

New Markets Tax Credits for Non-profit Real Estate Financing

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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

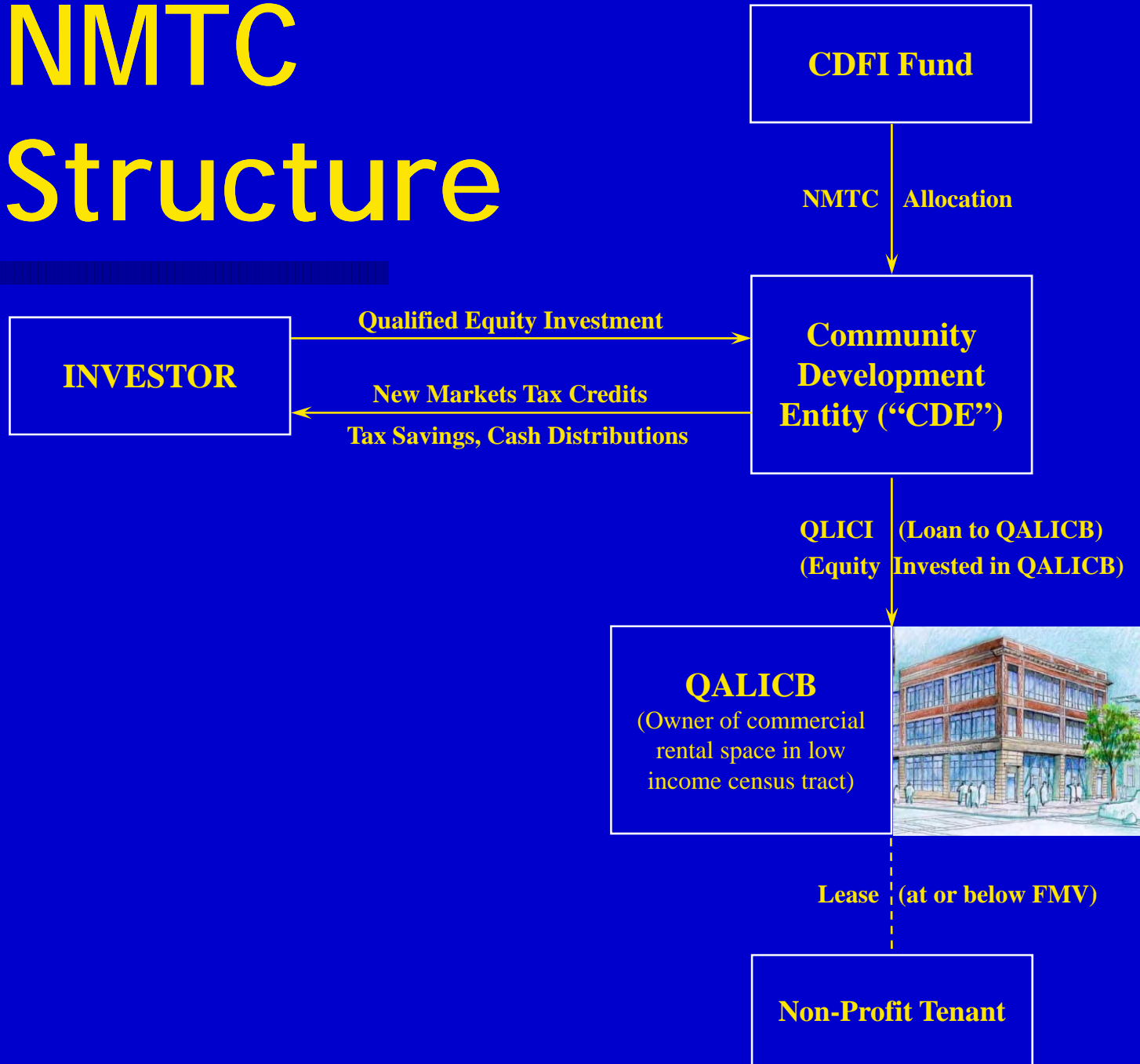
Terminology

- 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, 1st Anniversary and 2nd Anniversary (15% total); plus
- 2 6% of QEI each year on 3rd to 6th Anniversaries (24% total)

Tax Credits, cont.

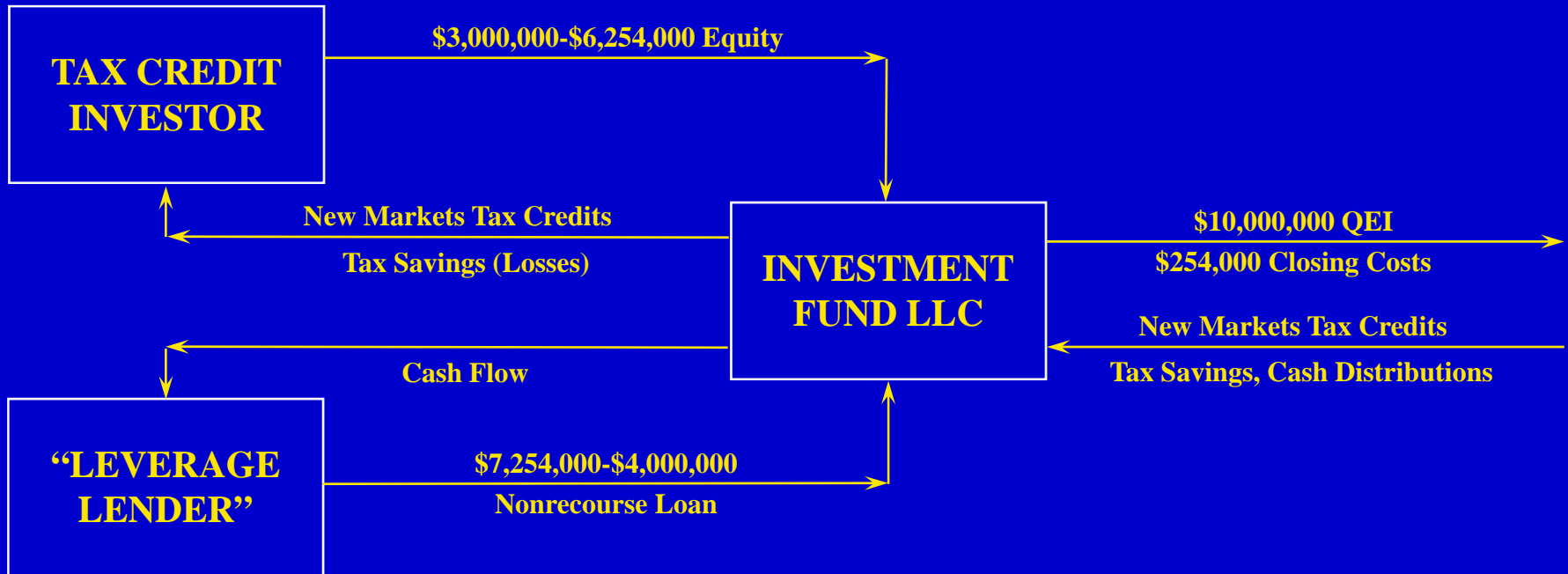
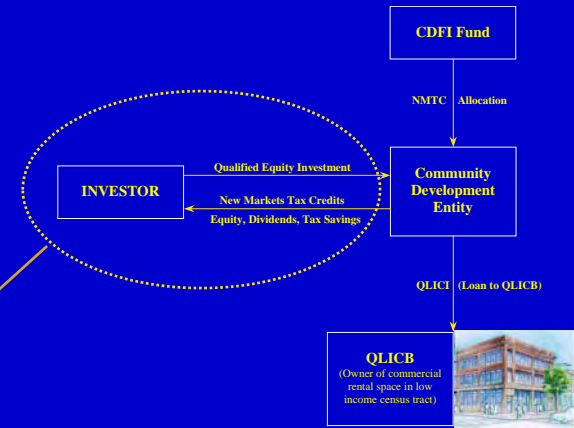
- 2 NMTCs are “general business tax credits” subject to 1-year carryback and 20-year carryforward
- 2 Income (value) of NMTCs is NOT taxable, it represents after-tax income
- 2 NMTC accrued value results in a corresponding step-down in Investor’s capital account (e.g., \$1 of capital gain for each \$1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

