

## NMTC Program Overview and Glossary

The following is adapted from the CDFI Fund (the Fund) website ([www.cdfifund.gov](http://www.cdfifund.gov)). The New Markets Tax Credit (NMTC) program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

NMTCs are allocated annually by the Fund to CDEs under a competitive application process. These CDEs then offer the credits to taxable investors in exchange for stock or a capital interest in the CDEs. To qualify as a CDE, an entity must be a domestic corporation or partnership that: (1) has a mission of serving, or providing investment capital for, low-income communities or low-income persons; (2) maintains accountability to residents of low-income communities through their representation on a governing board of or advisory board to the entity; and (3) has been certified as a CDE by the CDFI Fund.

Based on its initial authorization in 2000, the Fund will allocate tax credits sufficient to attract \$15 billion in equity for New Markets projects over seven years. The Fund allocated \$2.5 billion in the first round in 2003, \$3.5 billion in the second round in 2004, and \$2 billion in the third round in 2005. The remaining two rounds of allocations, one in 2006 and the last in 2007, will be \$3.5 billion each.

### Glossary of NMTC Terms

For the complete definitions of the following, and additional terms used in the NMTC program, consult the CDFI Fund website.<sup>1</sup>

#### **Allocatee**

An Applicant that receives an NMTC Allocation.

#### **Allocation Agreement**

An agreement to be entered into by the Fund and a CDE that stipulates the use of the tax credit allocation.

#### **Community Development Entity (CDE)**

Any domestic corporation or partnership where:

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<sup>1</sup> <http://www.cdfifund.gov/programs/programs.asp?programID=5>

- (1) The primary mission of the entity is serving, or providing investment capital for, low-income communities or low-income persons;
- (2) The entity maintains accountability to residents of low-income communities through their representation on any governing board of the entity or on any advisory board to the entity; and
- (3) The entity is certified by the Fund as a CDE.

#### **Low-Income Community**

Any population census tract where:

- (1) The poverty rate for such tract is at least 20 percent; or
- (2) (a) In the case of a tract not located within a metropolitan area, the median family income for such tract does not exceed 80 percent of statewide median family income; or (b) in the case of a tract located within a metropolitan area, the median family income for such tract does not exceed 80 percent of the greater of statewide median family income or the metropolitan area median family income.

#### **Qualified Active Low-Income Community Business (QALICB)**

Any corporation (including a nonprofit corporation) or partnership where:

- (1) At least 50 percent of the total gross income of such entity is derived from the active conduct of a qualified business within any low-income community;
- (2) A substantial portion of the use of the tangible property of such entity (whether owned or leased) is within any low-income community; and
- (3) A substantial portion of the services performed for such entity by its employees are performed in any low-income community.

#### **Qualified Equity Investment (QEI)**

Any equity investment into a CDE where substantially all of the investment is made into a Qualified Low-Income Community Investment.

#### **Qualified Low-Income Community Investments (QLICI)**

- (1) Any capital or equity investment in, or loan to, any QALICB;
- (2) The purchase from a CDE of any loan made by such entity that is a QLICI;
- (3) Financial counseling and other services to businesses located in, and residents of, low-income communities; or
- (4) Any equity investment in, or loan to, any CDE.