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US Treasury Announces \$5 Billion Allocation of New Markets Tax Credit Awards

The U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) **announced** \$5 billion in New Markets Tax Credit (NMTC) awards on Sept. 19, 2024, with the goal of economically revitalizing low-income urban and rural communities across the country. A total of 104 organizations nationwide received tax credit allocation authority under this round of the NMTC Program.

The NMTC can serve as a means of reducing the debt or equity necessary to undertake a qualified project. In a typical NMTC transaction, a project sponsor can expect to receive a net benefit of 15% to 25% 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. Thus, the NMTC program functions as an economic development mechanism.

The program has stimulated job creation and investment in low-income areas throughout the country. A federal economic development program now in its second decade of existence, the NMTC program has proven an effective means of attracting private capital to complete the financing requirements of projects that may fail to progress otherwise. The program is versatile in terms of the types of projects for which 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. To qualify for the NMTC, an eligible project, at a minimum, must be located in a qualified census tract that meets certain criteria related to median income, poverty, and unemployment levels. Certain types of businesses are not eligible for NMTC financing, including housing (subject to certain exceptions), large-scale agriculture, and certain “sin businesses” such as massage parlors or liquor stores.

The NMTC is distinguished from other tax credits by the way it is made 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 Fund has awarded tax credit allocation authority. The organizations, known as Community Development Entities (CDEs), will allocate tax credits to projects that they view as likely to produce the positive community impacts that are most valued by each respective CDE.

As previously mentioned, in this round the CDFI Fund awarded allocation authority to 104 CDEs, each of which may perceive a project’s potential positive community impact differently. In this round, over 20% of the investments will be made in rural communities, and 100% of the allocatees committed to providing at least 85% of their investments in areas characterized by multiple indicia of distress, a significantly greater indicia of distress than required by NMTC Program rules, or high unemployment rates.

An additional factor deemed significant by nearly every CDE is the location of a project in a “targeted state.” The CDFI Fund has identified 11 states and territories as areas that have historically received fewer dollars of NMTC investment in proportion to their statewide populations residing in low-income communities and has emphasized to CDEs the importance of the program’s use in these targeted areas. The following list includes the targeted states and territories for the current allocation round:

- Arizona
- California
- Colorado
- Florida
- Kansas
- Nevada
- North Carolina
- Texas
- Virginia
- West Virginia
- Puerto Rico

While this round of awards should result in needed levels of community investment and economic development related to the NMTC Program, most of the tax credits will be allocated to projects in a short time span. Developers, companies, and charities, particularly those considering projects in targeted states, rural communities, or other low-income areas, should move quickly to determine whether NMTC financing is an option to close a funding gap or to potentially increase the services or offerings of a qualifying project.

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