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Page Title: Nonprofits and the Latest Extension of the New Markets Tax Credit | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] outlines NMTC's role in encouraging investors to finance low-income community projects through Community Development Entities (CDEs), including nonprofits, using tax credits and equity investments.

Headline: Nonprofits and the Latest Extension of the New Markets Tax Credit

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The New Markets Tax Credit (NMTC) was established in 2000. The credit has been used to incentivize investors to finance and start projects in low-income communities. New investments in these areas often help the community as a whole by making them look and feel better, creating jobs and decreasing crime. Programs like the NMTC also address community blight, such as outdated facilities, empty buildings and poor access to vital services like healthcare and education.

Private investment into local economies is extremely beneficial, and although the NMTC has been set to expire on several occasions previously, it has been re-extended many times. The latest extension is part of the Inflation Reduction Act. It includes a \$5 billion annual allocation for project credits through 2025.

What Is the NMTC?

Both individual and corporate investors can take advantage of the New Markets Tax Credit. They receive tax credits for making investments in Community Development Entities (CDEs). The overall credit can be up to 39% of the original investment into the CDE, taken over seven years.

Who Administers the NMTC?

The NMTC is administered by the Community Development Financial Institutions Fund (CDFI Fund), a department of the United States Department of the Treasury. The CDFI Fund allocates dollars to CDEs by asking the CDEs to engage in a competitive application process.

How Do CDES Work?

Essentially, CDEs offer tax credits to investors in exchange for equity in the CDE. The CDEs can then make loans and investments into businesses in low-income areas at better rates and terms than would otherwise be available in a traditional lending arrangement. In some situations, they offer principal forgiveness if the business meets certain terms and conditions as well.

How Does the NMTC Help the Community?

The NMTC helps support social progress throughout low-income areas across the United States. Many projects funded through CDEs focus on providing jobs, increasing access to education and healthcare or developing local workforces.

Each project is required to provide annual reporting regarding its functions, development and use of funds. The CDFI Fund reports that for every \$1 invested by the federal government, the program generates over \$8 of private investment, making it an extremely effective tool to attract

investors to underserved areas. Over 76% of NMTC investments are made in highly distressed areas.

The New Markets Tax Credit and Nonprofits

Nonprofits make up a large portion of NMTC funding every year. They are good targets to provide NMTC funding because their missions are often aligned with the overall goals of the fund. The NMTC can be a valuable source of funds for nonprofits that serve distressed communities and underserved populations.

Even with all of its benefits, the structure of the NMTC makes it complicated for nonprofit entities to take advantage of the program. Technically, the nonprofit itself cannot directly use NMTCs, so it has to take more creative steps to benefit from the financing structure.

A leveraged structure is commonly used to take advantage of the NMTC. Specifically, in this structure, investors will create an investment fund that combines their tax credit equity with other financing sources to create funding for a project. This structure generally requires the use of two taxable entities. As a result, nonprofits generally must create a supporting organization to assist with NMTC transactions.

Upfront funding can also be very difficult for nonprofits to address because they often finance their projects over time. Because NMTC financing is competitive, nonprofits cannot rely on stable income sources from NMTCs year after year. Instead, they must make a compelling case to receive the beneficial financing and credits—the more services that the nonprofit is expected to provide, the more likely they are to receive benefits from the NMTC.

Because taking advantage of the NMTC can be complicated for nonprofits, they will likely benefit from working with an accounting or tax professional to establish the correct structure to use these funds.

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