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NEW MARKETS TAX CREDIT PROGRAM

Community Development Financial Institution Fund Unites States Department of the Treasury

Editor's Note: The following article (provided by Paula Smith, United States Department of the Treasury) summarizes the New Markets Tax Credit Program administered by the United States Department of Treasury, that allows for federal income tax credits for investments in low-income communities. This topic along with many others will be presented at the ***2nd Annual Tools to Revitalize California Communities Program*** *on October 17, 2003. For more information about the Tools Program see CDIAC's website at www.treasurer.ca.gov/cdiac.*

General Overview: The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making Qualified Equity Investments (QEIs) in designated Community Development Entities (CDEs). QEIs must be made in cash. Substantially all of the QEIs must in turn be used by the CDE to provide qualified investments in low-income communities. The credit provided to the investor totals 39 percent of the investment in a CDE 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.

The Community Development Financial Institutions Fund (Fund), a wholly owned government corporation within the United States Department of the Treasury, has been delegated the responsibility of certifying CDEs and allocating NMTCs to such entities. General information on the NMTC Program may be found in the Fund's General Guidance (66 Federal Register 21846, May 1, 2001).

CDE Certification: 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 Fund. Information on the CDE certification process may be found in the Fund's CDE Certification Guidance (66 Federal Register 65806, December 20, 2001).

Allocation of NMTCs: The Fund will allocate NMTCs to CDEs through an annual competitive application process. Throughout the life of the NMTC Program, the Fund is authorized to allocate to CDEs the authority to issue to their investors up to the aggregate amount of $15 billion in equity as to which NMTCs can be claimed. The Fund published its first annual NMTC Program Notice of Allocation Availability (NOAA) in June of 2002 (67 Federal Register 40112, June 11, 2002). This NOAA invited CDEs to compete for tax credit allocations in support of an aggregate amount of $2.5 billion in QEIs. A total of 345 applications were received, requesting approximately $26 billion in NMTC allocation authority. In March of 2003, the Fund announced that 66 applicants had been selected to issue the aggregate amount of $2.5 billion in QEIs.

Use of QEI Proceeds: A CDE that is awarded an allocation of NMTCs by the Fund will have five years from the date of notification of its allocation to close QEIs with its investors. The CDE will have 12 months to place "substantially all" of the proceeds from the QEIs into Qualified Low Income Community Investments (QLICIs), which generally are: 1) loans to, or investments in, qualifying businesses (including certain real estate projects); 2) loans to, or investments in, other CDEs; 3) the purchase of qualifying loans originated by other CDEs; and 4) financial counseling and other services. The requirements relating to how QEI proceeds must be used, including events that could trigger the recapture of NMTCs by the Internal Revenue Service, are described in the IRS Temporary and Proposed Income Tax Regulations governing the NMTC Program (66 Federal Register 66307, December 26, 2001).

For more information on the NMTC Program and other Fund initiatives, please phone the Fund at 202-622-7373, email the Fund at cdfihelp@cdfi.treas.gov. or visit the fund's website at ***www.cdfifund.gov.***

This Offprint was previously published in DEBT LINE, a monthly publication of the California Debt and Investment Advisory Commission (CDIAC). CDIAC was created in 1981 to provide information, education, and technical assistance on public debt and investment to state and local public officials and public finance officers. DEBT LINE serves as a vehicle to reach CDIAC's constituents, providing news and information pertaining to the California municipal finance market. In addition to topical articles, DEBT LINE contains a listing of the proposed and final sales of public debt provided to CDIAC pursuant to Section 8855(g) of the California Government Code. Questions concerning the Commission should be directed to CDIAC at (916) 653-3269 or, by e-mail, at cdiac@treasurer.ca.gov. For a full listing of CDIAC publications, please visit our website at http://www.treasurer.ca.gov/cdiac.