



# New Markets Tax Credits Fact Sheet

## General

- The New Markets Tax Credits (NMTC) program is a federal program that is managed by the Community Development Financial Institutions (CDFI) Fund, a subsidiary of the U.S. Department of the Treasury.
- The NMTC program was developed by Congress on December 21, 2000, as part of the Community Renewal Tax Relief Act of 2000. The NMTC program was designed in order to assist private development in areas with high poverty rates and/or low median incomes.
- A New Market Tax Credit creates a 39% tax credit for qualified investors that invest equity in Community Development Entities (CDEs). The tax credit is claimed over a seven-year period that begins when the investment is made. Investors claim tax credits that equal 5% of the total investment for three years, and claim tax credits that equal 6% of the total investment for four years after that, to sum 39% of the total investment.
- Community Development Entities (CDEs) are private organizations that collect capital from investors to invest in qualifying projects in low-income communities. CDEs are responsible for the dispersal of NMTCs to investors that invest directly to CDEs.

## The Process

- An organization that wants to become CDE submits an application to the CDFI Fund.
- If approved, the CDE submits an NMTC Allocation Application to the CDFI Fund. The Allocation Application details specifically how the CDE will invest in low-income communities.
- If the Allocation Application is accepted, the CDE receives the authority to raise a certain amount of capital for the projects within low-income communities. The capital is raised by attracting investors, who will receive the 39% tax credit through the aforementioned process.
- The capital that CDEs collect is used to fund qualifying projects only, which will be located in low-income communities. This capital is called a Qualified Equity Investment (QEI).
- The CDE then uses the QEI to supply capital, debt-, or equity-funding for qualifying businesses and developments in communities with high poverty rates and/or low median incomes. These investments are known as QUALified Low-Income Community Investments (QUALICIs).

## **Businesses and Developments that are Eligible to Receive Funding from CDEs**

- Qualified/eligible businesses and developments are known as Qualified Active Low-Income Community Businesses (QALICBs). QALICBs are entities within areas designated as low-income communities, specifically, census tracts where:
  - The poverty rate is at least 20%, or
  - The median family income is below 80% of the area median family income (either the state median family income or the metropolitan area median family income, if the census tract is within a metropolitan area)
  
- QALICBs include for-profit and nonprofit businesses, specifically:
  - Neighborhood retail
  - Office centers
  - Health care facilities
  - Small businesses
  - Childcare centers
  - Mixed-use projects
  - Manufacturing plants
  - Private/charter schools
  
- Businesses/developments that are NOT eligible to receive QALICBs include the following:
  - Residential rental housing
  - Liquor stores
  - Racetrack/gaming facilities
  - Golf courses
  - Massage parlors
  - Certain residential uses
  - Country clubs
  - Hot tub/suntan facilities
  - Farming where total assets exceed \$500 M
  
- QALICBs must also:
  - Receive at least 50% of its total gross income from activities in the low-income community
  - Ensure that at least 40% of the use of the tangible property is in the low-income community
  - Ensure that at least 40% of the services performed for the business/development by employees are in the low-income community
  - Ensure that no more than 5% of the property is attributable to collectibles (antiques) or nonqualified financial property

## **Additional Information**

- Greenville New Markets Opportunity II (GNMO II) is a qualified CDE that funds projects within the Greenville area.
  - For additional information about GNMO II, contact Tammy Propst at [tpropst@taxadvantagegroup.com](mailto:tpropst@taxadvantagegroup.com) at the Tax Advantage Group, or visit their website at <http://www.taxadvantagegroup.com/>
  
- The City of Greenville contains multiple qualifying census tracts, including downtown Greenville and west Greenville.
  
- NMTCs may be combined with other tax credits, with certain exceptions including LIHTC and tax-exempt bonds.

