



New Market Tax Credit Frequently Asked Questions (FAQ)

1. **What is the New Market Tax Credit program?**
 - A. A program created in December 2000 by the Community Renewal Tax Relief Act of 2000, which leverages capital from investors to spur economic development in urban and rural low-income communities.

2. **Who administers the NMTC program?**
 - A. Jointly administered by the Treasury Department's **Community Development Financial Institutions (CDFI) Fund** and the **Internal Revenue Service** (through section 45D of the Internal Revenue Code).

3. **In order to qualify for NMTCs is there anything required of the recipient?**
 - A. Yes. The recipient must be certified as a qualified Community Development Entity (CDE) by CDFI Fund before submitting the application for a tax credit allocation.

4. **When the CDFI Fund evaluates an application, what is it based on?**
 - A. The CDE's business strategy, capitalization strategy, management capacity, and projected community impacts.

5. **What is the NMTC process?**
 - A. The process: CDFI Fund allocates NMTC to CDE; The CDE offers the credits to investors in return for equity capital; The CDE allocates and other parties, such as equity fund managers, market the availability of the NMTCs to prospective investors at the institutional and individual level. (See figure 1.)

6. **What are the proceeds from investors referred as in the NMTC process?**
 - A. Qualified Equity Investments (QEIs).

7. **How long does a CDE have to place the credits received with investors and what is the term of the credit?**
 - A. The CDE has to place the credits within 5 years of receiving the allocation and the term of the credit is 7 years.

8. **What percentage of each dollar amount is the NMTC worth?**
 - A. 39 cents of each dollar or 39%

9. **Explain how investors can claim a tax credit in terms of years and percentages.**
 - A. Investors claim a tax credit of 5% of the amount of the QEI for each of the first 3 years, and a credit of 6% for each of the last four years, which amounts to a 39% credit over the term of the QEI.

10. **When using the QEI proceeds, a CDE makes its financial assistance available to eligible businesses. What are they known as?**
 - A. Qualified Active Low-Income Community Businesses (QALICBs).

11. **What percentage of the QEI must be deployed by the recipient CDE within 1 year in Qualified Low-Income Community Investments (QLICIs) and what is that percentage defined as?**
 - A. 85% (Defined as "Substantially All")

12. **The QLICIs comprise a host of financial and technical assistance to eligible businesses. What are they?**
 - A. 1). Investing in or lending to these business enterprises 2). Investing in or lending to CDEs 3). Purchasing loans from CDEs 4). Providing financial counseling and other services to organizations (including nonprofit organizations) to assist with business plan development, financial analysis, financing, and similar activities.

13. Why are NMTCs of such interest to Banks?

A. Reasons banks like NMTCs: the attractive economic rates of return on investments; it possibly generates significant impacts in low-income areas, which frequently involves partnering with community based organizations; the opportunity to diversify into other credit products and services; and the multiple ways to receive favorable Community Reinvestment Act (CRA) consideration.

14. Did the City of Miami create a CDE?

A. Yes. In an effort to bring a better focus on the City of Miami, the Economic Initiatives Division created a Community Development Entity (CDE) entitled Miami Economic Development Fund, LLC (MEDF) for purposes of applying and allocating New Markets Tax Credits.

15. Has the City of Miami applied for credits in the latest Round VI of NMTCs?

A. Yes. In addition to applying for credits as a CDE, the City of Miami Economic Initiatives Division has collaborated with industry experts to educate and connect our local constituents to NMTC program opportunities. Although we were unsuccessful in Round VI, we are encouraged by our application feedback from CDFI and we will be applying again in Round VII.

16. I believe I have a project that will qualify under the NMTCs program. How can I access credits?

A. Complete the City of Miami's NMTC Preliminary Investment Memorandum on our website to explain your project. Your project will be evaluated by the City's Economic Initiatives Division and we will attempt to connect you with allocatees seeking projects within a Florida service area.

17. What is timing on availability of funding?

A. Allocations will be announced in the fall of 2009.

- 18. Are there location restrictions for funding, such as within census tract boundaries/city boundaries, etc?**
- A. Yes. The projects need to be in a qualified NMTC Census Tract.
- 19. Debt or equity: what are criteria - interest rate, etc?**
- A. The criteria will vary based on the particular CDE. They will however expect to see a sound business plan.
- 20. What type of businesses do you want to fund?**
- A. Consideration will be given to all businesses located in a qualified NMTC Census Tract except those that are listed as prohibited from receiving this benefit (e.g. Massage parlors, liquor stores).
- 21. Is this a job creation program, if not what is the product the applicant must achieve in order to receive funding?**
- A. The CDE NMTC application will contain a set of categories with which a business gets evaluated and may qualify to receive points. A major factor that will carry more weight than others is workforce development (i.e. How many jobs can your business commit to generating if given this opportunity?)
- 22. What/who is the entity managing the funds: is there a separate Board? Who are the members of the Board?**
- A. The credits are typically managed by a CDE Board. Currently, we are beginning to build the program and are partnering with other CDE's that recognize Florida as a service area (with a City of Miami focus).
- 23. Is there an informational website?**
- A. Yes. The CDFI Fund website is:
http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5

Figure 1. NEW MARKET TAX CREDIT PROGRAM

