New Markets Tax Credit Lexicon

Low—Income Community (LIC)

Any population census tract if:

The poverty rate for such tract is at least 20 percent, or (a) In the case of a tract not located within a *Metropolitan Area*, the median family income for such tract does not exceed 80 percent of statewide median family income, or (b) in the case of a tract located within a *Metropolitan Area*, the median family income for such tract does not exceed 80 percent of the greater of statewide median family income or the *Metropolitan Area* median family income.

Community Development Financial Institution (CDFI)

An entity designated in writing as a CDFI by the Community Financial Institutions (CDFI) Fund of the U.S. Department of the Treasury. To be certified by the Fund as a CDFI, applicants must legally exist (e.g., be incorporated or chartered) and be located in the United States or a U.S. territory. In addition, the applicant must have a primary mission of promoting community development, predominantly serve and maintain accountability to eligible target markets, be a financing entity, provide development services, and not be either a government entity or Controlled by a government entity.

Qualified Community Development Entity (CDE)

Any domestic corporation or partnership if:

- The primary mission of the entity is serving, or providing investment capital for low—income communities or low-income persons;
- The entity maintains accountability to residents of low—income communities through their representation on any governing board of the entity or on any advisory board to the entity; and
- The entity is certified by the Community Development Financial Institution Fund (Fund) as a CDE.

A CDE may also be a limited liability company ("LLC") that meets the above tests.

New Markets Tax Credits

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Qualified Equity Investment (QEI)

Any equity investment in a community development entity (CDE) if such investment is acquired by the investor at its original issue (directly or through an underwriter) solely in exchange for cash; substantially all of such cash is used by the CDE to make qualified low-income community investments (QLICI); and the investment is designated by the CDE as a qualified equity investment (QEI).

Qualified equity investment also includes the purchase of a QEI from a prior holder, to the extent provided in IRC §45D(b)(4). Qualified equity investment does not include any equity investment issued by a CDE more than five years after the date the CDE receives an NMTC allocation. For purposes of this guidance, "equity investment" means any stock (other than nonqualified preferred stock as defined in IRC §351(g)(2)) in a corporation and any capital interest in a partnership. A LLC shall be deemed to be either a corporation or a partnership, according to the LLC's treatment under federal tax law.

Qualified Low-Income Community Investment (QLICI)

Any capital or equity investment in, or loan to, any Qualified Active Low-Income Community Business (QALICB); the purchase from a CDE of any loan made by such entity that is a Qualified Low-Income Community Investment; financial counseling and other services to businesses located in, and residents of Low-Income Communities; and any equity investment in, or loan to, any CDE.

Qualified Active Low-Income Community Business (QALICB)

Any corporation (including a nonprofit corporation) or partnership if, for any taxable year:

- At least 50 percent of the total gross income of such entity is derived from the active conduct of a qualified business within any low-income community;
- A substantial portion of the use of the tangible property of such entity (whether owned or leased) is within any low-income community;
- A substantial portion of the services performed for such entity by its employees are performed in any low-income community;
- Less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to collectibles (as defined in IRC §408 (m)(2)) other than collectibles that are held primarily for sale to customers in the ordinary course of such business; and less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity (as defined in IRC §1397C(e)) is attributable to nonqualified financial property.

Source: CDFI Fund—Glossary of Terms