

New Markets Tax Credit Coalition (NMTCC)

Proposed Changes to New Markets Tax Credit Statute (IRC 45D)

1. Targeting of NMTC Investments

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The New Markets Tax Credit (NMTC) statute requires that Community Development Entity (CDE) use cash raised from NMTC investors to make loans to, or equity investments in, businesses operating in qualified low-income communities. These communities are defined as census tracts with poverty rates of 20 percent of median family income, or with median family income that does not exceed 80 percent of the greater metro, non-metro, or statewide area median family income. The statute also allows a CDE to carve out a geographic area that meet the poverty or median income criteria within a census tract that would not otherwise qualify.

While this geographic targeting formula includes at least 40 percent of the communities around the country, it excludes many pockets of poverty and populations of low-income people living within census tracts that do not meet the criteria. For example, this limitation would make it difficult for many CDEs serving low-income rural populations in the Midwest or Northeast who live within census tracts that do not reflect high levels of poverty.

Neither poverty nor business opportunities follow census tracts. The statute authorizing the Treasury Department's Community Development Financial Institutions Fund recognizes this and allows Community Development Financial Institutions participating in the program to target their assistance to poverty populations as well as low-income places. We would like to see the same flexibility granted to CDEs utilizing the NMTC.

The coalition recommends that the code be amended to give CDEs the option of targeting their development activities to a qualified investment area or to a qualified target population, defined as individuals who are low-income or otherwise lack adequate access to loans or equity investments

By giving CDEs the option of targeting place and population, Treasury can guarantee that funds will be targeted to individuals and areas in need while allowing development organizations the flexibility to effectively serve low-income populations that fall under the screen of census tract data. The following proposed language was included in Senator Rockefeller's original bill introduced in 1999.

Proposed change to IRC Section 45D:

Strike section 45D(e)2 and insert the following new subsection after 45D(e) 1 (B)H:

(C) or any targeted population, within the meaning of section 3(20) of the Riegle Community Development and Regulatory Improvement Act of 1974 (12 U.S. C. 4702 (20)), shall be treated as a low-income community. The Secretary shall prescribe regulations that include procedures for identifying the area covered by

any such targeted

2. Capacity Building Funds to Support Small and Emerging Entities using the New Markets Tax Credit

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~~While the shallow subsidy of the NMTC will enable larger and established CDEs to access additional private investments for use in qualified low-income communities, small and emerging CDEs will require additional support to access private investor markets and build the organizational capacity necessary to effectively use the credit. This is particularly true for CDEs working in isolated rural communities or very low income neighborhoods. While these entities are serving communities that the NMTC is intended to target, they have limited access to investment capital or the on-staff expertise necessary to penetrate new capital markets. For example, Montana Community Development Corporation has expressed concern about having the resources to take on the work of identifying and marketing the credit to new investors.~~

The Coalition recommends that \$10 million be provided in mandatory funding to assist small or emerging community development entities (CDEs) in marketing the NMTC to potential investors and reaching qualified low income community businesses in their service area. The \$10 million in mandatory funding could be made available on a competitive basis to CDEs that have been certified by CDFI but need assistance in identifying investors, developing a business plan, and providing assistance to qualified businesses in their community. We think that such a capacity building fund would accelerate the ability of the NMTC to reach a number of small and rural communities that might otherwise have a difficult time utilizing the credit.

3. Special Status for New Markets Venture Capital Companies

The New Markets Tax Credit statute grants Community Development Financial Institutions (CDFIs) and Specialized Small Business Investment Companies (SSBICs) automatic certification as Community Development Entities (CDEs) for purposes of accessing the New Markets Tax Credit. Automatic CDE certification is sought for conditionally approved New Markets Venture Capital Companies (NMVCCs). The New Markets Tax Credit and the New Markets Venture Capital Program were authorized by Congress in December 2000 as part of an effort to attract private investment capital to low-income areas. The automatic CDE certification for NMVCCs would allow the programs to work together more effectively as Congress intended. NMVCCs would still be required to apply for an allocation of the New Markets Tax Credit, as do CDFIs and SSBICs.

Proposed change to IRC Section 45D:

Sec. (c)(2) Special Rules for certain organizations: insert, (c) any conditionally approved New Markets Venture Capital Company as defined by Sec.101 of the Community Renewal and New Markets Initiatives Act of 2001.