

# THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



For Immediate Release  
June 30, 2006

Contact: Peter Dugas  
(202) 622-8401

## **THE CDFI FUND AND IRS ISSUE NOTICE TO EXPAND THE NEW MARKETS TAX CREDIT PROGRAM NATIONWIDE AND IN THE GULF OPPORTUNITY (GO) ZONE**

Today the U.S. Treasury Department's Community Development Financial Institutions (CDFI) Fund and the Internal Revenue Service (IRS) announced the issuance of a notice regarding the designation of certain targeted populations under the New Markets Tax Credit (NMTC) Program, including a special designation in the Hurricane Katrina Gulf Opportunity (GO) Zone.

The NMTC Program provides a tax credit to investors who make qualified equity investments in privately managed investment vehicles called "Community Development Entities (CDEs)," which in turn make qualified investments in low-income communities, thus spurring economic development.

### Current Law

Traditionally, CDEs have been required to invest NMTC proceeds solely in low-income communities, characterized by either high poverty rates or low median family incomes. To date, over \$4.5 billion of NMTC investments have been made by CDEs in distressed urban and rural communities throughout the country.

The American Jobs Creation Act of 2004 requires Treasury to issue regulations that would allow NMTCs to be invested in non low-income communities, provided that the projects would benefit "Targeted Populations." As indicated in the IRS guidance, targeted populations will be defined as low-income persons, generally individuals with family incomes at or below 80% of area median family income, and certain individuals who otherwise lack adequate access to loans or equity investments.

### Nationwide

The Notice announces that the IRS will amend section 1.45D-1 of the Income Tax Regulations to grant flexibility to permit CDEs to invest in certain businesses located outside of low-income communities, provided the businesses serve designated targeted populations.

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As specified in the Notice, CDEs that receive NTMC allocations will be permitted to invest in certain businesses located in moderate-income census tracts, provided that the businesses are owned by low-income persons, hire significant numbers of low-income persons, or predominantly serve low-income persons. These businesses may be located in a census tract with a median family income at or below 120% of the area median family income.

## GO Zone

For the purposes of NMTC allocations made pursuant to the Gulf Opportunity Zone Act of 2005, this notice also designates certain individuals displaced from their principal residences and/or who lost their principal sources of employment as a result of Hurricane Katrina as a targeted population.

As further specified in the Notice, for the purposes of NMTC allocations made pursuant to the Gulf Opportunity Zone Act of 2005, CDEs will be permitted to invest in certain businesses located in census tracts in the GO Zone with incomes higher than those traditionally served by the program, provided that those businesses: a) are located in census tracts that have been identified by FEMA as having experienced flooding and/or sustained extensive or catastrophic damage in the wake of Hurricane Katrina; and b) are owned by, will hire, or will otherwise predominantly serve individuals displaced from their principal residences and/or who lost their principal sources of employment as a result of Hurricane Katrina and c) are located in a census tract with a median family income that is at or below 200% of the area median family income.

The NMTC Program has proven to be a flexible tool for redevelopment of low-income communities, supporting business loans and investments, real estate development, and job creation in distressed communities throughout the country. The programmatic changes announced in this Notice will provide even more flexibility to CDEs so that they may invest in projects that serve low-income persons and those persons that have suffered as a result of Hurricane Katrina.

Taxpayers may rely upon the IRS notice until the regulations are issued.

More information on the NMTC Program can be found at [www.cdfifund.gov](http://www.cdfifund.gov)