



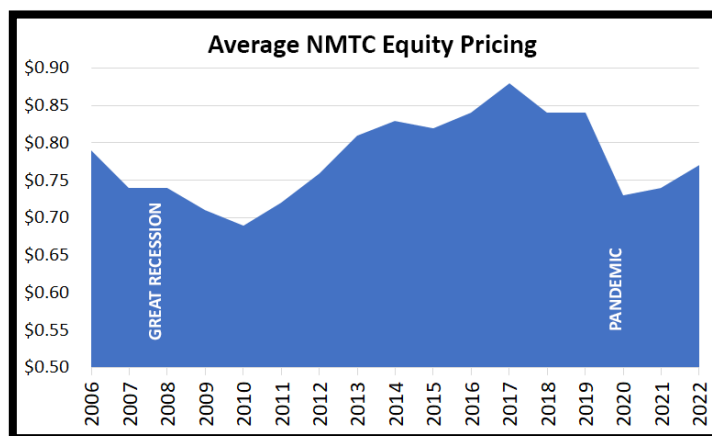
Alternative Minimum Tax Relief for New Markets Tax Credit Investors

A low-cost proposal to enhance the efficiency of the NMTC during economic shocks

Proposal: Provide New Markets Tax Credit (NMTC) to investors with relief from the Alternative Minimum Tax (AMT).

Current Law: Unlike most federal community development tax credits, including the Low Income Housing Tax Credit (LIHTC) and the Historic Tax Credit (HTC), NMTC investors may not use the NMTC to offset the AMT. This prevents many investors from participating in the program. However, Congress did allow community development tax credits, including NMTC, to be taken against the new minimum book tax, and therefore, a similar policy should be extended to the AMT.

Benefits of Expanding the NMTC Investor Market: Right now, the vast majority of NMTC investors are large, regulated financial institutions. NMTC equity pricing tends to decline during recessions and periods of economic uncertainty when NMTC investors face uncertainty regarding their future tax liability. This problem is exacerbated by the limited pool of investors that the AMT policy creates. NMTC equity pricing declined sharply during the 2008 and 2020 recessions – when resources are most needed in low-income communities. Increasing the pool of investors participating in the program could stabilize demand in the NMTC equity markets during economic shocks.



Why NMTC Equity Pricing Matters: Higher NMTC equity pricing translates to more benefits flowing to businesses and economic revitalization projects. It also means that each federal dollar is stretched even further in low-income communities and leverages more private investment. For the NMTC, it would mean a lower cost of capital for NMTC-financed businesses and projects.

Cost: The cost of providing AMT relief to NMTC investors is nominal because it would not increase the credit allowance. JCT recently scored AMT relief at \$6 million over ten years.

Legislative Text: From the Bipartisan New Markets Tax Credit Extension Act of 2023 (H.R. 2539/S. 234)

(C) Alternative Minimum Tax Relief.—Subparagraph (B) of section 38(c)(4) of the Internal Revenue Code of 1986 is amended—

(1) by redesignating clauses (vii) through (xii) as clauses (viii) through (xiii), respectively, and

(2) by inserting after clause (vi) the following new clause:

“(vii) the credit determined under section 45D, but only with respect to credits determined with respect to qualified equity investments (as defined in section 45D(b)) initially made after December 31, 2022,”.