





The New Market Tax Credit Program


How much of this \$15 billion federal development incentive will be invested in your community?


The federal New Market Tax Credit (NMTC) program is currently the largest federal economic development incentive program. It is designed to channel **\$15 billion** dollars in **new, private investment capital** into businesses in economically distressed census tracts across the country.


Authorized by the Community Renewal Tax Relief Act of 2000, the NMTC program is relatively new and not widely known. Community and economic development professionals, as well as business owners, and financial institutions are just beginning to recognize the numerous ways in which the new market program can help them to finance and stimulate economic growth. The new market program differs in many important ways from other federal development incentives and from the historic and the housing tax credit programs.


The following points briefly summarize key points about the NMTC program.


-  NMTC creates a network of specialized financial institutions across the country specifically designed to make loans to, and investments in businesses located in eligible census tracts. These financial institutions are known as **Community Development Entities (CDE)**.
-  Generally, CDE business loans are at lower interest rates and more flexible terms than loans from a commercial bank. Many CDEs will make loans that are approximately 100 to 150 basis points below comparable bank rates. In some cases the loans can be as much as 350 basis points below market rate.
-  Many CDEs work with commercial banks to finance projects and businesses.
-  Many areas in Virginia qualify for NMTC investments. For example: forty-three percent (43%) of all of the census tracts in the Commonwealth qualify; sixty-five percent (65%) of the census tracts in City of Richmond qualify; one hundred percent (100%) of the census tracts in Smyth County qualify and nine percent (9%) of the census tracts in Fairfax County qualify.


-  Most types of businesses, including not-for-profit businesses are eligible for NMTC investments. Ineligible businesses include: country clubs, golf courses, gaming businesses, massage parlors, and tanning salons. In addition, there are restrictions on making investments in large businesses with multiple locations in different census tracts.


-  The NMTC program provides a significant financial incentive to investors to make investments in CDEs. The incentive is a credit against federal tax liability equal to thirty-nine percent (39%) of the amount invested in the CDE. The tax credit must be taken over a seven (7) year period. For example if an individual or a corporation invests \$1 million in a CDE, the investor deducts \$390,000 from their federal tax liability. They must deduct 5% of the total investment in each of the first three years and 6% of the total investment in each of the remaining four years.

-  The CDE uses the invested capital to fund business loans and/or equity investments in eligible businesses in eligible census tracts.

-  The tax credit goes to the investors in the CDE. The tax credit does not go to the owners of the businesses in which the CDE invests or make loans.

-  CDEs have been established to serve specific and targeted markets such as particular cities; counties or states. In addition, some CDEs target specific industries or specific types of borrowers such as women owned businesses or minority owned businesses or businesses in specific industries such as historic preservation. NMTC can be combined with federal historic tax credits.

-  The NMTC program is administered by the Community Development Financial Institutions Fund (CDFI) of the US Department of the Treasury.

 The Virginia Department of Housing and Community Development (Va. DHCD) has retained **Kaufman & Canoles Consulting (KCC)** to provide technical assistance to NMTC eligible projects throughout the state to assist in finding appropriate CDEs and to market the project to the CDE. For additional information about the NMTC program please contact Larry Malone, Kaufman s Consulting, 703/709-1066 or lpmalone@kaufcanconsulting.com.

The following diagram illustrates the basic concept of the NMTC program

The Basic NMTC Concept

