

DEPARTMENT OF INSURANCE

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**COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI)
TAX CREDIT PROGRAM**

The CDFI Tax Credit Program attracts and leverages private capital to fund investments that yield economic and social benefits for California's underserved markets, as well as investments that yield environmental benefits. Established in 1997, the CDFI Tax Credit Program is administered by COIN for the purpose of increasing the amount of private capital available to CDFIs for community development. COIN allocates a state tax credit of 20% on qualified investments of \$50,000 or more. Every \$1 of tax credit yields \$5 of private investment, with the total tax credit allocation of \$2 million generating up to \$10 million of private investment in COIN-Certified CDFIs.

TAX CREDIT CERTIFICATION PROCESS

Each year, up to \$2 million in tax credits can be awarded by COIN for investment in certain Qualified Investments.

A "Qualified Investment" means:

- 1) A deposit or loan that does not earn interest;
- 2) an equity investment; or
- 3) an equity-like debt instrument.

In 2011, AB 624 (Perez) extended the COIN CDFI tax credit program and modified its certification process. Prior to the passage of this bill, investments certified only on a first-come-first-served basis. Under AB 624, if the Commissioner determines that demand will outstrip the supply of tax credits, COIN shall grant priority to certain applications as follows:

1. Direct Benefit to Low-Income Persons

A primary intent of the COIN CDFI Tax Credit program is to benefit economically disadvantaged communities and low-income people in California. Therefore, investments that will benefit this demographic in a tangible, immediate manner will receive priority.

2. Investments Made by Insurance Companies

Through the COIN program, insurers make prudent investments that yield social and/or environmental benefits. As part of the COIN program, the CDFI Tax Credit encourages insurers to invest in community development. To that end, investments made by insurers will receive priority over investors from other fields, in order to give the intended recipients first consideration.

Applications that satisfy both of the above criteria will receive a higher priority.

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3. Housing

Of those applications that involve housing-related projects, COIN must prioritize rental housing, mortgages for community-based residential programs, and self-help housing ahead of single family housing.

Note that this statute does not establish a specific priority for housing, but only a comparative ranking for housing applications.

INVESTMENT STRUCTURE

To qualify for the 20% tax credit, all Qualified Investments must equal or exceed \$50,000 in amount and must be invested for no fewer than 60 consecutive months. The total tax credit amount available through the program annually is \$2 million, on a total investment maximum of \$10 million.

EARLY WITHDRAWAL PROVISION

If a Qualified Investment is *withdrawn* before the end of the 60th month and not re-deposited or reinvested in another CDFI within 60 days, there shall be added to the "net tax" or "tax" (as defined in Revenue and Tax Code Section 17039, Section 23036, or Section 28 of Article XIII of the California Constitution) for the taxable or income year in which the withdrawal occurs, the entire amount of any credit previously allowed under Revenue and Tax Code Sections 17053.57 or 23657, and Section 12209. Additionally, under Section 17053.57, the CDFI is required to notify COIN and the Franchise Tax Board; and under, 12209, the CDFI is required to notify COIN and the Board of Equalization.

If a Qualified Investment is *reduced* before the end of the 60th month, but not below fifty thousand dollars (\$50,000), there shall be added to the "net tax" as defined in Revenue and Tax Code Section 17039, Section 23036, or in Section 28 of Article XIII of the California Constitution, for the taxable or income year in which the reduction occurs, an amount equal to 20 percent of the total reduction for the taxable or income year. Sections 17053.57 and 23657 require the CDFI to notify COIN *and* the Franchise Tax Board of the reduction; and Section 12209 requires the CDFI to notify COIN *and* the Board of Equalization.

APPLICATION CYCLE

Based upon the number of inquiries received to date, the Insurance Commissioner has determined that total Qualified Investments for 2013 will exceed the total amount of tax credits available.

Applications will be received and evaluated throughout the year, in semi-annual cycles, in order to enable both required and continuous processing and prioritization.

- Applications are due by the last day of the first quarter of each semi-annual cycle.
- First semi-annual cycle are due by March 31st and by September 30th for the second semi-annual cycle.
- COIN will notify applicants of their certification status in the last month of each semi-annual cycle (either June or December of the six month cycle).
- Applications that meet the minimum qualifications, but were not certified for a tax credit, may reapply. Reapplications within a calendar year are required to submit only that information which has changed since prior application was submitted.

Note:

The Insurance Commissioner reserves the right to issue certificates to taxpayers in the total amount of \$2 million during the first semi-annual cycle if sufficient qualified applications are received.