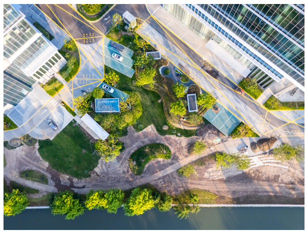

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A Closer Look at Tennessee's Community Investment Tax Credit

Tennessee's Community Investment Tax Credit (CITC) program provides a meaningful incentive for financial institutions to support affordable housing for low-income Tennesseans. Administered by the Tennessee Housing Development Agency (THDA) in cooperation with the Tennessee Department of Revenue (TDoR), the CITC encourages qualified lenders to make below-market loans, investments, grants, or contributions to eligible housing entities engaged in low-income housing activities across the state. The credit is applied against the taxes imposed by Tennessee's franchise and excise tax laws, making it a practical tool for financial institutions seeking to align community development objectives with state tax planning.

Eligibility

The CITC is available to financial institutions that extend qualified loans, qualified investments, grants, or contributions to "eligible housing entities" for "eligible low-income housing activities." Eligible housing entities include Tennessee-based 501(c)(3) nonprofit organizations, public housing authorities, certain development districts, and THDA itself. THDA certifies the housing entity and activity as eligible, and TDoR then awards the tax credit to the participating financial institution.

Eligible low-income housing activities include:

- Creating or preserving affordable housing for low-income Tennesseans;
- Assisting low-income Tennesseans (*e.*, families at or below 80% of the area median income, adjusted for family size) in obtaining safe and affordable housing;
- Building the capacity of an eligible nonprofit to provide housing opportunities; and
- Any other low-income housing related activity approved by the THDA Executive Director and the Commissioner of

Revenue.

Credit Overview

For each qualifying transaction, the participating financial institution makes a one-time election between two mutually exclusive ways to value its credit: a **one-time credit** calculated on the total (original) amount of the loan, investment, grant, or contribution, *or* an **alternative annual credit** calculated on the declining unpaid principal balance as of December 31 of each year. These two options do not stack — the institution must choose one or the other for each transaction.

Credit Calculation

The credit rates depend on the type of transaction and the depth of below-market benefit provided, as illustrated below.

Transaction Type	One-Time Credit
Qualified loan or long-term investment	5% of the total amount
Qualified low-rate loan	10% of the total amount
Grant or contribution	10% of total amount

Key Points

- A "qualified loan" is made at least 2% below the prime rate (*e.*, the prime rate as published by the *Wall Street Journal*); a "qualified low-rate loan" is made at least 4% below prime. The deeper the below-market rate, the higher the credit tier. A "qualified long-term investment" extends for more than five years.
- The one-time option is calculated on the total (original) amount of the transaction; the annual option is calculated on the declining unpaid principal balance measured each December 31.

- The alternative annual credit applies only to qualified loans and qualified low-rate loans. Grants and contributions have no alternative annual credit because there is no ongoing principal balance — they receive only the one-time credit (10%).
- Electing the annual credit continues until the loan is paid off or at 15 years, whichever comes first. Cumulative annual credits may exceed or fall short of the one-time figure depending on loan life and amortization.
- Any unused one-time credit allowed under Tennessee Code § 67-4-2109(h)(1)(A) or (h)(2)(A) may be carried forward for 15 years after the tax year in which the credit originated; provided, however, that one-time credits earned in tax years ending on or after December 31, 2008, may be carried forward for 25 years. Alternative annual credits may not be carried forward beyond the tax year in which the credit originated.

Practical Considerations

Financial institutions considering participation should review current THDA guidelines and application procedures. Required documents include a Certificate of Contribution for Tax Credit and a CITC Project Narrative Form, available by contacting CITC@thda.org. Additional program information is available here.

Because the credit involves coordination among the financial institution, an eligible housing entity, THDA, and TDoR, early engagement with all parties is advisable. Institutions should also evaluate how the CITC interacts with other incentives — including the federal Low-Income Housing Tax Credit (LIHTC) program and the Community Reinvestment Act (CRA) — to maximize their community development impact. For example, a single affordable housing project may benefit from both LIHTC equity and a CITC-qualifying below-market loan, and CITC-eligible activities may also generate favorable CRA consideration. Any interested party should consult with qualified counsel to determine credit availability and ensure compliance with all applicable requirements. Of note, the recently enacted 21st Century ROAD to Housing Act increased bank's public welfare investment cap from 15% to 20%.

How We Can Help FBT Gibbons routinely counsels financial institutions, nonprofit housing organizations, developers, and other stakeholders on affordable housing programs and related tax incentives across Tennessee and nationally. Our team regularly advises clients on structuring CITC-qualifying transactions, navigating the THDA certification process, and coordinating state credits with federal programs such as the LIHTC and CRA. We are ready to assist with all aspects of the CITC program and the broader affordable housing landscape.

For more information, please contact the authors of this article or any member of the firm's Multifamily Housing team.

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