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U.S. Treasury Announces $7 Billion Allocation of New Markets Tax Credit

The United States Department of the Treasury's Community Development Financial Institutions Fund (CDFI) has last week announced $7 billion in New Markets Tax Credit (NMTC) awards with the goal of economically revitalizing low-income communities across the country. Particular outcomes that the CDFI hopes to achieve with this round of awards include investment in nonmetropolitan areas, job creation, expansion of minority-owned businesses, provision of healthcare to underserved communities, and extension of access to healthy foods within current food deserts. A total of 120 organizations nationwide received tax credit allocation authority under this round of the NMTC Program, the largest amount in its history.

The NMTC can serve as a valuable means of reducing the debt or equity necessary to undertake a project. In a typical NMTC transaction, a project sponsor can expect to receive a net benefit of 20 to 25 percent of project costs. For example, a project with eligible costs of $10,000,000 can generate up to $2,500,000 of capital for the project thereby reducing the need for capital from traditional debt and equity sources to only $7,500,000. This substantial benefit created by the NMTC Program allows it to function as a powerful mechanism for economic development.

The program has served an integral role in stimulating job creation and investment in low-income areas of cities and rural communities throughout the country. A federal economic development program now in its second decade of existence, the NMTC Program has proven to be an effective means of attracting private capital to complete the financing requirements of projects that may fail to progress forward otherwise. The program frequently receives praise for its versatility in terms of the types of projects for which the NMTC financing may be utilized. The NMTC has been employed in nearly every type of project conceivable including real estate development, operating business expansion, and charitable organization activities.

NMTC requirements are codified in § 45D of the Internal Revenue Code and the Treasury Regulations promulgated thereunder. In order to qualify for the NMTC an eligible project, at a minimum, must be located in a qualified census tract which meets certain criteria related to median income, poverty, and unemployment levels. There are also certain types of businesses which are not eligible for NMTC financing including housing, large-scale agriculture, and certain "sin businesses" such as a massage parlor or liquor store.

The NMTC is distinguished from many other tax credits by the manner in which it is available. A project, rather than automatically qualifying for the tax credit so long as it meets the relevant qualification criteria, must first be selected by one of the organizations to which the CDFI has awarded tax credit allocation authority. The organizations, known as Community Development Entities (CDEs), will allocate tax credits to projects which produce the specific positive community impacts they are seeking.

As previously mentioned, 120 CDEs were awarded allocation authority in this round and a project's potential positive community impact is perceived differently by each one. However, one factor that is held in major significance by nearly every CDE is the location of a project in a "targeted state." The CDFI has identified ten states that have historically underutilized the NMTC, and the CDFI has emphasized to CDEs the importance of the program's use in targeted states for this round. The targeted states for the current allocation are as follows:

- Texas
- Georgia
- Nevada
- Tennessee
- Arkansas
- Florida
- Kansas
- West Virginia
- Idaho
- Wyoming

While this round of awards should result in historic levels of community investment related to the NMTC Program, the majority of the tax credits will be allocated to projects in a short span of time. Developers, companies, and charities that do not move quickly to capitalize on this round of financing may find themselves on the sideline, regardless of how favorably their project is perceived by a CDE.

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