

FACT SHEET

Background

- The New Markets Tax Credit (NMTC) is designed to promote increased investment and economic growth in low income communities by providing a federal tax credit on investments in economically distressed urban and rural areas. The term “New Markets” refers to areas left behind in the strong economic growth of the mid-1990s.
- The NMTC attracts private sector investors to low income areas by offering them a 39% federal tax credit over seven years – a 5% credit in each of the first three years and a 6% credit in each of the last four years.
- The NMTC program is administered by the U.S. Department of the Treasury through its Community Development Financial Institutions Fund (CDFI Fund). The Internal Revenue Service (IRS) is also responsible for monitoring taxpayer compliance with the NMTC program.
- The NMTC is currently authorized through 2007. It was originally enacted with wide bipartisan support in December 2000 as part of the Community Renewal Tax Relief Act (P.L. 106-554).
- The authorizing legislation provides for \$15 billion in NMTC allocations between 2000 and 2007. An additional \$1 billion in NMTC authority was subsequently authorized to Louisiana, Alabama, and Mississippi as part of the Gulf Opportunity Zone Act of 2005 (P.L. 109-135).
- NMTC allocations are made to community development entities (CDEs), which are private, for-profit organizations (although their parent entities may be public or nonprofit). They must apply to the CDFI Fund for certification as a CDE and must demonstrate that they serve low income communities and are accountable to low income community residents. An example of a CDE is a community development corporation, a community loan fund, or a private financial institution.
- Once the organization is certified as a CDE, it can apply to the CDFI Fund for a NMTC allocation. When a CDE is awarded a NMTC allocation, it then can issue the credits to tax paying investors. These taxpayers make investments in the CDE in return for the Credit. The CDE then uses the proceeds to make investments or loans to businesses and projects in low-income communities.
- To date, there have been four NMTC allocation rounds (the most recent on June 1, 2006). In these four rounds, there have been 233 allocation awards to 187 CDEs totaling \$12.1 billion.
- These 187 CDEs are headquartered in 40 states and the District of Columbia. They have indicated primary service areas in 49 states and Washington, D.C.

Key Facts

- In August 2006, the CDFI Fund reported that CDEs have raised nearly \$4.72 billion in investor dollars since the NMTC program's inception. This amount represents over one-half of the \$8 billion in allocation authority issued in Rounds I, II, and III.
- According to a 2006 New Markets Tax Credit Coalition survey of Rounds I and II, Allocatees, respondents are continuing to raise capital from investors and are deploying it into low income communities at a remarkably fast pace.
 - ✓ For example, survey respondents expect to have utilized at least 90% of its Credits by the end of 2006, which means over \$2.7 billion in investments in low income communities.
 - ✓ Survey respondents are exceeding performance standards by moving aggressively to implement lending and investing programs that finance a range of products and businesses in low income communities. Forty-one percent of survey respondents indicate that they deploy their capital into economically distressed areas within one week. Two-thirds deploy their capital within ninety days.
 - ✓ Survey respondents are targeting Credits to poorer communities than required by law or regulation. Survey respondents reveal that 96% of the businesses financed with the NMTC are located in communities with more than one indicator of high economic distress.
 - ✓ There is a growing number and diversity of investors in the NMTC program. Of particular interest is the participation of non-regulated financial institutions and insurance companies. The essential paradigm of the NMTC is that there are good business opportunities in low income communities and a modest federal tax credit can lure private sector investors into a "new market." The survey in fact found that such entities are investing in the Credit for that very reason.
- The demand for Credits far exceeds the amount available. Over the last four rounds, CDEs submitted requests for \$107.3 billion when only \$12.1 billion in Credits had been authorized.

Reauthorization

- On November 20, 2005, the Senate approved tax reconciliation legislation (S. 2020). Among its provisions is a one-year NMTC extension (through 2008). The Senate bill also includes a requirement that the U.S. Department of the Treasury better target the NMTC to rural areas.
- The Senate-passed one-year NMTC extension will generate an additional \$3.5 billion in private sector investments in low income urban and rural communities across the nation.
- The House version of the tax reconciliation legislation (H.R. 4297), which was approved on December 8, 2005, does *not* contain the one-year extension of the NMTC or the rural requirement.

- On May 17, 2006, President Bush signed into law a \$70 million tax cut package (P.L. 109-222) that extended the capital gains/dividends tax cut for two years and included a one-year patch (through 2006) on the Alternative Minimum Tax. The conference report did not include tax extenders such as the NMTC which were contained in either the House or Senate bill.
- The one-year NMTC extension is now part of a larger package of other tax extenders including the Research and Development (R&D) Tax Credit, Worker Opportunity Tax Credit (WOTC), and state sales tax exemptions. Prior to the August recess, Congressional Leaders also added to this package of tax extenders controversial provisions including a permanent reduction in the estate tax and a minimum wage increase (H.R. 5970). The legislation (the so-called “Trifecta” bill) was approved in the House but failed in the Senate. When Congress returned in September, there was no action on the tax extenders
- Congress is in recess for the 2006 elections. When it returns for a lame duck session in mid-November, Senate Finance Committee Chairman Charles Grassley (R-IA) has indicated his desire to pass a tax extender package without the controversial provisions.
- In fact, Senator Grassley has indicated his intention to link the tax extender bill to the passage of trade legislation that the White House has a strong interest in seeing passed by the end of the year. The trade legislation would extend a number of United States trade preference programs set to expire on December 31st. While the extension of these trade preferences has not appeared on Grassley’s short list of “must pass” bills for the lame-duck session, he is now indicating that the trade bill could move up the list if Congress would first complete work on the tax extender bill.
- In addition to efforts to extend the NMTC for one-year as part of a tax extenders package, legislation has been introduced in both the House of Representatives (H.R. 3957) and the Senate (S. 1800) to extend the Credit for five years (through 2012).

Why the NMTC Needs to be Reauthorized in 2006

- The New Markets Tax Credit is a new tool and private financial institutions, corporations and individuals are now moving aggressively to invest in economically distressed communities. If the Credit is not extended and there is a pause in the program, investor confidence will falter.

The Credit at Work Across America

- While support from investors is important, the range, diversity, and impact on economically distressed communities of projects and businesses financed by the NMTC is the most compelling reason to extend the program. These include:
 - ✓ In New York State, the NMTC is helping to finance such projects as a new 18,000-square foot Street Squash community center in Harlem which will create 15 new jobs and increase service capacity from 140 to 1,000 students in the local area; the completion of the Mount Hope Community Center in South Bronx which will create 57 new jobs and provide recreational and educational activities for community

residents; and the redevelopment of the historic Yonkers Pier which will create 40 new jobs. All of these efforts are making a real difference in improving the physical infrastructure of low income communities as well as the lives of its residents.

- ✓ In Iowa and Wisconsin, the NMTC has filled an important financing gap. The credit needs of Omaha Standard in Council Bluffs, Iowa and Main Street Ingredients in La Crosse, Wisconsin had exceeded the capacity of local financial institutions. Using the NMTC, however, these local businesses were able to reorganize and improve their operations, expand employment opportunities, and add to the local tax base.
- ✓ In California, the NMTC is bringing resources to a vital and growing need for low income citizens and communities: access to primary and preventative health care. The NMTC has helped to mobilize the interest of a new investor sector – insurance companies – which have invested some \$16.3 million for the financing of community health care centers throughout the Golden State. The results of this effort are still unfolding but initial results are clear: increased and improved health care facilities and services for thousands of people living in low income communities.
- ✓ The flexibility of the NMTC is evident in a remote corner of Alaska, where the Village of Tyonek uses the proceeds from an investment in the Credit to finance an environmental clean-up company it owns. The investor in this project is Wells Fargo, the New York City-based financial institution.
- ✓ In the poorest neighborhood in Washington, D.C., the NMTC is financing the first supermarket in decades. When the supermarket is completed, community residents will gain an important retail service and 300 jobs will be created in an economically distressed area.
- ✓ The NMTC is helping to finance the renovation of three historic buildings in Holyoke, Massachusetts into a one-stop full-service community health center;
- ✓ The NMTC is enabling the purchase of an abandoned armory building in a rural Ohio community for use as a childcare center serving 75 children;
- ✓ In addition, the NMTC is assisting in the financing of the redevelopment of an abandoned property in Portland, Oregon into retail space and low income rental housing incorporating energy efficient construction;
- ✓ Finally, in the Gulf Coast region, the NMTC is one of the financing tools that offer hope for the communities and families devastated by Hurricane Katrina. The NMTC is already financing recovery efforts by restoring hospitals and financing business recovery in the Gulf area.