# Demystifying New Market Tax Credits

Related Professionals

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The New Market Tax Credit program can be intimidating for even the most knowledgeable business, real estate and banking professionals, and yet, the program is a beneficial tool for financing certain real estate and other projects that otherwise wouldn't have the necessary funds to get off the ground. The New Markets Tax Credit (NMTC) program is a federal program that was created to address the lack of capital available to business and economic development ventures in low-income communities and hurricane-damaged areas. As such, it has been a tremendous resource and one of the most effective government programs helping south Louisiana and other Gulf Shore areas recover from Hurricane Katrina. The NMTC program is not limited to storm damaged areas, it also is available nationally to low income areas, called census tracts. There are qualifying census tracts located throughout the state including: Lafayette, Baton Rouge, Lake Charles, Shreveport--Bossier City, New Orleans, Houma, Monroe and Alexandria.

**Here's how the program works:**

Community Development Entities, or CDEs, serve as the investment vehicle for the new market tax credits (the "Credits"). CDEs are entities that have a primary mission of serving or providing investment capital for low income or hurricane-damaged communities. A CDE must first be certified by the CDFI Fund (an agency within the Treasury Department). Once certified, CDEs apply for an allocation of Credits. Competition among CDEs for Credits is intense and applications are scored in four areas: (1) community impact, (2) business strategy, (3) capitalization strategy, and (4) management strategy.

The CDE then uses its allocation of Credits to secure investors to make equity investments in the CDE in exchange for the Credits. Simply put, the Credits are sold to provide "up front" equity in a chosen project. Once an equity investment is made in the CDE, the investor can then claim the Credit, which is worth five percent (5%) of the investor's equity in the first three years and six percent (6%) in the last four years (a 39% tax credit over 7 years). The CDE, in turn, is required to use substantially all of the investor's equity to make equity investments or qualified low interest loans to projects within the low-income or storm-damaged community. There is significant flexibility in the types of businesses and development activities that NMTC investments can support – including community facilities such as child care or health care facilities, charter schools, and for-profit or non-profit businesses.

During the life of the project, the government uses various compliance measures to ensure that the NMTC program's goals are being carried out through the individual projects. CDEs that demonstrate that their past investments and projects are working to achieve the NMTC program's goals can go back for more credits each year. Thus, the program rewards the private sector for doing what it knows best, deciding which businesses are good investments. Because of the strict compliance requirements, CDEs look for projects with the highest likelihood of success.

Louisiana law also provides for a New Market tax credit under La. Rev. Stat. §47:6016, which piggybacks the federal New Markets tax credit. Therefore, if an investment qualifies under federal law as a qualified equity investment and a qualified low income community investment, then it should also qualify for the Louisiana tax credit. As with respect to federal law, Louisiana law caps the total amount of credit available annually through the program and as new credits are made available each year, they are snapped up quickly. **The total amount of credit available for the Louisiana NMTC is $12,500,000 for 2009 and 2010.** The amount of credits available nationally was recently increased with the adoption of the American Recovery and Reinvestment Act of 2009, which increased the total amount of credits available from $3.5 to $5 billion.

Over the past two years, McGlinchey Stafford has been involved in several NMTC deals that funded projects benefiting the New Orleans area including:

- funding of acquisition costs for a major medical facility located in Kenner, which reopened after Katrina and brought back more than 400 permanent jobs; and
- renovation and construction of a 4,000 square foot outpatient imaging facility, including MRI and CT Scan, to be located on Magazine Street.

In these difficult economic times, understanding the role these Credits can play in providing up front capital might just mean the difference in "getting the deal done."