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## Community and Economic Development in North Carolina and Beyond Blog: Renewed Funding Extends New Market Tax Credit Program Through 2019

By CED Program Interns & Students

Article: <https://ced.sog.unc.edu/renewed-funding-extends-new-market-tax-credit-program-through-2019/>

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The CED blog has previously written about the importance of New Market Tax

Credits, and their place in the process for developing real estate transactions (a primer can be found here, and a discussion of the process for investment can be found here). Briefly, these credits are designed to drive capital to underserved communities, notably those which are determined to be ‘highly distressed,’ and provide investors with a 39% tax credit, paid over seven years, for investments in qualified projects. Credits are allocated to designated Community Development Entities (CDEs), which then select impactful projects in which to invest. Because funding for the Program is limited, investments tend to be highly competitive: this makes the *impact* of the project extremely important, and allocations often tend to concentrate around the various CDE’s mission targets, which could range from solar energy, to rural health, to small business development, to any number of other things.

In an earlier post, it was noted that *“Perhaps the most important point to consider regarding NMTC’s is that they bear the risk of being discontinued. The original Community Renewal Tax Relief Act that created the credits was initially authorized through 2007. It has been extended on a year by year basis through annual votes by Congress.”* At the time, funding for the Program was in jeopardy, as budget negotiations were delayed by legislative partisanship, and allocations for 2015 were put on hold. However, in December of 2015 Congress authorized the PATH (Preventing a Tax Hike) Act, which extended the New Market Tax Credit for five years (through 2019), with an allocated \$3.5BN per year to the program. Because the Act was authorized at the very end of the year, 2015’s allocation was added to that of 2016 – this means a total allocation of \$7BN is expected this year.

However, even with a slightly higher degree of comfort around the program, the long term status of the New Market Tax Credit Program remains in jeopardy, with funding coming up for review again in a few years. Furthermore, CDE applications for allocations routinely outstrip supply, and remain highly competitive from year to year. Notably, research into the Program’s impact seems to indicate that tax revenue generated from investments in the Program is substantially greater than the Government’s investment, news of which is encouraging for proponents of a longer term funding solution.

Of particular note, the uncertainty underlying the Program’s funding has an important impact on the selection of projects in which CDEs choose to invest. Because funding of projects is driven by allocations by the government to various CDEs, CDEs can be wary of projects that are not considered ‘shovel ready,’ as they might fear that future allocations will be put at risk if they aren’t able to successfully get money out the door. This is challenging for potential end-recipients of capital, as one of the key tenets of the NMTC program is what is called the ‘But-For’ analysis, which basically states that allocations must go to projects which could not be completed *but for* the NMTC allocation. However, even with challenges to getting a project qualified for NMTC funding, the pipelines for various CDEs’ capital allocations remains strong.

However, while projects must be considered more or less ready to go in order to be competitive for an allocation, CDEs have already begun to fill their pipelines for their 2017 allocation cycle (for which funds would likely begin to be distributed



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in early 2018). A list of allocates for 2016 can be found here, and it would be fair to assume that many of these CDEs will be receiving allocations in 2017 and beyond.

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**Here are some additional resources on the New Market Tax Credit:**

The New Market Tax Coalition (<http://nmtccoalition.org/>)

-The NMTC 2016 Progress Report can be found here

Treasury Department: Community Development Financial Institutions (<https://www.cdfifund.gov/programs-training/Programs/new-markets-tax-credit/Pages/default.aspx>)

Novogradac NMTC Resource Center (<https://www.novoco.com/resource-centers/new-markets-tax-credits>)

Enterprise Community Partners (<http://www.enterprisecommunity.com/new-markets-tax-credits-policy>)

IRS New Market Tax Credits (<https://www.irs.gov/businesses/new-markets-tax-credit-1>)

US Bank Primer (<https://www.usbank.com/commercial-business/tax-credit-financing/new-markets-tax-credits-basics.html>)

Wells Fargo Primer (<https://www.wellsfargo.com/com/financing/real-estate/community-lending-investment/new-markets-tax-credit/>)

Self – Help Primer (<https://www.self-help.org/business/loans/new-markets-tax-credit-loans>)

Also, a great summary of the NMTC Process: <http://ww2.cfo.com/capital-markets/2016/02/financing-thats-too-good-to-be-true-but-is-tax-credits/>