As part of its ongoing response to COVID-19, the Internal Revenue Service (IRS) released Notice 2020-49, which extends certain time criteria related to the New Markets Tax Credit (NMTC) program. Under the notice, any due dates for making investments, making reinvestments and expending amounts for the construction of real property that would have fallen between April 1, 2020, and December 31, 2020, are extended until December 31, 2020. The Community Development Financial Institutions Fund is currently authorized to make new allocations of the NMTC through the calendar year 2020 allocation round.

The NMTC under section 45D provides tax incentives for investors who make qualified equity investments (QEI) in qualified community development entities (CDE). The NMTC is intended to increase investments and create jobs in low-income communities by providing funding for projects such as financing small businesses, including retail and small manufacturers, and improving community amenities, including healthcare facilities and daycare centers. Investors are allotted tax credits equal to 39% of their QEI and then claim the NMTC over seven years. Investors may claim a credit equal to 5% of the total QEI in each of the first three
years and 6% of the investment in each of the subsequent four years. Taxpayers may generally claim other tax benefits—such as the section 47 Rehabilitation Credit or the section 1400Z Opportunity Zone Program—in addition to the NMTC, however, the NMTC may be limited for projects that claim the section 42 Low-Income Housing Credit.

Generally, a CDE must make initial investments within a 12-month period from when the CDE is funded by a taxpayer to qualify for the credit. Additionally, a CDE must reinvest payments received for capital, equity or principal within 12 months of the date of receipt to be treated as continuously invested. Further, proceeds of a capital or equity investment or loan by a CDE that will be expended for construction of real property within 12 months are treated as a reasonable amount of working capital and thus satisfy an exception to the amount of nonqualified financial property held by a qualified active low-income community business.

Notice 2020-49 extends these time limits until December 31, 2020, if the end of the 12-month period would have occurred between April 1 and December 31, 2020. The extension provides relief to all taxpayers claiming the NMTC, and taxpayers do not need to show evidence they faced particular disruptions due to the COVID-19 pandemic.

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