

REI

New Markets Tax Credit



Overview of NMTC Program

- Enacted on December 21, 2000, as part of the Community Renewal Tax Relief Act of 2000
- Creates a tax credit for “Qualified Equity Investments” (QEIs) in Community Development Entities (CDEs)
- Substantially all of the equity investment must be used to provide loans to, or make investments in, “low-income communities”



Credit Amount

- Credit taken over a 7-year period
- Credit rate:
 - 5 %in each of the first 3 years
 - 6 %in each of the final 4 years
- Equals 39% of amount of original investment



Key Concept of NMTC

- Investor must make “Qualified Equity Investment” (QEI) in REI New Markets Investment, LLC
- Substantially all of QEI must be used to make a loan to, or investment in, a “Qualified Active Low-Income Community Business”



Qualified Equity Investment

- A QEI is any purchase of stock or capital interest in a for-profit corporation or partnership, such as REI New Markets Investment, LLC



Qualified Equity Investment

- NMTCs are offered to investors for “Qualified Equity Investments”(QEIs) in the CDE such as REI New Markets Investment, LLC
- QEI must remain invested in the same CDE for a 7-year period
- Investors may claim credits as of the date a QEI is initially made



Qualified Low-Income Community Investment

- Any capital or equity investment in, or loan to, any “Qualified Active Low-Income Community Business” (QALICB)



Investing in QALICBs

QALICB Criteria

- At least 50% of the total gross income is from the active conduct of a qualified business in low-income communities; and
- At least 40% of the use of the tangible property of the business is located in low-income communities; and
- At least 40% of the services provided by the employees are performed in low-income communities

NOTE: The gross income test is deemed met if either the tangible property, or the services test, is at 50% or higher



What is “low-income”

Generally, “low-income communities” are:

- Census tracts with at least 20% poverty, or
- Census tracts where the median family income is at or below 80% of the area median family income.



Example

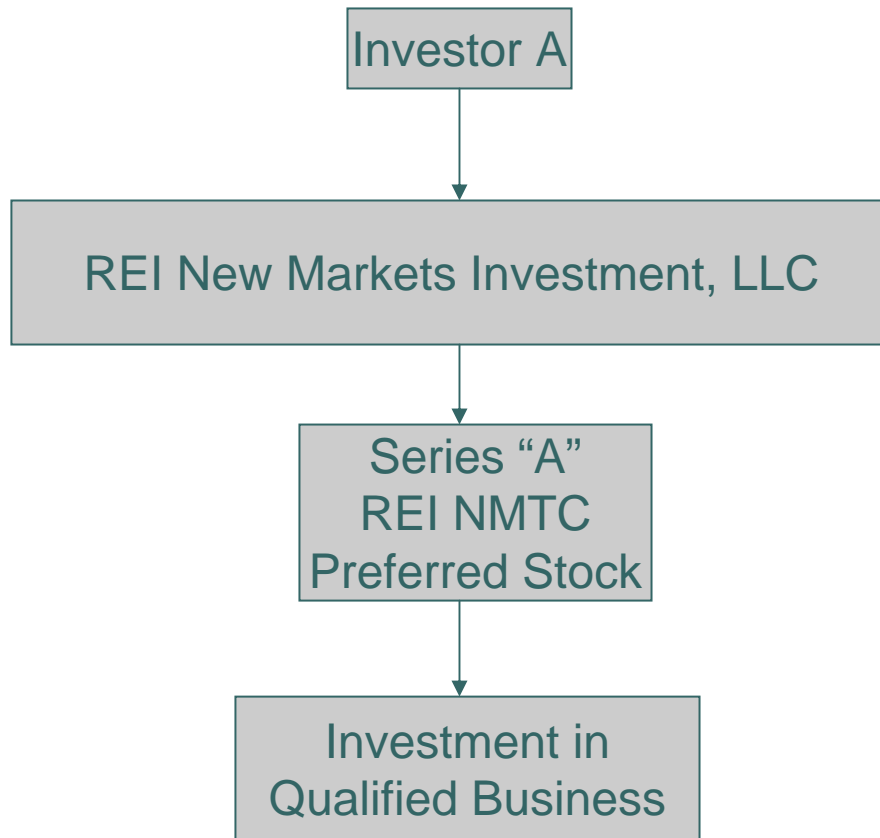
\$1,000,000 Investment =

Year 1 -	5% -	50,000 tax credit
Year 2 -	5% -	50,000
Year 3 -	5% -	50,000
Year 4 -	6% -	60,000
Year 5 -	6% -	60,000
Year 6 -	6% -	60,000
Year 7 -	6% -	60,000

Total Tax Credit **\$390,000**



Structure





FEES

- Commitment Fee: 2.5%
- Management Fee: 1.25% annual for the 7 years



REI

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