| **Comparison of the Features of New Market Credit Bills**  **H.F. No. 438 and H.F. No. 688** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Feature** | **H.F. 438** | | | **H.F. 688** | | |
|  | **Description** | | **Bill §** | **Description** | | **Bill §** |
| **Tax credit parameters** |  | |  |  | |  |
| Taxes allowed against | Insurance premiums tax | | 3 | Insurance premiums tax  Corporate franchise tax  Individual income tax | | 3  2  2 |
| Credit rate | Year after investment | Percent | 2, subd. 3 | Year after investment | Percent | 1, subd. 1(b) |
| 0 | 0 | 0 | 5% |
| 1 | 0 | 1 | 5% |
| 2 | 8% | 2 | 5% |
| 3 | 8% | 3 | 6% |
| 4 | 8% | 4 | 6% |
| 5 | 8% | 5 | 6% |
| 6 | 7% | 7 | 6% |
| Total | 39% | Total | 39% |
| Tax credit authority | $250 million of qualified equity investments (or $97.5 million in tax reductions at 39% credit rate) | | 5, subd. 4 | $300 million of qualified equity investments (or $117 million in tax reductions at 39% credit rate) | | 1, subd. 4 |
| Businesses or projects that qualify as creditable investments | Must meet federal new market credit requirements and not more than 15% of revenue may come from real estate rental (other than rents paid by a business controlled the community development entity, which is the primary tenant of the rented real estate) | | 2, subd. 9 | Must meet the federal new market credit requirements and must not:   * An insurance, banking, lending, lobbying, political consulting, or leisure business; or * Be involved in business activity consisting of the operation of a golf course, country club, suntan facility, hot tub facility, massage parlor, race track, gambling facility, or off-sale liquor store | | 1, subd. 1 (l) |
| Dollar limit for each business | $5 million | | 2, subd. 12 | None | |  |
| Community development entities | Entities that meet federal new market credit rules that have:   * Received federal allocations for projects in Minnesota * Excludes financial institutions (other than ones chartered or headquartered in Minnesota) | | 2, subd. 10 | Entities that meet federal new market credit rules that have:   * Received federal allocations for projects in Minnesota * Direct lending experience serving disadvantaged communities | | 1, subd. 1 (m) |
| Portion of credits that must be invested in qualifying securities | 100% of cash purchase price | | 2, subd. 11 | 95% of cash purchase price (85% of amount returned or recovered by investor) | | 1, subd. 1 (n) |
| **Allocation Process** |  | |  |  | |  |
| Method of awarding tax credits to applicants | First-come-first-served for qualifying applicants | | 5, subd. 4 | Award allocations based on criteria, including:   * Community development entity’s experience * Keeping benefits in Minnesota * Wages and benefits above federal poverty level * Pairing with federal new markets credit allocation * Non-state financial contributions | | 1, subd. 5 and 7 |
| Dispersion of allocations to projects across state? | Not required | |  | Proportional allocation to projects in Greater Minnesota required | | 1, subd. 5 |
| Preapproval authority | Qualified community development entity may request DEED to determine if an investment qualifies for the credit | | 9 | No | |  |
| Application fee | $5,000 nonrefundable | | 5, subd. 1 (9) | Nonrefundable fee to be set by DEED; 25% may be deferred until 180 days after award of credits and 25% until 270 days after award of credits | | 1, subd. 10 |
| Other fees | Refundable performance fee required equal to 0.5% of equity investment amount; fee is forfeited (in part of whole), if qualified community entity fails to issue required investments or fails other requirements | | 2, subd. 13;  8 | Administrative fee to be set by DEED | | 1, subd 11 |
| Administrative rules | Not applicable | |  | DEED authorized to promulgate administrative rules; certain fees to be set administratively | | 1, subd. 14 |
| **Recapture of tax credits** |  | |  |  | |  |
| Types of noncompliance triggering recapture | * Issuer redeems or repays principal before end of 7-year period * Issuer fails to invest 100% of investment in qualifying projects | | 6 | Federal new markets credit is recaptured | | 1, subd. 6 |
| Recapture allowed for credits already claimed on tax returns | No | | 6 (b) | Yes | | 1, subd. 6 (b) |
| Cure period allowed | Yes – 6 months from notice of noncompliance | | 7 | No | |  |
| DOR audit authority | No (or unclear) | |  | Yes | | 2, subd. 2; 3, subd. 2 |
| **Reporting requirements** |  | |  |  | |  |
| Qualified community development entity | Annually within 30 days of credit allowance date:   * Businesses invested in * Type and location of businesses * Number of jobs and compensation * Bank records showing disbursements * CFO verified statement * Information on recapture of federal credit | | 11 (a) | Annually report within 180 days of fiscal year end:   * Types of industries in which investments were made * County location of businesses * Information needed to verify continued compliance with federal tax credit provisions   Annually submit within 120 days of fiscal year end audited financial statements | | 1, subd. 9 |
| Report to legislature | Annual report listing the qualified community development entities and the detail on businesses required in the entity’s annual report to DEED | | 11 (b) | One report 12/13/2022 on program implementation, including an evaluation of the program’s effectiveness | | 1, subd. 13 |
| **Expiration of program** | None explicitly provided; implicitly would end when all of the $250 million in credit allocations have been used up | |  | 2029 or whenever the last tax credits have been used or cancelled, whichever occurs earlier | | 1, subd. 14 |