Form **8874**
(Rev. January 2007)
Department of the Treasury
Internal Revenue Service

New Markets Credit

► **Attach to your tax return.**

OMB No. 1545-1804

Attachment Sequence No. **127**

Name(s) shown on return | **Identifying number**

(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))
1				%	
				%	
				%	
				%	
				%	
				%	
2 New markets credit from partnerships and S corporations				2	
3 Add lines 1 and 2. Partnerships and S corporations, report this amount on Schedule K; all others, report this amount on the applicable line of Form 3800, (e.g., line 1l of the 2006 Form 3800)				3	

General Instructions

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

What's New

- The tax liability limit is no longer figured on this form. Instead, it must be figured on Form 3800, General Business Credit.
- Taxpayers that are not partnerships or S corporations, and whose only source of this credit is from those pass-through entities, are not required to complete or file this form. Instead, they can report this credit directly on line 1l of Form 3800.
- The IRS will revise the January 2007 version of the form only when necessary. Continue to use this version for tax years beginning after 2005 until a new revision is issued.

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.

TIP *Qualified CDEs must provide taxpayers holding a qualified equity investment with a completed Form 8874-A when a qualified equity investment is acquired.*

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 Regulations sections 1.45D-1(c)(3)(ii)(A) and 1.45D-1(c)(3)(iii).