

# New Markets Tax Credits for Non-profit Real Estate Financing

*Public Economics, Inc.*

*DWIGHT E. BERG, P.E.*

(888) 236-6757

[dwight@dwightberg.com](mailto:dwight@dwightberg.com)

# Introduction

- 2 New Markets Tax Credit (“NMTC”) program created by Community Renewal Tax Relief Act of 2000 (Internal Revenue Code Section 45D)
- 2 Administered by Community Development Financial Institutions (“CDFI”) Fund of Department of Treasury
- 2 Equity investors receive federal income tax credits and other tax advantages

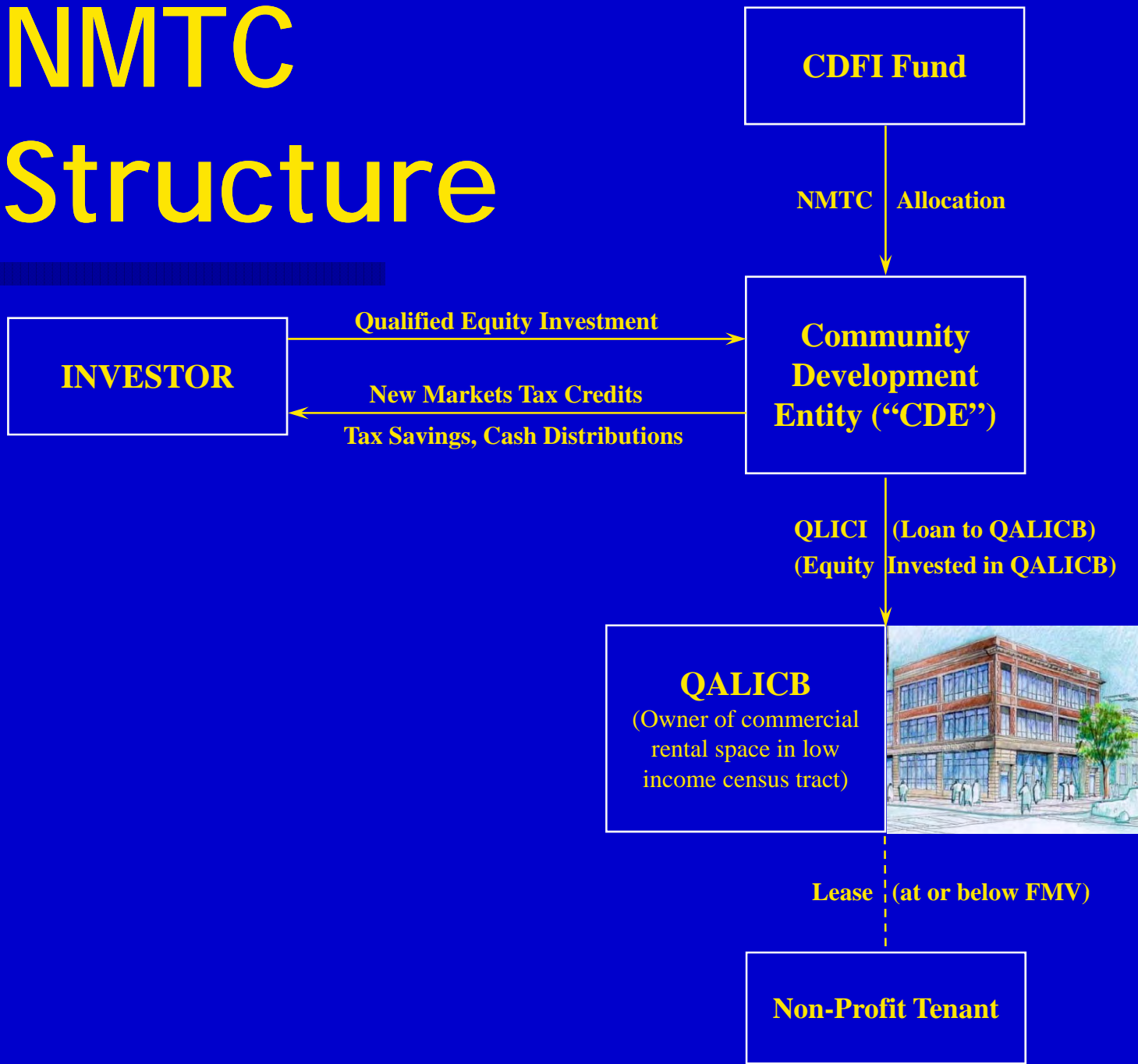
# Terminology

- 2 NMTC. New Markets Tax Credits
- 2 CDFI Fund. Community Development Financial Institutions Fund, NMTC program administrator.
- 2 CDE. Community Development Entity, entity certified by CDFI Fund as eligible to obtain NMTC Allocation to support low income projects
- 2 Low-Income Community, census tract with at least 20% poverty OR median family income under 80% of the area median family income

# Terminology, cont.

- 2 QALICB. Qualified Low-Income Community Business, business actively operating in a low income community.
- 2 QLICI. Qualified Low-Income Community Investment, investment in (or loan to) a QALICB.
- 2 QEI. Qualified Equity Investment, an investment in a CDE which generates NMTC for Investor. QEI must stay invested 7 years and CDE must use QEI proceeds to make QLICIs.

# NMTC Structure



# Tax Credits

New Markets Tax credits are claimed by investors on IRS Form 8874 based on the following percentage of Qualified Equity Investments held at the start of each year:

- 2 5% of QEI at Closing, 1<sup>st</sup> Anniversary and 2<sup>nd</sup> Anniversary (15% total); plus
- 2 6% of QEI each year on 3<sup>rd</sup> to 6<sup>th</sup> Anniversaries (24% total)

# Tax Credits, cont.

- 2 NMTCs are “general business tax credits” subject to 1-year carryback and 20-year carryforward
- 2 Income (value) of NMTCs is NOT taxable, it represents after-tax income
- 2 NMTC accrued value results in a corresponding step-down in Investor’s capital account (e.g., \$1 of capital gain for each \$1 of tax credit claimed)

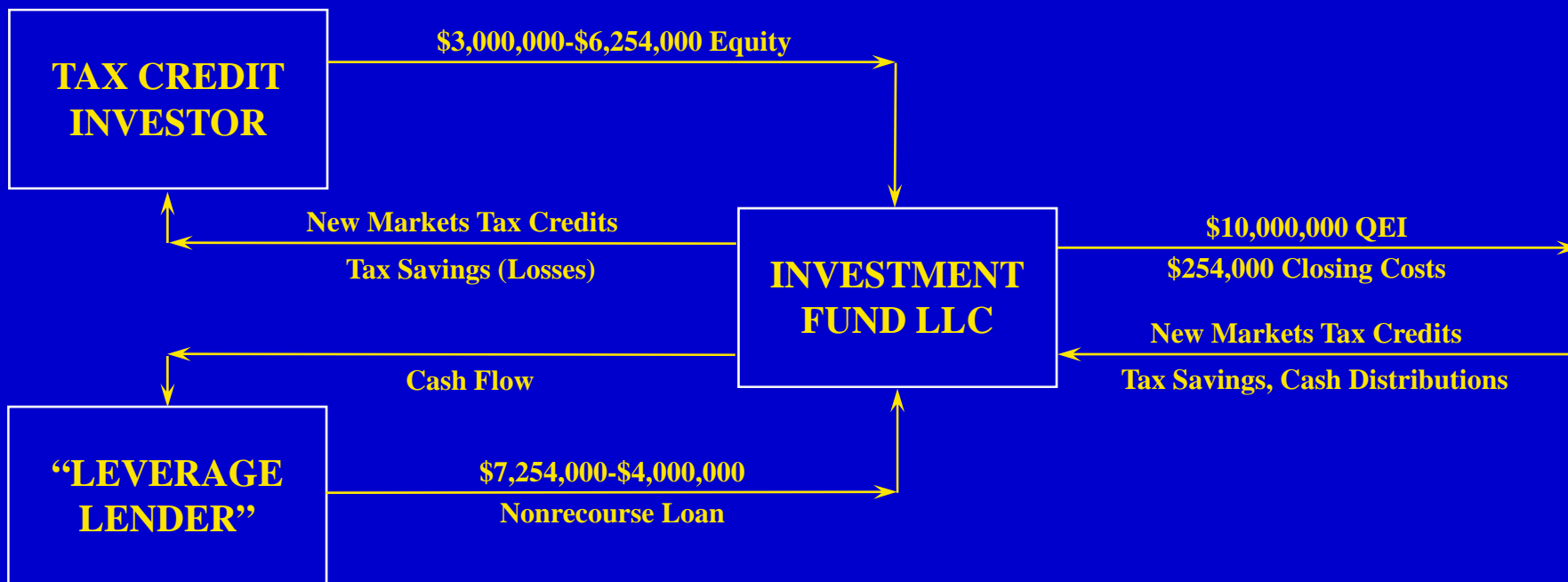
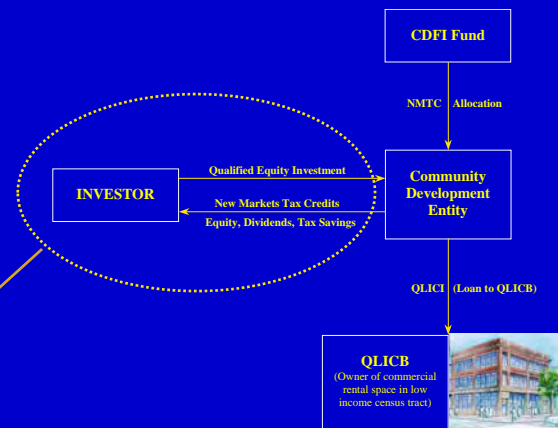
# “Leveraged” Structure

“Investment Fund LLC” makes QEI of \$10,000,000 by combining funding from:

- 2 “Tax Credit Investor” that gets 100% ownership of Investment Fund. **100% of the tax credits and tax savings are allocated to Tax Credit Investor.**
- 2 “Leverage Lender” that makes nonrecourse loan to Investment Fund. **Leverage Lender absorbs “project credit risk” and gets 100% of cash flow but NO allocation of tax credits or tax savings.**



# Leveraged Structure



Actual split between equity from Tax Credit Investor and nonrecourse loan from Leverage Lender will depend on the specifics of each transaction

# Cash Flow

