

MEMORANDUM

TO: Clients and Friends of the Firm
FROM: Alan S. Lederman, P.A.
DATE: June 10, 2002
RE: New Markets Program

The federal government announced today that it is accepting applications for \$1 billion of income tax credits in the 2002 round of the New Markets program.

The New Markets program works essentially this way: Organizers form a new type of private investment company (called a “community development entity” or “CDE”) dedicated to selling its shares to investors and channeling these funds to businesses having facilities in certain census tracts. The new entity, by July 25, 2002, files a routine application to obtain federal government certification as a CDE. By August 29, 2002, the new CDE investment company submits to the federal government a business plan to compete for a portion of the federal government’s free \$1 billion income tax credit allocation. If the CDE wins an income tax credit allocation in the competition, the CDE sells shares in the CDE to private investors. The CDE provides to the purchasing CDE shareholders income tax credits equal to 39% of the price they pay to the CDE for their CDE shares. The CDE then uses its shareholders’ contributions to make loans to and capital investments in businesses which have facilities located within the many qualifying census tracts in every metropolitan area. CDEs can make loans to or buy shares in practically any type of business.

You may find of interest the enclosed first part of my law review article discussing this New Markets program.