

# NEW MARKETS TAX CREDITS

## AT WORK IN RURAL COMMUNITIES



Aura Fabricators; Fergus Falls, MN

Healthy communities have their own economic engines. Families shop at corner grocery stores. Office complexes down the street from entertainment venues and recreational facilities bustle. A range of local merchants provide goods and services and create jobs. Together, they comprise vibrant commercial corridors that are a community's economic backbone. And as they thrive, they strengthen the citywide and regional economies to which they are so closely connected. Too often, distressed communities simply cannot access the kind of capital needed to make the transformation to vibrant and healthy communities. That's where New Markets Tax Credits (NMTC) come into play.

### What are New Markets Tax Credits?

- The NMTC program was enacted in 2000 to attract investment capital to low-income neighborhoods that have been left behind by the traditional private marketplace.
- Under the program, investors receive a tax credit for making equity investments in certified Community Development Entities (CDEs), which in turn use the proceeds to make loans and investments in businesses, real estate projects and community facilities located in low income communities.
- The credit totals **39 percent** of the original investment amount and is claimed over a period of seven years. The investment cannot be redeemed before the end of the seven-year period.
- CDEs apply competitively to the Treasury Department for the authority to offer the tax credits to their investors. The application process is rigorous. Generally, less than one in four applicant CDEs are selected to receive credit allocations in any given year.

### What are the outcomes?

- To date, NMTC investments have supported **over \$130 billion** of project financing in low income communities throughout the country, supporting a wide variety of activities including: small businesses, manufacturing facilities, for sale housing, charter schools, health care centers, child care centers, shopping centers and grocery stores.
- **Approximately eighty percent** of projects are located in severely distressed communities, characterized by poverty rates of greater than 30 percent, median family incomes of less than 60 percent of the area median income, or unemployment rates at least 1.5 times the national average.
- Through 2021, NMTCs financed **7,500 businesses and real estate projects**, helping to develop or rehabilitate **368 million square feet** of real estate, and creating or retaining **more than 1 million jobs**.
- It has been estimated that the NMTC generates over **\$8 of capital for every \$1 of federal subsidy**.
- The Government Accountability Office reported that an estimated **88 percent** of NMTC investors said that they would not have made the same investment without the NMTC.

## What is the impact on rural communities?

- The Department of the Treasury requires that 20 percent of NMTC allocations be invested in rural communities.
- Through 2022, over **18 percent** of NMTC investments have gone to non-metropolitan communities.
- Since inception, NMTC investments in rural communities total over **\$12 billion**, which have supported more than **1,500** projects. In FY 2022 alone, close to **\$1 billion** was invested in rural communities through NMTC.
- LISC, with the help of its rural partners, has secured more than **\$170 million** of NMTC investments in a diverse array of rural communities across America. Examples of projects that Rural LISC has facilitated include:
  - **Aura Fabricators**, a woman-owned manufacturer in **rural Fergus Falls, MN**, received a \$1.87 MM NMTC investment from LISC to purchase equipment. This investment will generate at least 14 quality jobs starting at \$26/hour, more than double the living wage, with



STI ribbon cutting; Kings Mountain, NC

benefits, including health insurance and a retirement plan. Aura also offers job training programs, ensuring production staff and local trade school graduates can access these well-paying positions.

- **STI**, a family-owned upholstery fabric manufacturer, received NMTC financing to purchase equipment and build a new 149,500 SF distribution and manufacturing facility in **Kings Mountain, NC**. STI introduced a new environmentally-friendly product, Revolution Performance Fabrics, to great market success, driving the need for expansion. The expansion will allow STI to maintain its current level of employment and continue to **add 100 new quality jobs and opportunities** in rural Cleveland County. STI expects its manufacturing capacity to increase 40 to 50 percent once the new facility is fully operational.

## What can Congress do?

- NMTCs are scheduled to expire in 2025. They must be made a permanent part of the tax code. If NMTCs disappear, so will investments in some of the nation's most distressed communities.
- Congress should support legislation in the Senate ([S.234](#)) and House ([H.R. 2539](#)), sponsored by Senators Ben Cardin (D-MD) and Steven Daines (R-MT), and Representatives Terri Sewell (D-AL) and Claudia Tenney (R-NY).

- The bills would make the NMTC permanent, allocate no less than \$5 billion in tax credit authority per year, index it to inflation, and permit it to be used to offset the Alternative Minimum Tax (AMT).

*LISC is a national nonprofit housing and community development intermediary with offices in 37 different cities and a national rural network of 140 organizations.*

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