



## Cannon Heyman & Weiss, LLP

Law Practice Concentrating in Affordable Housing and Community Development Law

### **OVERVIEW: FEDERAL NEW MARKET TAX CREDIT PROGRAM (“NMTC”)**

#### **• What is the NMTC?**

- Legislated under the Community Renewal Tax Relief Act of 2000.
- Tax Credit for eligible Community Development Entities (“CDE”).
- Infuses private capital in the form of equity or favorable preferential loan terms to qualified small businesses located in low-income Urban and Rural areas.

#### **• How does the NMTC work?**

- Eligible CDEs will apply to the Treasury Department’s community development financial institutions (“CDFI”) fund for an award of NMTC.
- Selection is based on objective criteria; management expertise and CDE experience with working with disadvantaged businesses and communities.
- Once and allocation of NMTCs is received, the CDE is authorized to allocate its tax credits to private investors.
- Investors claim a 5% credit on the investment amount for the first 3 years, and a 6% credit for the next 4 years for a total present value of around 39% of the initial investment.
- Any taxable investor is eligible to use NMTC.

#### **• What businesses will qualify for CDE loans and equity investments?**

- A business must meet two eligibility requirements to apply to CDEs for capital.
  - (i) the business must be located in either a census tract with a poverty rate of at least 20% OR a census tract with a median income that does not exceed the greater of 80% of the median income for the MSA, or 80 percent of the statewide Median income; and
  - (ii) the business must have a substantial connection to that location, as measured by the following: (a) at least 50% of the business’s income must be derived from activity in a low-income community (b) a substantial portion of the business’s property must be located in a low-income community (c) the employees of the business must perform a substantial proportion of their work in the low-income community and (d) less than 5% of the of the business’s assets can be held in unrelated investments.

#### **• What kinds of CDEs are NMTC designed to assist?**

- Among others, Community Development Corporations (CDCs) that establish for-profit subsidiaries, limited liability companies, or partnerships, may be eligible for equity investments by NMTC investors. CDCs have as their primary mission serving the economic and social needs of their communities. CDCs have an extensive history of serving distressed areas and utilizing tax credit tools, such as the low income housing tax credit, to build affordable housing.

#### **• Can NMTC be used in conjunction with low income housing tax credits?**

- NMTC may not be used in combination with LIHTC and the development and rental of residential housing is not a qualified business for NMTC.

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