



New Markets Tax Credits for Private Investment Funds and Family Offices

What Are New Markets Tax Credits?

The Federal New Markets Tax Credit (NMTC) Program was enacted as a part of the Community Renewal Tax Relief Act of 2000 to revitalize Low-Income Communities (LICs). NMTCs are federal tax credits used to assist in the funding of neighborhood changes, job creation, commercial real estate projects, and new or existing businesses located in low-income census tracts.

LICs sometimes have difficulty attracting investments, leading to dormant or vacant buildings and businesses, inadequate access to healthcare and education, and lower property values. NMTCs provide an opportunity for investors to not only invest in these “distressed” communities, but to do so in a way that minimizes investment risks and optimize returns.

For family offices and private investment funds, NMTCs offer a financial incentive to invest in businesses or real estate projects located in areas of perceived higher risk, while keeping returns in line with investments located in more economically developed areas.

Benefits of NMTC

- ▶ Through the Community Development Financial Institutions Fund, a division of the Department of Treasury, the federal government grants authority to private Community Development Entities (CDEs) to issue **7 years of federal tax credits to investors in exchange for equity investments**.
- ▶ CDEs use the equity investment received from tax credit investors to issue **low-interest, interest only, subordinated loans (NMTC Loans)** to geographically qualified projects in exchange for certain community impacts.
- ▶ The NMTC Loans can **cover as much as 15%-20% of total project costs**.
- ▶ The CDE and Investor typically sell the NMTC Loans to the project sponsor for a nominal fee, thus the **NMTC capital can be left in the project**.
- ▶ The NMTC Loan may be **subject to cancellation** after the investor exits.

Examples of NMTCs at Work

A key value of the NMTC program is that it has very few limiting features with respect to asset class or form of investment. So, for some family office clients, NMTCs can, for example, support an investment in a mixed-use development like 100 Prince* in Athens, Ga., which brought grocery and retail to a USDA Food Desert as well as the first non-student multi-family housing to be built in Athens in more than 10 years. The NMTC subsidy helped overcome severely depressed commercial rents to make the project feasible for the family offices invested in the project while still delivering the community impacts of accessible food and in-town housing.

Alternatively, as a gap financing tool, NMTC was used to complete the capital stack for Jones Capital’s Jones Lumber Co. to acquire and update the former Rives and Reynolds lumber mill in Natchez, Miss. With the NMTC investment, Jones Lumber Co. was able to re-engineer the mill, add sufficient working capital, and keep one of the major employers in Natchez strong for the future.

** For more information, see NMTC Case Study for 100 Prince*

Private Investment and Family Offices New Markets Tax Credit Q&A

<p>What types of assets or projects can benefit from NMTC Finance?</p>	<p>NMTC finance can be used for a wide variety of capital projects, including real estate acquisition and improvement, operating business expansion, working capital and business acquisition.</p>
<p>Where can I use NMTC financing?</p>	<p>NMTC financing can be used in any U.S. Census Tract where Poverty exceeds 20% or Median Family Income is less than 80% of average. These are known as Low-Income Communities (LIC).</p>
<p>What is the potential benefit of NMTC finance for a project?</p>	<p>NMTC finance can provide gap financing of 15% to 20% of total capital expenditures.</p>
<p>What is the holding period for NMTC financing?</p>	<p>From the date of an NMTC closing, the project will be subject to a 7-year hold period.</p>
<p>How does a project receive the net benefit of NMTC financing?</p>	<p>In the typical NMTC transaction, a tax credit investor purchases tax credits from one or more Community Development Entity (CDE) which, in turn, provides that capital to projects in the form of low-interest, interest only loans. After the 7-year compliance period, the CDE and Investor collectively sell that loan to the project sponsor for a nominal fee.</p>
<p>Is there a post-compliance tax</p>	<p>Yes, because the loan is sold to the sponsor in year 8, it will likely be consolidated on the books of the sponsor and can create cancellation of indebtedness income.</p>
<p>Are there any reporting requirements to participate in NMTC financing?</p>	<p>Yes. In addition to typical financial reporting that would accompany any finance tool, the CDEs will require the project to report the community impacts they are generating in the LIC.</p>
<p>Are there any special financing requirements?</p>	<p>Yes, based on the structure of the New Markets Tax Credit program, the investor has full exposure to recapture of all credits throughout the 7-year compliance period. Accordingly, they will require a guaranty of those tax credit from the sponsor for any actions at the project level. While this is a remote possibility, the guaranty is a requirement for almost all NMTC transactions.</p>
<p>Are there any sources of funding which can't be used with NMTC financing?</p>	<p>Because the NMTC program requires the sponsor to provide up to 80% of the funding for the project as "leverage" certain types of funding can not be used though the structure. These include Low-Income Housing Tax Credit financing and Opportunity Zone (OZ) equity, however, OZ equity can be used in the same project as NMTC financing in certain circumstances. Typically, we can work with your construction or permanent debt lender or other financial sources to pair their funding with NMTC equity through the structure.</p>



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About Tax Advantage Group by Cherry Bekaert

Tax Advantage Group by Cherry Bekaert specializes in New Markets Tax Credits, helping non-profit and for-profit organizations access capital and transform communities. In addition to managing \$545 million of NMTC assets, and drafting over \$1 billion in successful NMTC Applications, since 2004 TAG has played an instrumental role in securing funding for over \$1.3 billion for community and economic development projects across the United States.

