



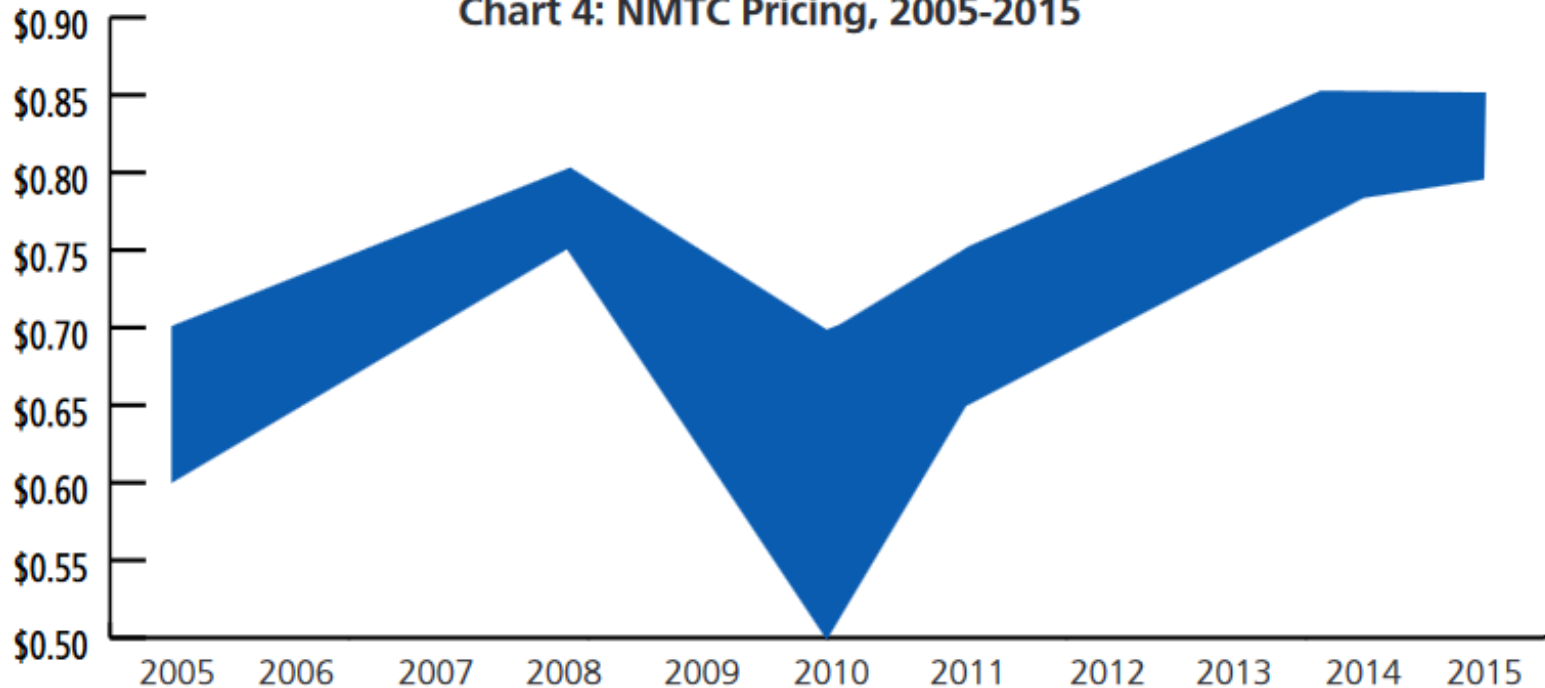
Tax Credit Basics

- Tax credits provide a dollar for dollar offset to a taxpayer's tax liability
 - A \$100 tax credit reduces taxes by \$100; thus a \$1 of tax credit today is worth \$1 to an investor
- Tax credit calculations include:
 - The basis for the tax credit (what it is based on)
 - The tax credit percentage (percent of the basis that is the credit amount)
 - Tax credit period –number of year for which a tax credit is received
 - Tax credit yield—the percentage of the tax credit value that investors will pay for the stream of tax credits
- Project/investment must meet applicable IRS rules to earn the tax credit

NMTC Yield: Investor Payment per \$1 of credit

CDE Survey of 2015 NMTC Activity

Chart 4: NMTC Pricing, 2005-2015



Source: The above chart shows the range of pricing in various surveys of NMTC investors. It includes a blend of data from the Urban Institute, GAO Novogradac & Company, and 2014 data from the NMTC Coalition's survey.

Courtesy of the New Markets Tax Credit Coalition.



Parties to Tax Credit Investment

- Project developer, property owner or business
- Tax credit investor
- Tax credit syndicator or intermediary
- Lawyers and accountants with tax credit expertise
- Other lenders and funders



Low-income Housing Tax Credit

- Project must develop new low-income housing
- Basis is the depreciable investment in the project
- Credit is 9% or 4% of depreciable investment, depending on use of other federal subsidies, the % of low-income units and other requirements
- Credit period is 10 years
 - Investor gets the 9% or 4% credit for 10 years



Historic Tax Credits

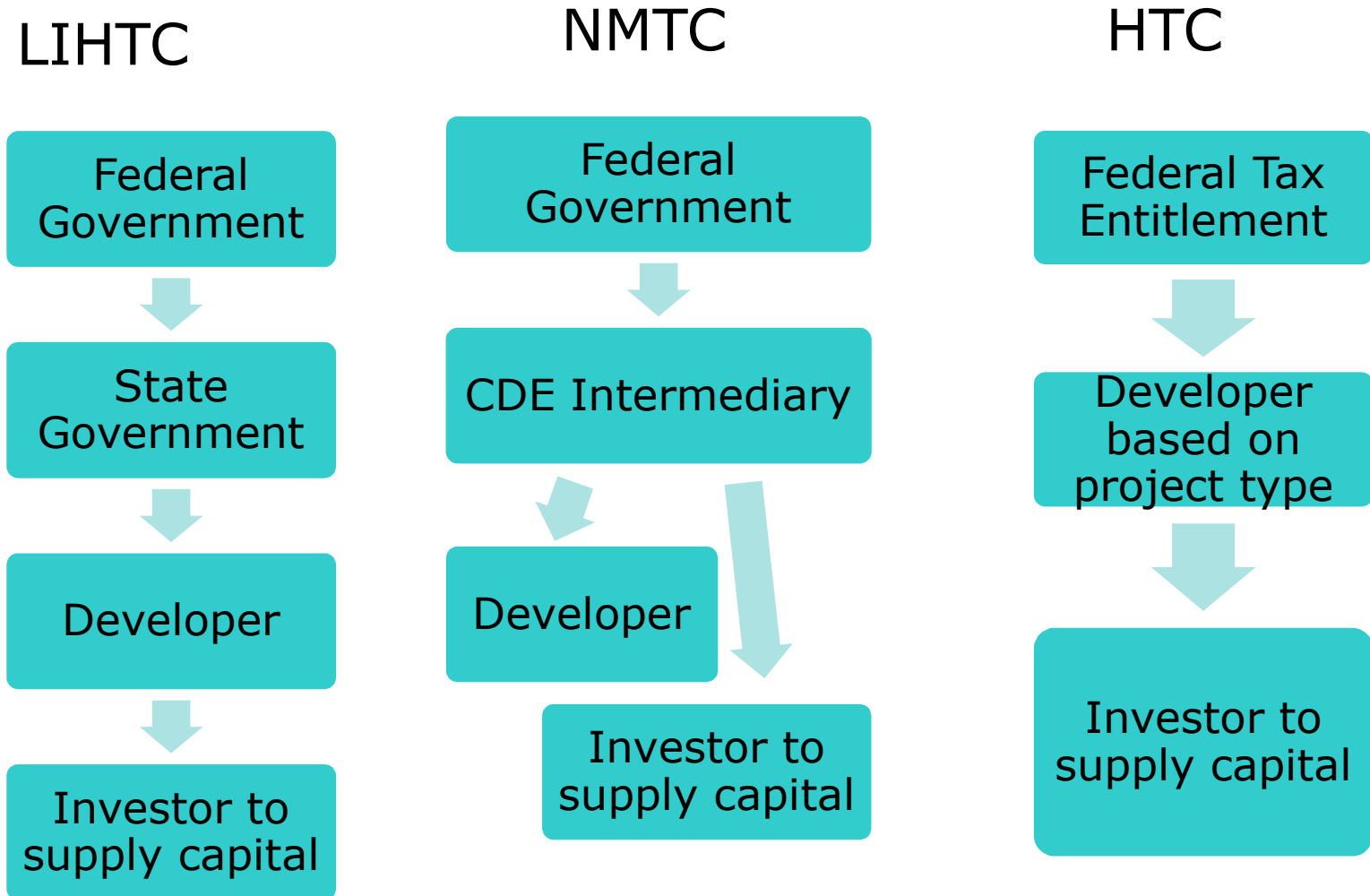
- Project must be a substantial investment to rehabilitate a historic property in accordance with Secretary of Interior's standards
- Tax credit basis is the rehabilitation investment in the building and related soft costs over a 24 month or 60 month period
- Tax credit is 20% of the basis: 5% a year over four years
- Tax credit period is four years



New Market Tax Credits

- Federal program to expand private investment in low-income communities
- CDFI Fund certifies organizations as Community Development Entities (CDE)
- CDEs apply to CDFI Fund for an annual award of allocations set by law
- “Allocatees” commit their tax credits to specific projects (developer or business)
- Allocatee and/or developer/business secure investor to purchase tax credits
- Capital invested in a firm or project in a low income area consistent with IRS rules

Delivery of Tax Credits Varies by Program





New Market Tax Credits

- Project must invest via a CDE in a qualified business in a low-income area
 - $\geq 20\%$ poverty rate or $\leq 80\%$ area med. income
 - Additional targeted areas or populations
- Tax credit basis is the CDE's investment in the qualified business
- Tax credit amount is 39% (5% for first 3 years and 6% for next 4 years)
- Tax credit period is 7 years
- \$43.5 billion allocated to date in 12 rounds
- 5-year \$17.5 billion extension passed in 2015



Two Models of NMTC Financing

- Model 1: NMTC capital supplies direct below-market loan to real estate projects or businesses
 - Tax credit lowers investors required ROI and thus interest rate to borrowers
- Model 2: Leveraged Model: funds from NMTC investor are pooled with other financing sources into as a new “project CDE” to increase NMTC tax credit basis
 - Larger credits earned on pooled investment provide the bulk of return to investors
 - NMTC investment functions as a “near grant”

NMTC Leveraged Structure

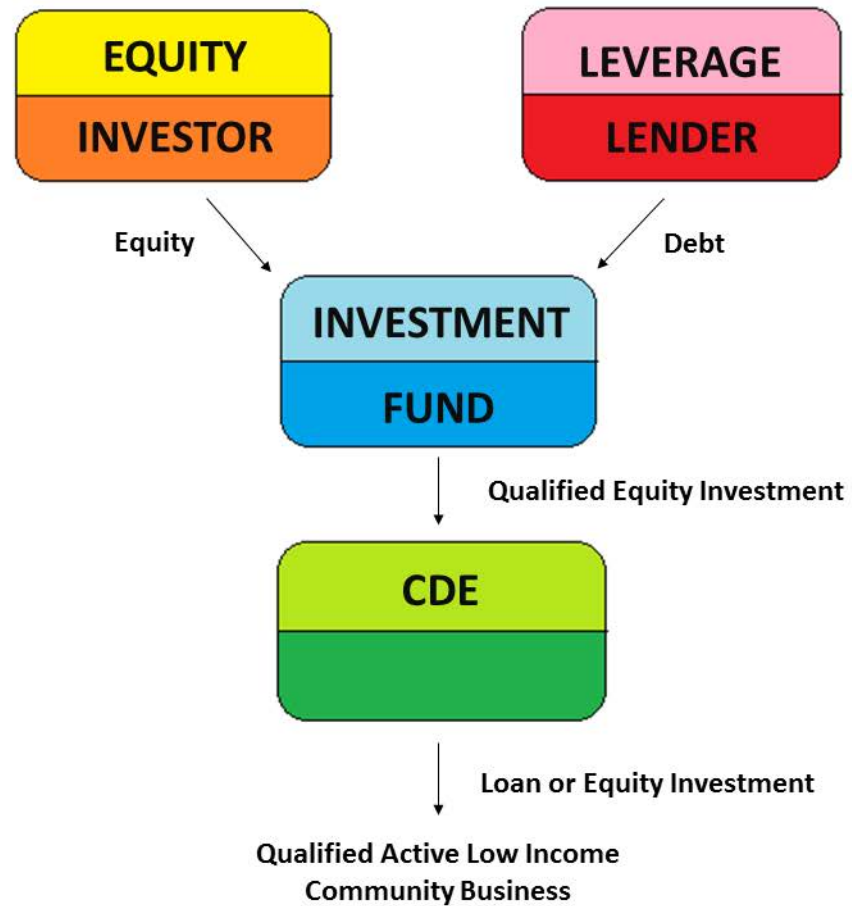


Image by MIT OpenCourseWare.

Diagram of Leveraged Model: \$10 Million Project

"\$10M NMTC Project Example" diagram removed due to copyright restrictions.
Please see La Franchi, Deborah. "[New Market Tax Credits](#)." *The IEDC Economic Development Journal* 9, no. 4 (2010): 8.



Range of NMTC Uses

- Subsidy for development projects
- Below market debt for real estate projects
- Below market business loans
- Business equity investments
- Hospital, education and other non-profit facilities
- Cultural facilities
- Land conservation and recreational facilities
- Infrastructure projects

Jamaica Plain Brewery Reuse

- Closed brewery complex acquired by CDC in 1983
- Renovated in phases over 25 years
- Final phase: difficult and costly
 - Interior demolition and entire reconstruction of 68,000 square foot
 - Reuse as fitness center, retail and office space
- Home to 50 small businesses



Courtesy of [Ed Kopp](#) on Flickr. CC BY-NC-SA.



JP Brewery Project Final Phase: 68,000 sf Rehab of Brewery Complex

Total Dev Costs	\$12,105,000
Senior Debt (Life Ins. Fund)	\$4,700,000
Historic Tax Credits (MHIC)	\$4,000,000
New Market Tax Credits (MHIC)	\$2,160,000
City of Boston Loan	\$150,000
Developer loan & deferred fees	\$1,095,000



Sources and Uses of NMTC Financing

- Financial institutions are main NMTC investors
- Expected investor returns in 6.5% to 8.5% range
- Under leverage model, NMTCs provide 15% to 20% “cash subsidy”
 - Leveraged structure dominates : 97% of QEIs in 2014
- High transaction costs favor large transactions
 - Mean QALICB investment of \$8.1 million thru FY2012
- 65% of NMTC investment thru 2012 was for real estate projects; recently more business financing
- Emphasis on targeting “high distress” areas
 - 70% of NMTC investment thru 2013 were in high distress census tracts (poverty \geq 30%, UE \geq 1.5x nation, Median income \leq 60% of area)

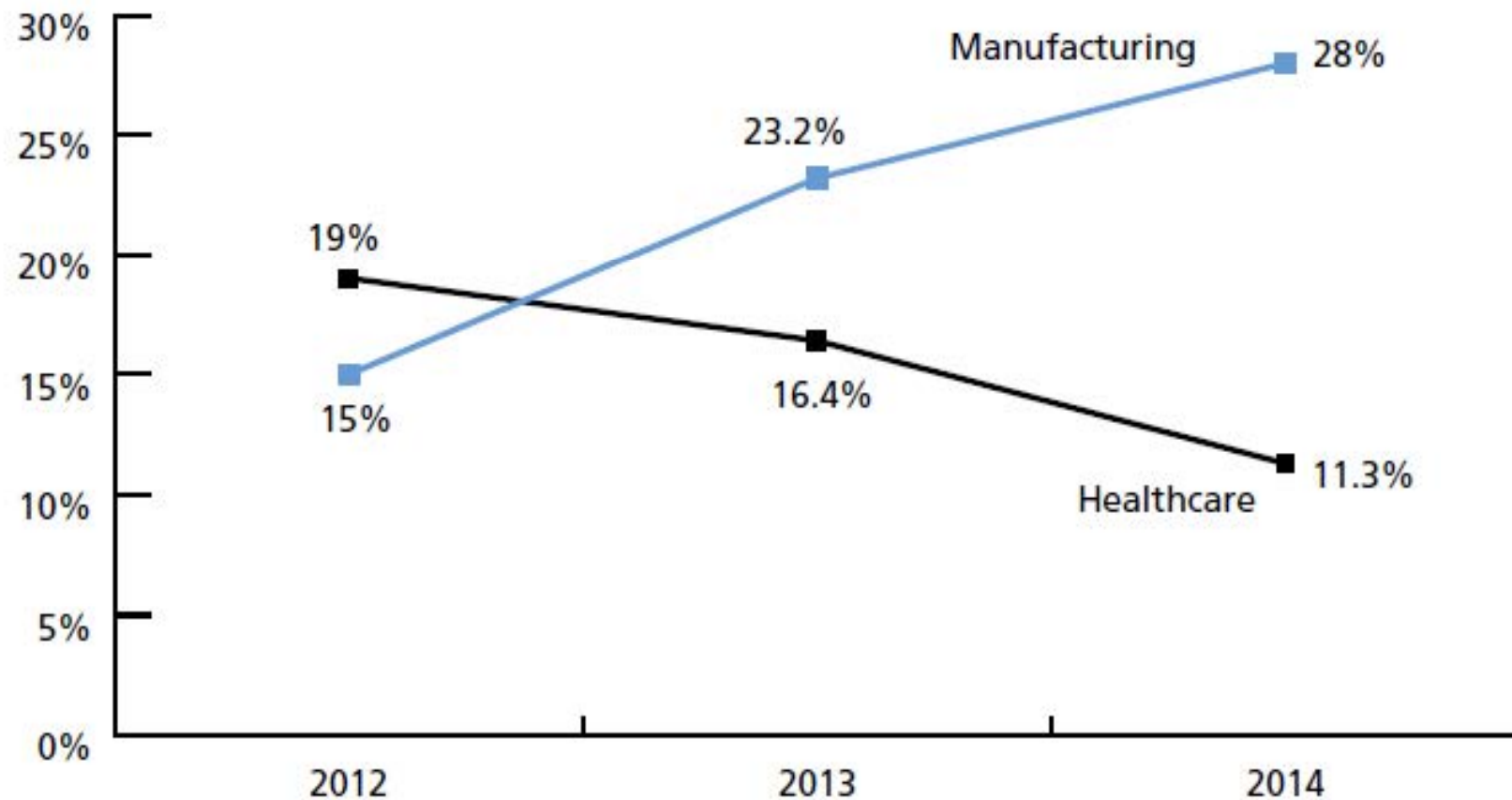


Most NMTC Dollars Thru 2012 Went to Real Estate Projects

Project Type	N	\$ Invested	% of N	% of \$
Operating Business	3,234	10,224 million	40.1	32.9%
Real Estate	4,670	20,316 million	57.9	65.3%
Other	156	578 million	1.9	1.9%
Total	8,060	31,118 million		

Trend in More NMTC Business Investment

Chart 7: NMTC Industry Trends 2012 – 2014 – Manufacturing and Healthcare



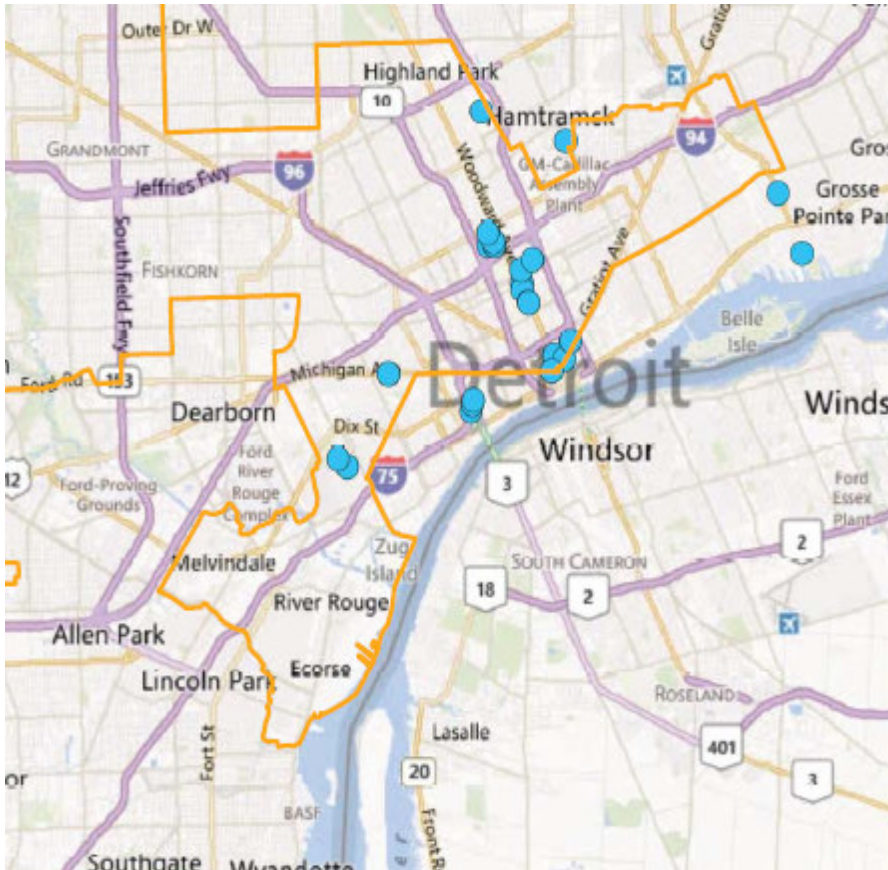
Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1, 2012 – December 31, 2014

Courtesy of the New Markets Tax Credit Coalition.

NMTC Allocations, 2002-2014

	MI	ME	MA	CT
Number of Allocations	12	10	38	1
Total Amount of Allocation (\$ million)	\$499	\$913	\$1,966	\$85
Number of Allocatees	5	1	9	1
Largest Allocatee and Share of total	Cap Fund (33%)	CEI (100%)	MHIC (37%)	Commercial & Industrial CDE (100%)

NMTC Investments in Detroit Through 2010



- 15 projects
- \$200 million in NMTC
- ~\$650 million in total investment
- Concentrated along Woodward Corridor in downtown, Midtown and New Center

Map data courtesy of Google™.

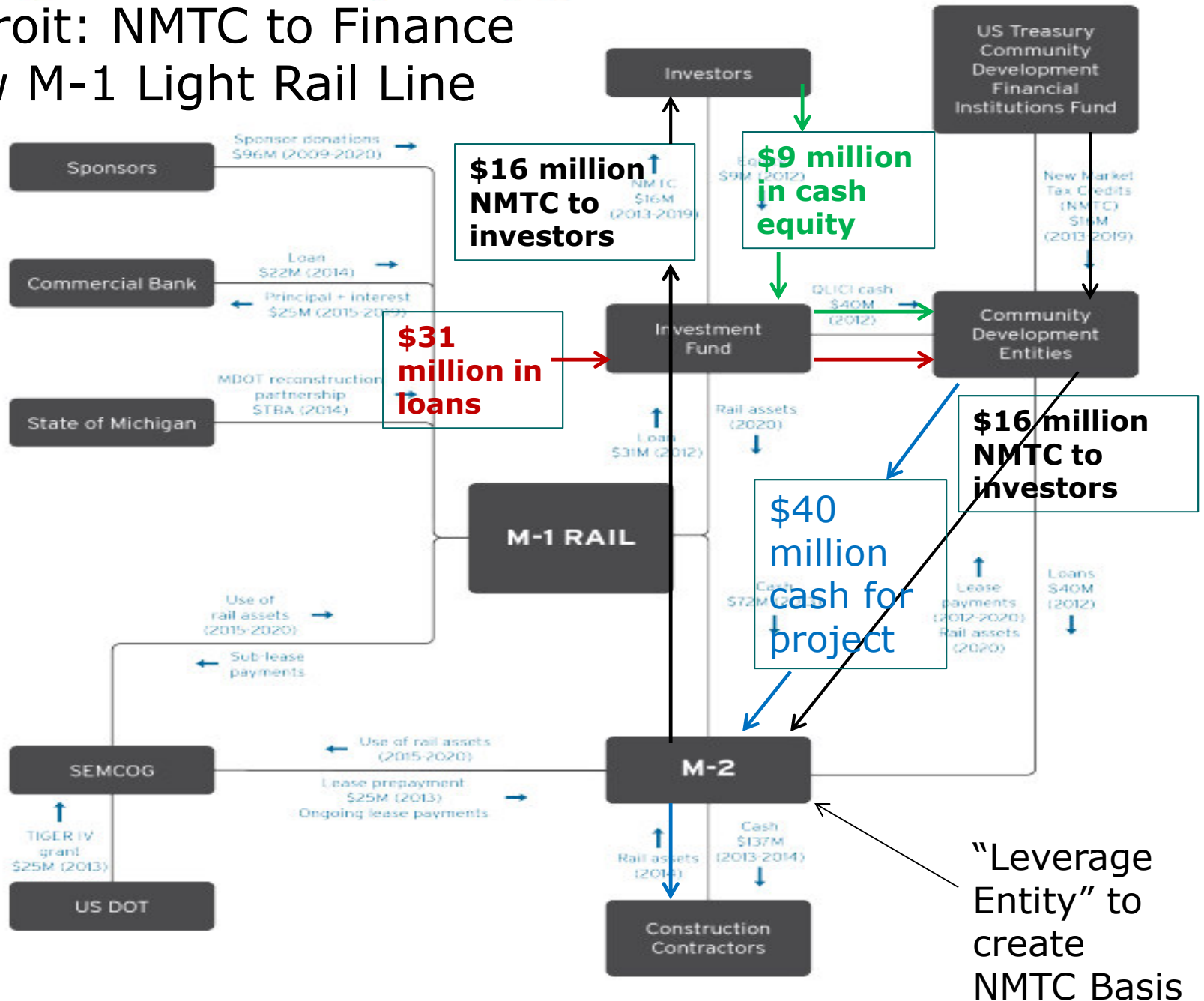


Argonaut Building, Detroit

TDC	\$145.3
NMTC (\$69 in credits)	\$14.4
Bank Loan	\$51.1
Owner Equity	\$36.0
State HTC & Brownfield Tax Credits	\$11.6
Foundation Loan	\$16.7
Deferred Developer Fee	\$15.5

Figure 8.1 M-1 RAIL Streetcar Project Delivery Capital Financial Structure

Detroit: NMTC to Finance New M-1 Light Rail Line



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