpa.com/programFinder.aspx>. The required EZP Addendum may be attached electronically to the application on the Addenda tab, or submitted via US Mail with the Signature page. Please reference the Web ID number on any documents sent with the signature page. If you need additional assistance, contact the Customer Service Center at: 1-800-379-7448 or 717-787-3405.

Under the EZP, projects are approved for one fiscal year. All project applications must be approved by the Secretary prior to commencement in order to be eligible for credits.

The Department will have two rounds of applications each fiscal year. The deadline for the first round is July 1st and the deadline for the second round is November 1st. Please check www.newPA.com for a status on the availability of tax credits.

B. Review of Proposals

Applications will be reviewed and ranked based upon the following factors:

1. Current application is complete and concise
2. The qualified investment(s) shows the number of jobs retained
3. *Preference will be given to a qualified investment(s) that shows substantial job creation for the community or commitment for job creation*
4. The qualified investment shows collaboration with DCED regional offices and programs

C. Approval Process

1. The Secretary will approve or disapprove applications
2. The Private Company will receive confirmation letter stating the following:
 - a. Approval of the Project
 - b. Conditions of the Program
 - c. Proof of Contribution

D. Eligibility

Projects submitted to the Department under the Enterprise Zone Tax Credit Program must meet the following criteria:

1. A Private Company must make a qualified investment(s) to rehabilitate expand or improve a building(s) or land located within portions of distressed areas which have been designated as Enterprise Zone.
2. The Qualified Investment must be approved by the Department in order to be eligible for tax credits.
3. Applications must include a commitment to avoid displacement of current residents.
4. Eligible costs include construction-related costs and “soft” costs such as engineering, architecture, acquisition and invoiced expenditures. *See the EZ Tax Credit Program Addendum on www.newPA.com for additional information.*
5. The application must include a letter for support from the local Enterprise Zone Coordinator.
6. A Private Company with an investment(s) located in an Enterprise Zone that has exited the Enterprise Zone Program can make application for the Enterprise Zone Tax Credit during the fiscal year the exit date becomes effective as well as during the following fiscal year.

E. Tax Credits

1. If approved, a Qualified Investment(s) will receive tax credits equal to 25% of eligible project costs, up to a maximum of \$500,000 in tax credits.
2. Tax credits can be used to offset the following Pennsylvania taxes imposed under Articles III, IV, VI, VII, VIII, IX, XV of the Tax Reform Code of 1971: Corporate Net Income; Bank and Trust Company Shares; Mutual Thrift Institutions; Gross Premiums; Title Insurance Shares; Capital Stock; or Foreign Franchise.
3. Under the EZP, a Private Company may not receive more than \$500,000 in tax credits during any fiscal year of the Commonwealth. In addition, A Private Company that makes a Qualified Investment in an Enterprise Zone and, in addition, contributes to projects approved under NAP may not receive more than \$500,000 in tax credits for both programs during any fiscal year of the Commonwealth.
4. A Private Company may receive up to \$1,250,000 in tax credits for investments toward four (4) or more approved projects.
5. Tax credits not used by a Private Company in the year the Qualified Investment is made may be carried forward with the Department of Revenue for an additional four years, for a total of six years.
6. In the case of a **Pass-Through Entity**, the Department of Revenue will grant a credit against the corporate net income or personal income tax, whichever is applicable, of the Pass-Through Entity's shareholder(s), member(s) or partner(s).

F. Computation

1. Upon completion of the investment or at the end of the fiscal year in which a tax credit is being sought, the Department must receive documentation verifying that the planned investment has been made by the Private Company. A financial audit of the project, performed by an independent registered or certified public account, and a final report of the activities related to implementation of the project, must be submitted to the Department within 120 days after the project ending date.
2. If the audit indicates that eligible costs associated with the project are less than the amount approved in the original application, the Department may withdraw approval of the tax credits for which eligible costs were not incurred.
3. The final computation of tax credits is based on eligible project costs incurred within each approved budget category as shown in the audit.
4. Invoices are not accepted in lieu of an audit and final report.

Section IV – Limitations

- A. Tax credits will not be granted if the investment displaces residents, unless changes in neighborhood residential patterns demonstrably promote Neighborhood Conservation and positive measures are taken to assist in or minimize the cost of relocation of residents affected under a plan developed with and approved by a designated Neighborhood Organization.
- B. Tax credits may not be granted to Private Companies for equity contributions to low-income housing projects or other ventures under the EZP if the equity contribution also generates other state tax credits, such as Low-Income Housing Tax Credits (PHFA) or Historic Tax Credits for the Private Company.
- C. Tax credits granted under the EZP to a Private Company that is a partner in a limited partnership agreement formed for the purpose of developing affordable housing or other joint ventures, is limited to their direct investment in the project.
- D. The difference in the interest of a loan with lower than normal interest rates from a limited partner in a partnership formed for the purpose of developing affordable housing or other joint ventures, will not be considered an eligible tax credit investment for the EZP.
- E. Tax credits may not be granted to a Private Company requesting additional tax credits for physical improvements to buildings or land which have previously been awarded EZP tax credits for improvements to the same building or land. A building addition is not considered the same building.

Section V – Contact Information

Questions as to the applicability of these provisions in specific instances should be directed to:

Department of Community and Economic Development
Office of Community Affairs and Development
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225
717-787-1984

Or DCED's regional office nearest you:

Southeast Regional Office
1400 Spring Garden Street, Room 1800
Philadelphia, PA 19130
215-560-2256

Northeast Regional Office
Oppenheim Building, 3rd floor
409 Lackawanna Avenue
Scranton, PA 18503-2025
570-963-7300

Central Regional Office
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225
717-720-7300

Southwest Regional Office
1405 State Office Building
300 Liberty Avenue
Pittsburgh, PA 15222
412-565-5002

Northwest Regional Office
100 State Street, Suite 205
Erie, PA 16503
814-871-4241