NMTC Coalition Guidance on State NMTC Programs

The New Markets Tax Credit (NMTC) Coalition is a national membership organization founded in 1998 to advocate on behalf of the NMTC program. The Coalition, which now includes more than 150 members, is the principal advocate and lobby for the federal NMTC.

Enactment of NMTC at the federal level spurred a number of states to consider similar state tax incentives. These state credits have similar goals as the federal program. Other states are considering similar legislation. These credits are often called "New Markets Tax Credits" and can enhance revitalization efforts in low income communities. Because these credits are often used in conjunction with the federal NMTC, the NMTC Coalition has prepared a series of recommendations for state credits. In general the NMTC Coalition believes that state NMTCs should be made available on an open, competitive basis. The state program should be generally available to community development organizations/entities (CDEs) with a track record of providing financial and technical assistance to businesses in low income communities. State tax credits should generally follow the federal New Markets Tax Credit in defining the low income community, the geographies, the businesses, the investors, the CDEs, and the authorized financial products and services. Specific recommendations for the principles are below.

Recognizing that many states have different economic development priorities and tax structures, in general the NMTC Coalition recommends that state legislation establishing a state NMTC program align with the federal program on a number of specific provisions. This will create greater efficiency and clarity and also increase the potential for a successful and effective state tax program.

Principles for state credit programs to align with Federal NMTC (Section 45D of the Internal Revenue Code)

1. Eligible geographies: 45D (e);
2. Financial products offered: (QILICIs) 45D (d) (1);
3. Qualified Equity Investments (including eligibility of all taxpayers and term of qualified equity investment): 45D (b);
4. Qualified businesses:45D (d) (2) (3);
5. Types of investors: 45D (b));
6. Eligibility of CDEs: CDEs that are eligible for federal NMTC are eligible for state program;
7. In transactions in which both the federal NMTC and the state NMTC credits are used, state programs should prioritize allocations to CDEs as specified in 45D (f) (2)) and for CDEs proposing particularly efficient uses of the subsidy;
8. When a state NMTC is used with the federal credit, recapture of state credits is typically tied to the recapture of federal NMTCs. In cases in which a state credit is used without the federal NMTC, states should ensure compliance by establishing a mechanism; and
9. States should at a minimum establish reporting requirements for state tax credit investments that tracks reporting requirements like those of the CDFI Fund and its Awards Management Information System (AMIS).