

New Market Tax Credits

Texas Association of Black City Council
Members

Quarterly Meeting

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Prairie View, Texas

Presented By

Inner City Development Corporation

Brief Overview of the New Market Tax Credit Program

- What are the components of the program?
- How does the program work?
- Who benefits from the program?

What are New Market Tax Credits (NMTC)?

- The New Markets Tax Credit Program (NMTC Program) was established by Congress in 2000 to spur new or increased investments into operating businesses and real estate projects located in low-income communities (LIC).
- Since the inception, the program has issued a total of **\$33 billion** in tax credit authority.

What is a LIC?

- A low income community is defined as:
 1. A census tracts with a poverty rate of at least 20%, or
- A census tract where the median family income does not exceed 80% of the median family income for the state or area

The Funding



What is the NMTC Program?

- The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making **equity investments** in specialized financial institutions called Community Development Entities (CDEs).

The Middle Men



What are Community Development Entities (CDE)?

- A CDE is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in LICs.
- CDE received the tax credits and combines them with private sector loans to fund Qualified Equity Investments (QEI).

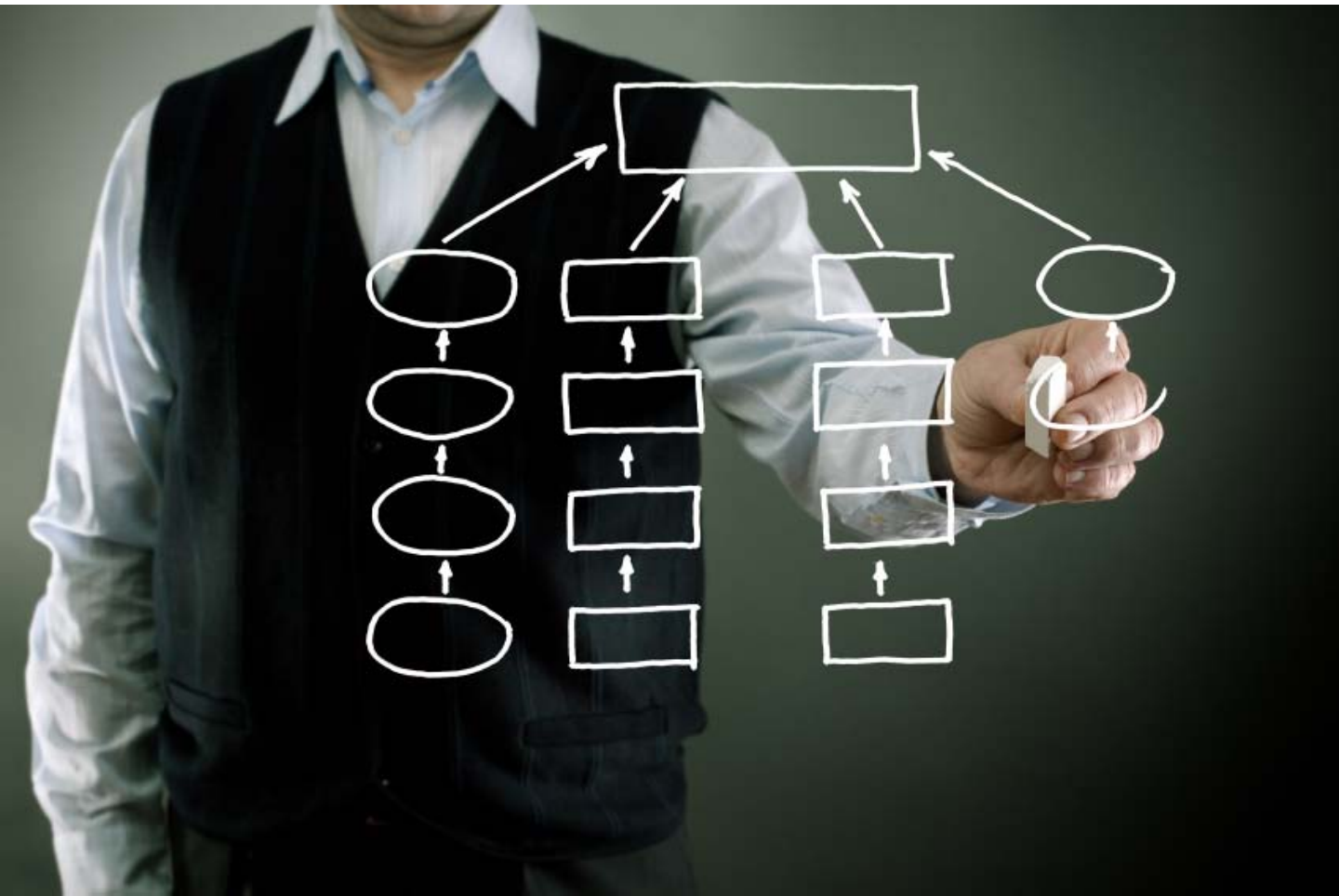
The Development Project



What is a Qualified Equity Investments (QEI).

- A QEI is a project located in a low income community sponsored by a qualified nonprofit.
- The CDE agrees to provide 100% of funding for a QEI.
- CDE funding is composed of tax credits and private loans. Up to 39% equity investment and 61% loan.

How the Program Works



How the Program Works

- ❑ Incentives from U.S. Treasury Department in the form of tax credits.
- ❑ Tax credits are converted into investments from the private sector.
- ❑ Investments are exclusively for funding developments in low income communities.

Private Sector of Investments

CDE receive the tax credits from Treasury Department.

- ☐ CDE receives investments for tax credits.
- ☐ CDE uses investments and arranges for loan to fund QEI.

Qualified Equity Investment Funding Structure Example

I
\$20 million CDE approved QEI

II
**Equity Investment = 39% of
\$20 million or \$7,800,000**

III
**Project Loan = 61% of \$20
million or \$12,200,000**

IV
**Adjusted amounts after discount
and CDE fee
Equity Investment = \$4,860,000
Development Loan = \$15,140,000**

V
**Discount @ \$.70/\$1.00 = \$2,340,000
CDE fee @ 3% of QEI = \$600,000**

Implementation Schedule

- ☐ Proposals can be submitted year round.
- ☐ Proposal approval can take 6 to 9 months.
- ☐ Project construction can take 18 to 36 months.

Community Benefits

- ☐ Improve community infrastructure.
- ☐ Attract businesses to the community.
- ☐ Attract jobs to the community.

















