



Expanding the Definition of Manufacturing for Industrial Development Bonds

Background

- Since 1992, when the small-issue Industrial Development Bond (IDB) program became permanent, state and local issuers have used this low-cost financing tool to create and retain jobs in manufacturing plants across America.
- The changing economy in the United States is providing new and exciting employment opportunities for our citizens, in the area of software development and biotechnology. Regrettably, the tax-exempt bond finance programs operated by state and local development finance agencies do not extend to these important and growing sectors of our economy.
- Congress should upgrade and modify the definition of manufacturing as it pertains to the small-issue bond program to allow accessibility for private businesses that are creating, and will continue to create, the jobs of tomorrow.
- Adding a category of private activity use allowing "knowledge based" companies to be eligible to take advantage of tax-exempt financing would promote economic development in our local communities as well as nationwide.
- The Council of Development Finance Agencies supports legislation to expand the definition of manufacturing so that state, county and local development finance authorities and agencies can better meet the financing needs of today's high technology companies.

Legislation

CDFA is proposing the following legislative language:

Section 144(a)(12)(C) of Title 26, United States Code is amended to read as follows:

(C) MANUFACTURING FACILITY - For purposes of this paragraph, the term "manufacturing facility" means any facility which is used in the manufacturing, creation, or production of tangible or intangible property (as described in section 197(d)(1)(C)(iii)) (including the processing resulting in a change in the condition of such property), together with functionally related and subordinate facilities. A rule similar to the rule of section 142(b)(2) shall apply for purposes of the preceding sentence. For purposes of subparagraph (C), the term "manufacturing facility" includes facilities which are directly related and ancillary to a manufacturing facility (determined without regard to this sentence) if—

- (i) such facilities are located on the same site as the manufacturing facility, and
- (ii) not more than 25 percent of the net proceeds of the issue are used to provide such facility.