

New Markets Tax Credits: A Program Overview



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Overview of NMTC Program

- Part of the Community Renewal Tax Relief Act of 2000, enacted 12/21/2000
- Offers Incentive for Investors to Bring Funds into Underserved Areas
- Provides for \$15 Billion to be invested through a Temporary Tax Credit

The Players

- CDFI Fund of the US Department of the Treasury administers the NMTC program
- CDEs are the entities that receive and pass on NMTC allocations
- Investors provide the investment dollars
- QALICBs are the borrowers
- IRS regulations specify the rules

The Process

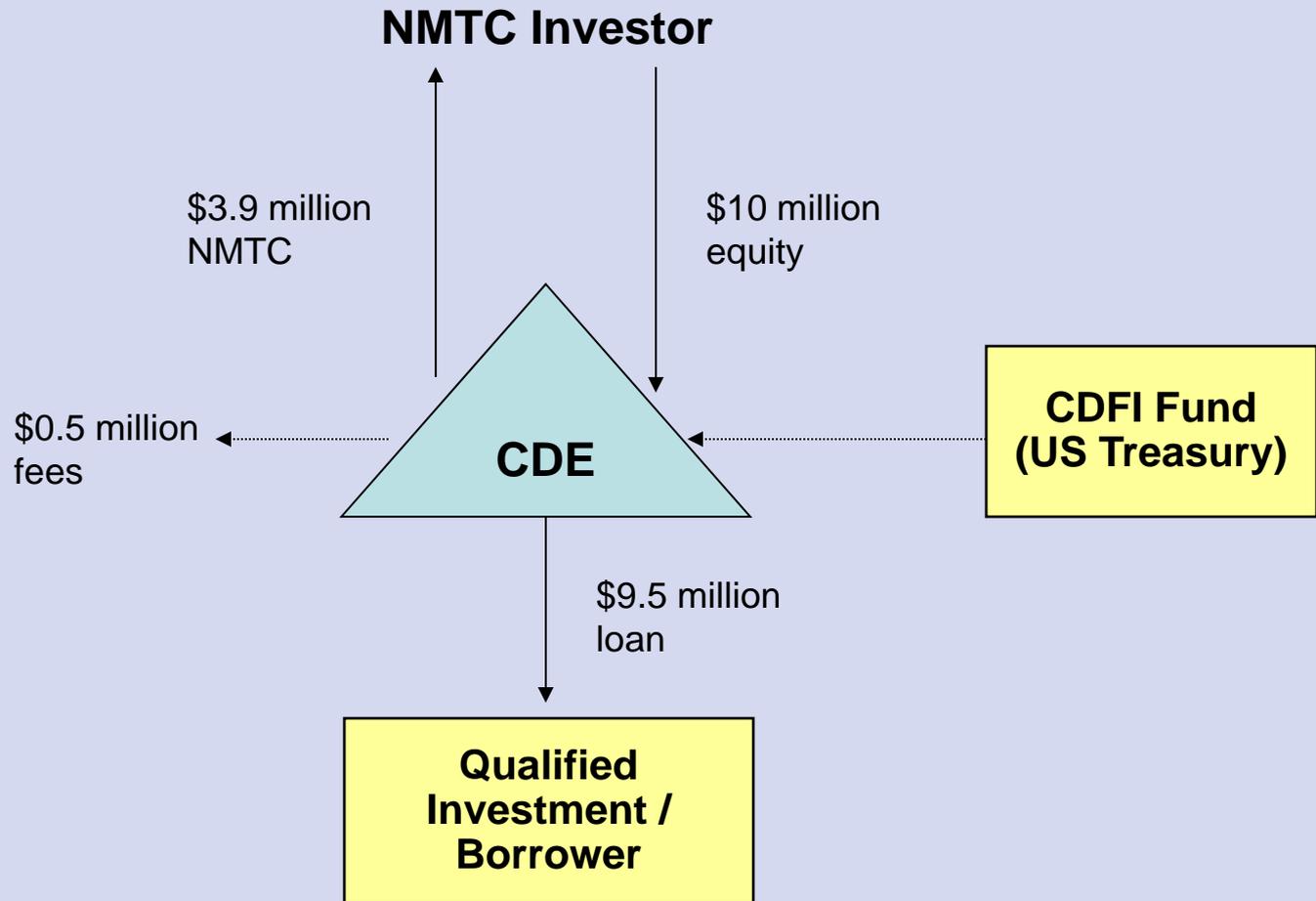
- Tax Credits are claimed by the investor over 7 years and total 39% of investment
- Tax credits provide additional return to investor to make a low-return project viable
- Using debt as part of the investment allows the equity portion to be repaid entirely through tax credits

Benefits to Borrower

- Lower cost of borrowing
 - 25% reduced cost
 - Lower interest rate
 - Debt forgiveness
- Favorable terms may include:
 - 7 years interest only
 - Higher LTV
 - Lower collateral

(These do not reduce interest or principal to NMTC Lender)

Simple Structure



What is “Low- Income?”

“Low-Income Communities” are census tracts where:

- Poverty rate exceeds 20%, or
- Median family income is below 80% of the benchmarked median family income, or
- Targeted populations, or
- Population is less than 2000 people, contiguous to a LIC and in an empowerment zone, or
- High migration rural counties (85% median inc)

Qualified Business

Any corporation or partnership (including nonprofits) engaged in the active conduct of a qualified business that meets all 5 requirements:

- Gross Income (50% LIC)
- Tangible Property (40% LIC)
- Services Performed (40% LIC)
- Collectibles (< 5% property)
- Nonqualified Financial Property (< 5% property)

Ineligible Activities

- Residential rental property:
 - Buildings which derive 80% or more of income from residential dwelling units
- Certain types of businesses:
 - Businesses primarily having intangibles for sale/license
 - Golf courses
 - Race tracks
 - Gambling facilities
 - Farming businesses with assets over \$500,000
 - Stores where the principal business is the sale of alcoholic beverages
- Refer to IRS regulations for additional details

Recapture

Recapture is triggered if:

- CDE ceases to be a qualified CDE, or
- Equity investment proceeds no longer satisfy the “**substantially all**” requirement (i.e., less than 85% are used for qualified investments);
or
- Equity investment is redeemed or cashed out.

Contact Information

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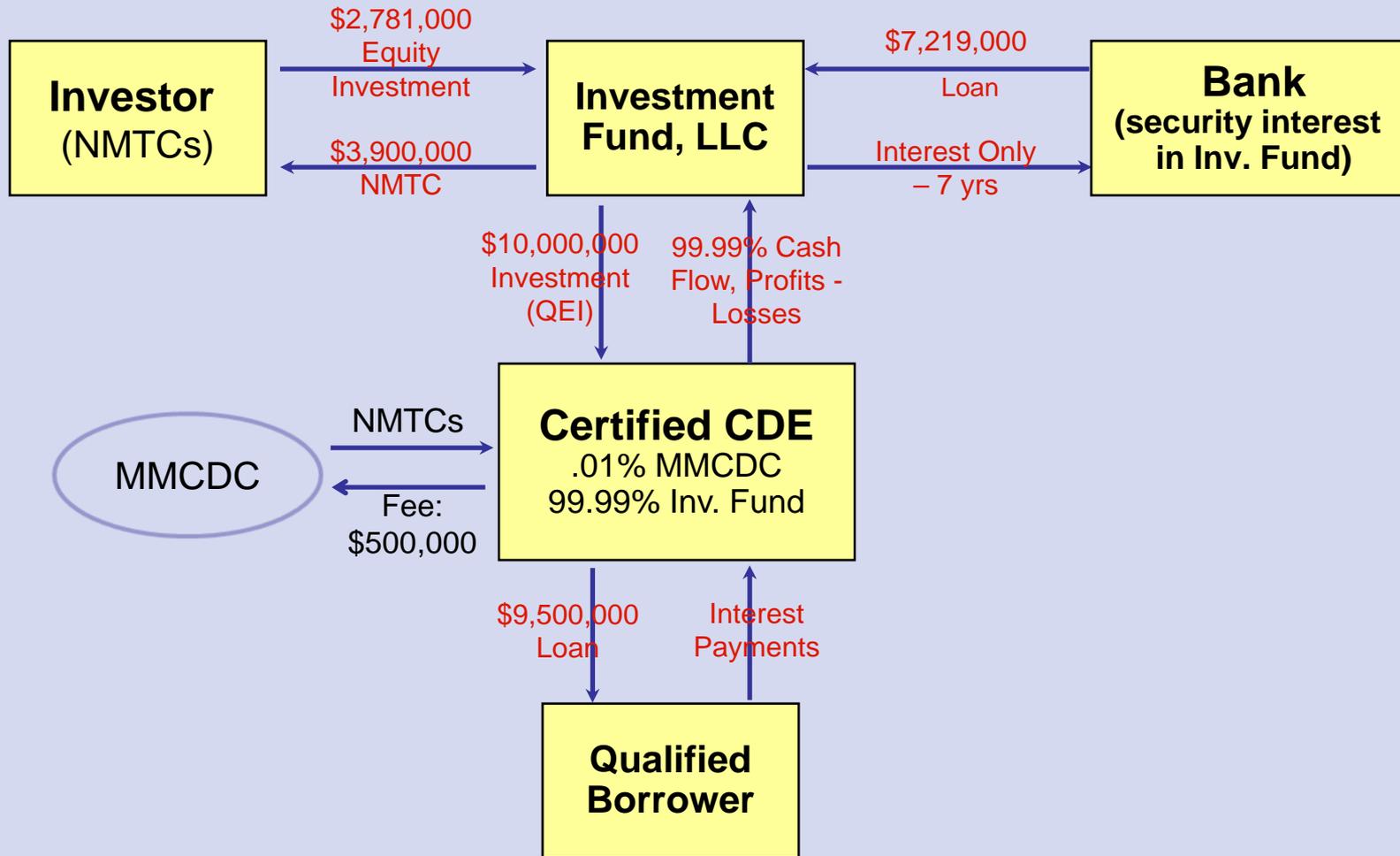
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Leveraged Structure



Leveraged Structure + B&I

