SEO DETAILS:

Page Title: Unlocking Funding Opportunities: How New Markets Tax Credits Can Benefit Nonprofits | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] explores how the New Markets Tax Credit (NMTC) program can benefit nonprofit organizations (NPOs) serving low-income communities.

Headline: Unlocking Funding Opportunities: How New Markets Tax Credits Can Benefit Nonprofits

BODY COPY:

Nonprofit organizations (NPOs) that serve low-income communities often have difficulty raising funds to pursue their missions. The COVID-19 pandemic made fundraising even more difficult. Many NPOs are still struggling to return to their pre-pandemic financial state. The New Markets Tax Credit (NMTC) program may offer a way for NPOs in low-income communities to obtain funds. Congress has extended the program through 2025, so there is time to explore this option. Read on to learn more about the NMTC program and how it could benefit your organization.

What Is the New Markets Tax Credit?

Congress first created the NMTC program in 2000 as a way to encourage investment in low-income, underserved communities in both urban and rural areas. The program provides a tax credit for investments in "qualified community development entities" (CDEs). Those CDEs then give loans, grants or equity investments to "qualified active low-income community businesses" (LICBs). This may include both for-profit and nonprofit entities.

How Does the Program Work?

Taxpayers may claim a tax credit for investments in CDEs. Several definitions are important here. A CDE, as defined by the statute, is a corporation or partnership that meets three criteria:

- Its primary mission is to serve or invest in low-income communities, businesses or organizations.
- Its governing or advisory board includes residents of the community or communities it serves, as a way of "maintain[ing] accountability" to those communities.
- The government has certified it as a qualified CDE.

The CDEs use the money invested by taxpayers to make "qualified low-income community investments," which include capital investments, equity investments and loans to LICBs.

To qualify as a LICB, an organization must meet the following criteria:

- At least half of its gross income comes from "qualified business" activity in one or more low-income communities.
- A "substantial portion" of its activity is located in a low-income community.
- A "substantial portion" of the services received by the organization takes place in a low-income community.
- A limited percentage of the organization's assets consists of collectibles or nonqualified financial property, such as securities and other financial instruments.

LICBs may engage in "any trade or business" except for the rental of real or personal property, which has some limitations set by statute. Almost any kind of NPO, therefore, may qualify for funding from CDEs, as long as they meet the low-income-community requirements.

The statute defines a "low-income community" as a census tract where the poverty rate is 20% or greater, or one of the following applies:

- If the tract is in a metropolitan area, its median family income is no more than 80% of the median family income for the state or the metro area.
- If the tract is rural, the median family income is no more than 80% of the median family income statewide.

How Much Is the Credit?

A taxpayer may claim a credit of 39% of the amount of their investment in a CDE over a period of seven years. For the first three years, the taxpayer may claim a credit of 5% each year. They may claim a credit of 6% for the remaining four years.

If a taxpayer makes a $75,000 investment in a CDE, they may claim a total tax credit of $29,250 in the following increments:

- Year 1 (the year of the investment): $3,750
- Year 2: $3,750
- Year 3: $3,750
- Year 4: $4,500
- Year 5: $4,500
- Year 6: $4,500
- Year 7: $4,500

What Is the Limit on the Credit?

For calendar years 2020 through 2025, the total amount of NMTCs may not exceed $5 billion per year. The Treasury allocates this amount among the qualified CDEs.

How Can Nonprofit Organizations Benefit from the New Markets Tax Credit?

NPOs that serve low-income communities can seek funding from CDEs.

Which Organizations Are Eligible for Funding?

The statute sets few limits on the types of activities in which LICBs may engage, as long as they benefit low-income communities. Examples of NPO programs that could qualify for NMTC funding may include:

- Healthcare, such as community clinics;
- Education, including charter schools, colleges and universities;
- Community support services, such as shelters or food banks;
- Vocational training facilities; and
- Arts and entertainment, such as community theater or dance.

How Do Nonprofit Organizations Apply for Funding?

Each CDE has its own criteria and procedures for awarding funding to NPOs and businesses. The first step is to determine whether your project meets the NMTC program's general criteria. Next, look for CDEs that might be a good fit for your project and your organization's mission.

You will have to get specific information from the CDE about how it structures its transactions. This will allow you to plan for how your NPO will handle the funding in order to avoid potential tax or liability consequences.

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If you have any questions or would like additional information, please contact [NAME] in our [DEPARTMENT] at [NUMBER] or [EMAIL].

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