

Department of the Treasury  
Internal Revenue Service

► **Attach to your tax return.**

Name(s) shown on return

Identifying number

**Part I Current Year Credit**

(a) Name and address of the qualified community development entity (CDE)	(b) Employer identification number of CDE	(c) Date of initial investment	(d) Amount of qualified equity investment	(e) Credit rate	(f) Credit ((d) × (e))
<b>1</b>				%	
				%	
				%	
<b>2</b> New markets credits from pass-through entities (if from more than one entity, see instructions):					
If you are a—		Then enter the total of the current year credits from—			
a Shareholder	Schedule K-1 (Form 1120S), box 13, code O	} EIN of pass-through entity		<b>2</b>	
b Partner	Schedule K-1 (Form 1065), box 15, code O				
<b>3</b> <b>Current year credit.</b> Add the amounts on line 1, column (f), and line 2. S corporations and partnerships, see instructions				<b>3</b>	

**Part II Allowable Credit (See Who must file Form 3800 to find out if you complete Part II or Form 3800)**

<b>4</b> Regular tax before credits:					
• Individuals. Enter the amount from Form 1040, line 43	}				
• Corporations. Enter the amount from Form 1120, Schedule J, line 3; Form 1120-A, Part I, line 1; or the applicable line of your return					<b>4</b>
• Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b					
<b>5</b> Alternative minimum tax:					
• Individuals. Enter the amount from Form 6251, line 35	}				
• Corporations. Enter the amount from Form 4626, line 14					<b>5</b>
• Estates and trusts. Enter the amount from Form 1041, Schedule I, line 56					
<b>6</b> Add lines 4 and 5				<b>6</b>	
<b>7a</b> Foreign tax credit	<b>7a</b>				
<b>b</b> Credits from Form 1040, lines 47 through 53	<b>7b</b>				
<b>c</b> Possessions tax credit (Form 5735, line 17 or 27)	<b>7c</b>				
<b>d</b> Credit for fuel from a nonconventional source	<b>7d</b>				
<b>e</b> Qualified electric vehicle credit (Form 8834, line 20)	<b>7e</b>				
<b>f</b> Add lines 7a through 7e	<b>7f</b>				
<b>8</b> Net income tax. Subtract line 7f from line 6. If zero, skip lines 9 through 12 and enter -0- on line 13.				<b>8</b>	
<b>9</b> Net regular tax. Subtract line 7f from line 4. If zero or less, enter -0-.	<b>9</b>				
<b>10</b> Enter 25% (.25) of the excess, if any, of line 9 over \$25,000 (see instructions)	<b>10</b>				
<b>11</b> Tentative minimum tax (see instructions):					
• Individuals. Enter the amount from Form 6251, line 33	}				
• Corporations. Enter the amount from Form 4626, line 12					<b>11</b>
• Estates and trusts. Enter the amount from Form 1041, Schedule I, line 54					
<b>12</b> Enter the greater of line 10 or line 11				<b>12</b>	
<b>13</b> Subtract line 12 from line 8. If zero or less, enter -0-				<b>13</b>	
<b>14</b> <b>Credit allowed for the current year.</b> Enter the <b>smaller</b> of line 3 or line 13 here and on Form 1040, line 54; Form 1120, Schedule J, line 6d; Form 1120-A, Part I, line 2; Form 1041, Schedule G, line 2c; or the applicable line of your return. If line 3 is greater than line 13, see instructions				<b>14</b>	

## General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

### Purpose of Form

Use Form 8874 to claim the new markets credit for qualified equity investments made in qualified community development entities (CDEs). This credit is part of the general business credit.

### Definitions

#### Qualified CDE

A qualified CDE is a domestic corporation or partnership that meets the following requirements.

- Its primary mission is serving, or providing investment capital for, low-income communities or persons.
- It maintains accountability to residents of low-income communities through their representation on any governing board or advisory board of the entity.
- It is certified as a qualified CDE by the Community Development Financial Institutions (CDFI) Fund of the Department of the Treasury.

Qualified CDEs also include specialized small business investment companies and community development financial institutions. See section 45D(c)(2).

#### Qualified Equity Investment

A qualified equity investment is an interest in a qualified CDE in the form of stock (other than nonqualified preferred stock) in a corporation or a capital interest in a partnership that meets all of the following requirements.

- You acquired the investment solely for cash at its original issue (or from a taxpayer for whom the investment was a qualified equity investment). The cash may be from borrowed funds, including a nonrecourse loan.
- Substantially all (at least 85%) of the cash is used to make qualified low-income community investments. The 85% requirement is reduced to 75% for the seventh year of the 7-year credit period.
- The investment was designated as a qualified equity investment by the CDE on its books and records for purposes of the new markets credit.

Generally, a qualified CDE can designate an equity investment as a qualified equity investment only if it applied for and received a new markets credit allocation and entered into an allocation agreement with the CDFI Fund **before** the equity investment was made.

**Exceptions.** An equity investment in an entity that otherwise qualifies as a qualified equity investment is eligible to be designated as a qualified equity investment if made prior to an allocation agreement only if either of the following applies.

- The equity investment was made on or after April 20, 2001, and the designation of the equity investment as a qualified equity investment is made for a credit allocation received under an allocation application submitted to the CDFI Fund no later than August 29, 2002. If the entity in which the equity investment is made does not receive an allocation under an allocation application submitted no later than August 29, 2002, the equity investment will not be eligible to be designated as a qualified equity investment. For details, see Temporary Regulations sections 1.45D-1T(c)(3)(ii)(A) and 1.45D-1T(c)(3)(iii).
- The equity investment was made on or after the date the CDFI Fund publishes a Notice of Allocation Availability (NOAA)

in the Federal Register, and the designation of the equity investment as a qualified equity investment is made for a credit allocation received under an allocation application submitted to the CDFI Fund under that NOAA. If the entity in which the equity investment is made does not receive an allocation under that NOAA, the equity investment will not be eligible to be designated as a qualified equity investment. For details, see Temporary Regulations sections 1.45D-1T(c)(3)(ii)(B) and 1.45D-1T(c)(3)(iii).

The maximum amount of equity investments so designated by the qualified CDE cannot exceed the amount of the allocation it received from the CDFI Fund. The names and addresses of qualified CDEs that have received an allocation for each allocation round and the amount of that allocation is listed on the CDFI Fund website at [www.cdfifund.gov/awardees](http://www.cdfifund.gov/awardees).

### How To Figure the Credit

A credit generally is allowed to the holder of the qualified equity investment on each of 7 credit allowance dates. The credit allowance dates are the date you make the initial investment and each of the next 6 anniversary dates. The credit is equal to the qualified equity investment multiplied by 5% (6% for the 4th through 7th years). However, the credit is not allowed for a credit allowance date if the investment is not a qualified equity investment on that date.

### Recapture of the Credit

You may have to increase your tax by a credit recapture amount if at any time within 7 years from the date of the original issuance of the qualified equity investment:

- The entity ceases to be a qualified CDE,
- Substantially all of the proceeds of the investment cease to be used to make qualified low-income community investments, or
- The investment is redeemed by the entity.

See section 45D(g) for details, including how to figure the credit recapture amount. Generally, include the credit recapture amount on the line for recapture taxes on your income tax return for the year in which the recapture event occurs. For example, the credit recapture amount on a 2004 Form 1040 is reported on line 62 (total tax) and the amount on a 2004 Form 1120 is reported on Schedule J, line 10 (other taxes).

You are not subject to recapture of the credit solely because you sell or otherwise dispose of your investment. However, you cannot claim the credit for any credit allowance date after the disposition.

### Basis Reduction

You must reduce your basis in your qualified equity investment by the amount of the new markets credits allowed (even if part or all of the credit is not allowed for the current year and is carried forward). However, do not reduce your basis for purposes of figuring the exclusion of gain for:

- Qualified small business stock under section 1202,
- Certain DC zone assets under section 1400B, or
- Certain qualified community assets under section 1400F.

### Additional Information

For more details, see Pub. 954, Tax Incentives for Distressed Communities, section 45D, Temporary Regulations section 1.45D-1T, or [www.cdfifund.gov](http://www.cdfifund.gov).

## Specific Instructions

### Part I—Current Year Credit

Figure the credit for qualified equity investments in a qualified CDE you own on line 1. Complete line 2 (instead of line 1) for a credit that was allocated to you by an S corporation or a partnership from a qualified equity investment it made in a qualified CDE, either directly or through another pass-through entity.

#### Line 1

Enter the information requested for each qualified equity investment held directly by you on a credit allowance date in the current tax year. In column (e), enter the credit rate. For the first, second, or third year of the 7-year credit period, enter "5." For any later year, enter "6."

If you need more space, attach a statement showing all the information requested for each qualified equity investment. On the last row on line 1, write "See attached" in column (a) and enter the total of the credit amounts from the attached statement in column (f).

#### Line 2

If you have a new markets credit from more than one pass-through entity, attach a statement showing the employer identification number (EIN) and credit amount for each pass-through entity, write "See attached" in the entry space for the EIN, and enter the total of the credit amounts on line 2.

#### Line 3

S corporations and partnerships complete lines 1 and 2 and allocate the credit on line 3 to their shareholders or partners on Schedule K-1. Electing large partnerships must include this credit in "general credits."

### Part II—Allowable Credit

The credit allowed for the current year may be limited based on your tax liability. Use Part II to figure the allowable credit unless you must file Form 3800, General Business Credit.

**Who must file Form 3800.** You must file Form 3800 if you have:

- Another credit included in the general business credit (other than a credit from Form 8844, Form 8884, or Section B of Form 8835) or
- A carryback or carryforward of any of those credits.

See the instructions for Form 3800 to find out which credits are included in the general business credit.

#### Line 10

See section 38(c)(5) for special rules that apply to married couples filing separate returns and controlled corporate groups.

#### Line 11

Although you may not owe the alternative minimum tax (AMT), you generally must still compute the tentative minimum tax (TMT) to figure your allowable credit. For a small corporation exempt from the AMT under section 55(e), enter zero. Otherwise, complete and attach the applicable AMT form or schedule and enter the TMT on line 11.

#### Line 14

If you cannot use all of your credit because of the tax liability limit (line 13 is smaller than line 3), carry the unused credit back 1 year and then forward up to 20 years. See the instructions for Form 3800 for details.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instruction must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

- Recordkeeping** . . . . . 6 hr., 13 min.
- Learning about the law or the form** . . . . . 1 hr., 12 min.
- Preparing and sending the form to the IRS.** . . . . . 1 hr., 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions of the tax return with which this form is filed.