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How Has the New Markets Tax Credit Program Been Funded over Time?

Evaluating the NMTC Program

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Authorized in 2000,[1] the New Markets Tax Credit (NMTC) program is a large, long-standing, federal place-based program. Jointly administered by the US Department of the Treasury's Community Development Financial Institutions (CDFI) Fund and the Internal Revenue Service, the program provides tax credits to subsidize local real estate projects and operating businesses (to include nonprofits) in census tracts with low average incomes or high poverty rates. NMTCs were designed to spur investment and economic development in neighborhoods otherwise neglected by private capital.

Recognizing that local investment needs vary, the program funds wide-ranging projects that include commercial and retail projects, industrial and manufacturing projects, schools, community facilities such as museums, housing, mixed-use projects, and investments in operating businesses. The desired outcomes for NMTC projects are equally diverse. They may include bolstering local employment, increasing wages, reducing poverty, creating affordable housing, protecting the environment, improving educational opportunities, and expanding health care access, among others.[2]

This brief is the first in a six-part series about the NMTC program. For a full description of how the program works, see Abravanel et al. (2013), but in short, it seeks to attract private investment capital to low-income communities by providing taxpayers with credits against their federal income taxes for making investments (qualified equity investments) into organizations (community development entities, or CDEs). These organizations must first be certified by the CDFI Fund and then competitively win access to provide the tax credits. Taxpayers accessing the credits ("investors") can reduce their federal income taxes by up to 39 percent of the amount of the qualified equity investment. After CDEs sell the credits to investors, they use the capital they receive to make investments (qualified low-income community investments, or QLICIs) in businesses (including nonprofits and real-estate projects) located in low-income communities. These projects are then carried out by nonprofits or businesses (qualified active low-income community businesses).

BOX 1

The New Markets Tax Credit Evaluation

With funding from Arnold Ventures, the Urban Institute is conducting an impact evaluation of the NMTC program nearly two decades after its original implementation. The evaluation has produced six briefs that focus on different aspects of the program. This brief describes how overall NMTC spending has changed over time. The briefs are as follows:

1. How Has the NMTC Program Been Funded over Time?
2. Which Types of Projects Receive NMTC Funding?
3. Where Do NMTC Projects Go?
4. Which Community Development Entities Receive NMTC Funding?
5. What Are the NMTC Program's Impacts on Local Economic Conditions?
6. How Does the NMTC Program Affect Local Housing Markets?

Funding for the Program

In figure 1, we present trends in NMTC spending and investment from the start of the program through the most recent year available. Each year, the CDFI Fund awards a certain amount of tax credit allocation authority. This allocation authority amount is the total dollars of investment approved in that allocation round against which investors can claim the 39 percent tax credit. The blue line in figure 1, the dollar value of NMTC allocation authority to community development entities, shows each year's NMTC allocation authority, adjusted for inflation. Allocation authority peaked in 2008 and 2009, when NMTCs received a boost in the federal stimulus. The program was consistently approved for $3.5 billion before inflation from 2010 through 2019, but that amount was boosted to $5.0 billion in the most recent year. (Annual dollar figures are also available in table A.1.)

The allocation authority amount is not the same as the cost to the government, because investors claim 39 percent of the authority amount in tax credits and these claims are spread over seven or more years which, given inflation, reduces the cost to the government relative to what it would cost if the credits could be claimed in the first year. By making assumptions about how allocation authority is deployed and tax credits are claimed, we estimate the present-value cost of the tax expenditures in the year they were approved.[3] The results are shown in the yellow line in figure 1, the estimated present value of tax expenditures.

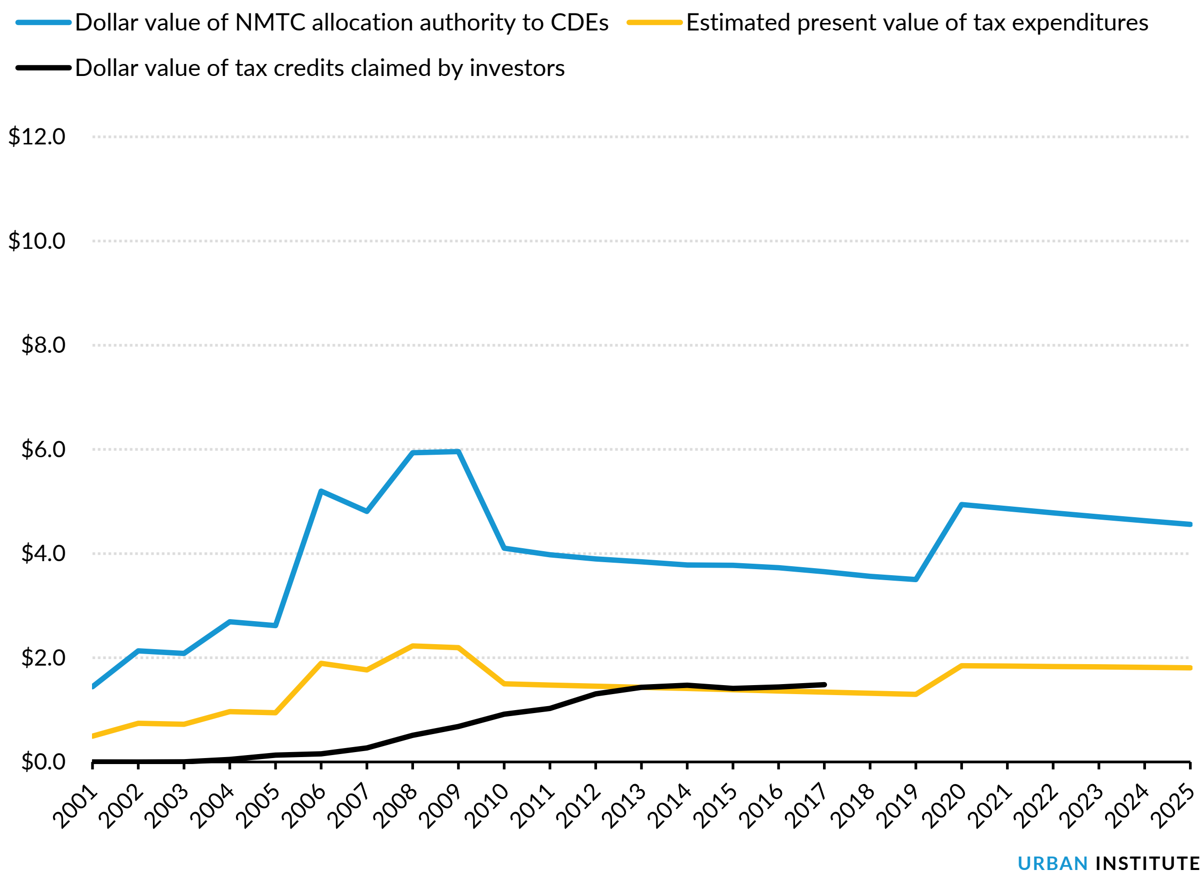
We then show how this compares with the dollar value of NMTCs actually claimed by investors each year according to Internal Revenue Service records (the black line in figure 1). As described, credits are claimed over several years, which also explains why the amount claimed in some years is higher than the new approved expenditures—investors are claiming credits from previous years.

Over the life of the program, Congress has approved $99 billion in allocation authority through 2025 (with $71 billion in allocation authority awarded as of when this brief was published). The approval of $99 billion in allocation authority translates into $37 billion in estimated tax expenditures, of which over $12 billion had already been claimed by investors through 2017.

FIGURE 1

NMTC Program Financials by Year of Government Approval, 2001 to 2025

Dollars (billions)



Sources: US Treasury's Community Development Financial Institutions Fund; Internal Revenue Service Statistics of Income for corporate and individual tax returns.

Notes: CDE = Community development entity. All amounts are adjusted for inflation to 2019 dollars. Year refers to the calendar year of government approval; the Community Development Financial Institutions Fund may have made the allocation awards in that year or in a following year depending on the award announcement date. Tax claim data are only available for individuals and corporations through 2017.

Funding for Projects

Another way to understand how NMTC spending has changed over time is to examine how funds are distributed to projects. Since its inception, the NMTC program has supported over 5,700 projects, averaging 425 projects a year since 2005, when the program had ramped up (table A.2).

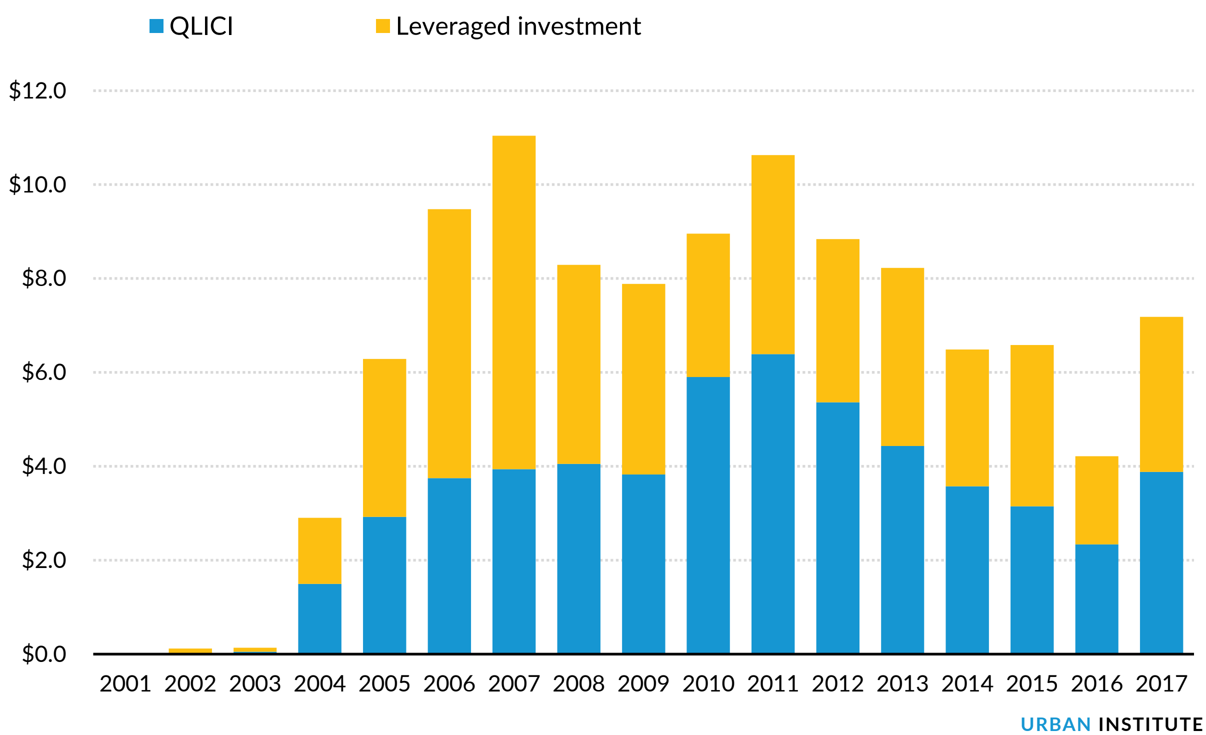
These 5,700-plus projects were facilitated by a total of $55 billion in NMTC qualified investments into nonprofits and businesses, averaging $4.1 billion a year from 2005 through 2017, the latest year data are available. As shown in figure 2, project funding had a few spikes, notably through the GO Zone funding after Hurricanes Katrina, Rita, and Wilma, as well as in the early 2010s with the boost from economic stimulus policies.

Dividing the total QLICI amounts by the number of projects, we calculate an average NMTC per project QLICI amount. The per project average across all years was $8.5 million. This also fluctuated somewhat across program years. In particular, it was somewhat larger during the years the program received additional stimulus funding (figure 2).

FIGURE 2

NMTC Project Funding Amounts, 2001 to 2017

Dollars (billions)



Source: US Treasury's Community Development Financial Institutions Fund.

Notes: QLICI = qualified low-income community investments. All dollar amounts are adjusted for inflation as of 2019. Leverage is defined as the difference between total project investment and QLICI amount.

NMTC projects frequently attract capital as a part of a companion investment that is not a QLICI (i.e., an investment for which tax credits are not claimed). This is often referred to as NMTC subsidies "leveraging" other private capital (which is different from a NMTC leveraged project structure where debt is combined with tax credit equity). Our leverage calculation does not imply that the non-QLICI

financing occurred only because of the tax credits; for more on “but for” substitution findings for the program, see Abravanel et al. (2013) and Summit (2017).

NMTC projects have attracted considerable leveraged investment, totaling $52 billion through 2017. The average project attracted $10.2 million in leveraged funds (table A.2).

In aggregate, NMTC projects have attracted $107 billion in total project investment through 2017. The average total per project investment was $18.7 million.

The NMTC program is a sizable part of the federal community economic development portfolio, with $1 to $2 billion in forgone federal revenue approved in most years. These funds, combined with other private capital sources, finance between $4 and $11 billion in NMTC projects annually. Although the program is not permanently authorized (like, for example, the low-income housing tax credit) and is currently extended just through fiscal year 2025, it has become a stable source of financing for community efforts in low-income communities over the years.

Appendix: Supplemental Tables

TABLE A.1

NMTC Program Characteristics by Year of Government Approval, 2001 to 2020

Year	Dollar value of NMTC allocation authority to CDEs	Estimated present value of tax expenditures	Dollar value of tax credits claimed by investors
2001	$1,443,574,252	$489,149,882	$103,216
2002	$2,131,659,255	$733,724,823	$243,472
2003	$2,084,160,326	$716,281,867	$2,883,176
2004	$2,692,543,444	$955,042,489	$47,953,172
2005	$2,618,095,238	$933,076,780	$131,736,995
2006	$5,199,373,512	$1,871,822,343	$156,945,620
2007	$4,808,781,144	$1,745,302,683	$268,759,455
2008	$5,937,144,397	$2,201,071,654	$510,776,696
2009	$5,958,342,850	$2,169,010,079	$681,259,891
2010	$4,103,530,744	$1,481,836,424	$917,353,064
2011	$3,977,965,137	$1,458,945,962	$1,026,761,009
2012	$3,897,312,212	$1,436,327,806	$1,307,161,891
2013	$3,841,050,065	$1,414,555,012	$1,431,345,571
2014	$3,779,735,655	$1,393,209,298	$1,472,700,212
2015	$3,775,254,518	$1,369,652,318	$1,410,544,898
2016	$3,728,222,510	$1,345,880,803	$1,439,974,407
2017	$3,650,454,879	$1,323,304,078	$1,482,968,474
2018	$3,563,419,180	$1,302,644,331	
2019	$3,500,000,000	$1,282,793,669	
2020	$4,941,950,823	$1,803,832,236	
2021	$4,941,950,823	$1,846,762,601	
2022	$4,860,609,928	$1,839,673,127	
2023	$4,781,903,297	$1,832,808,399	
2024	$4,705,705,003	$1,826,157,896	
2025	$4,631,897,017	$1,816,088,048	
Total through year data available	$99,554,636,209	$36,588,954,608	$12,289,471,220

Sources: US Treasury Community Development Financial Institutions Fund; Internal Revenue Service Statistics of Income for Corporate and Individual Tax Returns.

Notes: CDE = community development entity; NMTC = the New Markets Tax Credit. All amounts are adjusted for inflation to 2019 dollars. Year refers to the calendar year of government approval; the US Treasury's Community Development Financial Institutions Fund may have made the allocation awards in that year or in a following year depending on the award announcement date. Tax claim data are only available for individuals and corporations through 2017.

TABLE A.2

NMTC Project Count and QLICI Amount, 2001 to 2016

Year	Count	Total QLICI	Average QLICI	Total leverage	Average leverage	Total project investment	Average total project investment
2001	1	$1,525,085	$1,525,085	$9,050,562	$9,050,562	$10,575,647	$10,575,647
2002	3	$16,257,136	$5,419,045	$103,490,464	$34,496,822	$119,747,600	$39,915,867
2003	12	$50,994,565	$4,249,547	$86,372,360	$7,197,697	$137,366,925	$11,447,243
2004	205	$1,494,734,699	$7,291,389	$1,408,492,593	$6,870,696	$2,903,227,292	$14,162,084
2005	388	$2,923,034,597	$7,533,594	$3,364,992,441	$8,672,661	$6,288,027,037	$16,206,255
2006	471	$3,748,901,928	$7,959,452	$5,727,663,635	$12,160,645	$9,476,565,563	$20,120,097
2007	553	$3,940,430,697	$7,125,553	$7,099,966,384	$12,838,999	$11,040,397,080	$19,964,552
2008	482	$4,053,232,147	$8,409,195	$4,236,255,185	$8,788,911	$8,289,487,331	$17,198,106
2009	403	$3,827,898,474	$9,498,508	$4,055,838,121	$10,064,114	$7,883,736,595	$19,562,622
2010	418	$5,900,700,469	$14,116,508	$3,052,973,763	$7,303,765	$8,953,674,232	$21,420,273
2011	456	$6,390,568,235	$14,014,404	$4,239,238,364	$9,296,575	$10,629,806,599	$23,310,979
2012	421	$5,362,617,408	$12,737,809	$3,476,621,705	$8,258,009	$8,839,239,113	$20,995,817
2013	388	$4,432,880,584	$11,424,950	$3,794,183,121	$9,778,822	$8,227,063,705	$21,203,773
2014	381	$3,575,164,401	$9,383,634	$2,914,616,869	$7,649,913	$6,489,781,269	$17,033,546
2015	398	$3,148,723,251	$7,911,365	$3,434,848,940	$8,630,273	$6,583,572,192	$16,541,639
2016	323	$2,337,287,026	$7,236,183	$1,879,172,654	$5,817,872	$4,216,459,680	$13,054,055
2017	443	$3,879,949,992	$8,758,352	$3,301,654,528	$7,452,944	$7,181,604,475	$16,211,297
Total or average	5,746	$55,084,900,694	$8,505,563	$52,185,431,689	$10,254,664	$107,270,332,335	$18,760,227

Source: US Treasury's Community Development Financial Institutions Fund.

Notes: QLICI = Qualified Low-Income Community Investments. All dollar amounts are adjusted for inflation as of 2019. Leverage is defined as the difference between total project investment and QLICI amount.

Notes

[1] Passed in the Consolidated Appropriations Act of 2001, Pub. L. No. 106-554, 114 Stat. 2763 (2000), and codified as the New Markets Tax Credit, 26 U.S.C. § 45D.

[2] For a detailed description of the goals of the NMTC program, see Chapter 2 of Abravanel et al. (2013).

[3] We use the following assumptions. From 2003 to 2009, half of the allocation authority is deployed in the form of qualified equity investments in the year of announcement and half is deployed the following year. After 2010, the entire allocation authority is deployed in the first year. We assume this change is because the community development entities have become quicker at deploying capital over time. We also assume that investors claim 39 percent of the allocation authority as tax credits over seven years—the quickest possible timeline. (After making a QLICI, investors are eligible to claim 5 percent of the value as tax credits in each of the first three years and 6 percent in the subsequent four years.)

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Brett Theodos is a senior fellow and director of the Community Economic Development Hub at the Urban Institute. His work focuses on economic and community development, neighborhood change, affordable homeownership, consumer finance, and program evaluation and learning. His research includes evaluations of the Economic Development Administration, New Markets Tax Credit, Small Business Administration loan and investment programs, Opportunity Zones, and the US Department of Housing and Urban Development's Choice Neighborhoods, Community Development Block Grant, and Section 108 programs. He is studying how capital flows (or fails to flow) into communities, including the role of mission finance actors like community development financial institutions. He leads projects researching how entrepreneurs can access capital.

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