A BILL

To amend the Internal Revenue Code of 1986 to provide a credit for investment in Community Development Financial Institutions.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Community Development Investment Tax Credit Act of 2022”.

SEC. 2. COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INVESTMENT TAX CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of
1986 is amended by adding at the end the following new section:

“SEC. 45U. COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INVESTMENT TAX CREDIT.

“(a) ALLOWANCE OF CREDIT.—

“(1) IN GENERAL.—For purposes of section 38, in the case of a taxpayer who holds a qualified CDFI investment on a credit allowance date of such investment which occurs during the taxable year, the CDFI investment credit determined under this section for such taxable year is an amount equal to the applicable percentage of the amount paid to the qualified community development financial institution for such investment at its original issue.

“(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1)—

“(A) IN GENERAL.—The applicable percentage is—

“(i) 3 percent with respect to the first 10 credit allowance dates, and

“(ii) 4 percent with respect to the 10 credit allowance dates following the last credit allowance date to which clause (i) applies.
“(B) Increased Amount for Certain Investments.—In the case of a qualified CDFI investment which does not have a fixed term or duration, the applicable percentage for any credit allowance date shall be increased by one percentage point.

“(3) Credit Allowance Date.—

“(A) In General.—For purposes of paragraph (1), the term ‘credit allowance date’ means, with respect to any qualified CDFI investment—

“(i) the date which is one year after the date on which such investment is initially made, and

“(ii) each of the 19 anniversary dates of such date thereafter.

“(B) Limitation.—Notwithstanding subparagraph (A), a date shall not be treated as a credit allowance date with respect to any qualified CDFI investment if such date occurs after any date on which—

“(i) the financial institution in which such CDFI investment is made ceases to be a qualified community development financial institution, or
“(ii) such investment is redeemed, repurchased, or otherwise repaid by the qualified community development financial institution which issued such investment.

“(b) QUALIFIED CDFI INVESTMENT.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified CDFI investment’ means any investment in a qualified community development financial institution if—

“(A) such investment is acquired by the taxpayer at its original issue (directly or through an underwriter) solely in exchange for cash,

“(B) such investment is in the form of—

“(i) non-voting stock or an equity equivalent investment,

“(ii) an interest in an entity which is a partnership, or

“(iii) an obligation described in section 279(b)(2) which has a term of 10 years or longer,

“(C) such investment has not been designated as a qualified equity investment for purposes of section 45D, and
“(D) such investment is designated for purposes of this section by the qualified community development financial institution.

Such term shall not include any investment issued by a qualified community development financial institution more than 5 years after the date that such financial institution receives an allocation under subsection (e). Any allocation not used within such 5-year period may be reallocated by the Secretary under subsection (d).

“(2) LIMITATION.—The maximum amount of investments issued by a qualified community development financial institution which may be designated under paragraph (1)(C) by such financial institution shall not exceed the portion of the limitation amount allocated under subsection (e) to such financial institution.

“(3) TREATMENT OF SUBSEQUENT PURCHASERS.—The term ‘qualified CDFI investment’ includes any investment which would (but for paragraph (1)(A)) be a qualified CDFI investment in the hands of the taxpayer if such investment was a qualified CDFI investment in the hands of a prior holder.
“(4) Redemptions.—A rule similar to the rule of section 1202(c)(3) shall apply for purposes of this subsection.

“(5) Equity equivalent investment.—For purposes of this paragraph, the term ‘equity equivalent investment’ means an obligation of a qualified community development financial institution which—

“(A) is carried as an investment on the investor’s balance sheet in accordance with Generally Accepted Accounting Principles,

“(B) is not secured by any of the assets of the qualified community development financial institution,

“(C) is fully subordinated to the right of repayment of all of the other creditors of the qualified community development financial institution,

“(D) does not give the investor the right to accelerate payment unless the qualified community development financial institution ceases its normal operations,

“(E) carries an interest rate or dividend that is not tied to any income received by the
qualified community development financial institution, and

“(F) has an indeterminate maturity.

“(c) Qualified Community Development Financial Institution.—For purposes of this section, the term ‘qualified community development financial institution’ means—

“(1) any community development financial institution (as defined in section 103 of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4702)),

“(2) any partnership in which a community development financial institution (as so defined) owns, directly or indirectly, 50 percent or more of the capital interest or the profits interest, or

“(3) any partnership that is controlled, for purposes of section 482, or any investment vehicle the investment activities of which are otherwise substantially entirely managed and directed, by one or more community development financial institutions (as so defined).

“(d) National Limitation on Amount of Investments Designated.—
“(1) IN GENERAL.—There is an investment tax credit limitation for each calendar year. Such a limitation is—

“(A) $1,000,000,000 for 2022,

“(B) $1,500,000,000 for 2023, and

“(C) $2,000,000,000 for each year thereafter.

“(2) INFLATION ADJUSTMENT.—

“(A) IN GENERAL.—In the case of any calendar year after 2024, the $2,000,000,000 in paragraph (1)(C) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2023’ for ‘calendar year 2016’ in subparagraph (A)(ii) thereof.

“(B) Rounding.—If any increase determined under subparagraph (A) is not a multiple of $1,000,000, such increase shall be rounded to the nearest multiple of $1,000,000.

“(3) ALLOCATION OF LIMITATION.—
“(A) IN GENERAL.—The limitation under paragraph (1) shall be allocated by the Secretary among qualified community development financial institutions selected by the Secretary based on the following criteria:

“(i) Financial and compliance performance.

“(ii) Demonstrated ability to attract private capital.

“(iii) The diversity of business model types.

“(iv) The diversity of population density served.

“(v) Impact generation capacity.

“(vi) The information contained in the investment plan described in subparagraph (B).

“(vii) Whether the investment term will exceed 10 years.

“(B) REQUIREMENT TO PROVIDE AN INVESTMENT PLAN.—An application submitted to the Secretary under subparagraph (A) shall include a plan that describes how the qualified community development financial institution will expand or maintain its lending and invest-
ing activity in its target market as a result of qualified CDFI investments.

“(4) CARRYOVER OF UNUSED LIMITATION.—If the new investment tax credit limitation for any calendar year exceeds the aggregate amount allocated under paragraph (2) for such year, such limitation for the succeeding calendar year shall be increased by the amount of such excess.

“(e) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out this section, including regulations—

“(1) which limit the credit for investments which are directly or indirectly subsidized by other Federal tax benefits (including the credit under section 42 and the exclusion from gross income under section 103),

“(2) which prevent the abuse of the purposes of this section,

“(3) which impose appropriate reporting requirements, and

“(4) which apply the provisions of this section to newly formed entities.”.

(b) PART OF GENERAL BUSINESS CREDIT.—Section 38(b) of such Code is amended by striking “plus” at the end of paragraph (32), by striking the period at the end
of paragraph (33) and inserting “, plus”, and by adding at the end the following new paragraph:

“(34) the CDFI investment credit determined under section 45U(a).”.

(c) CONFORMING AMENDMENTS.—

(1) Section 45D(b)(1) of the Internal Revenue Code of 1986 is amended by striking “and” at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting “, and”, and by adding at the end the following new subparagraph:

“(D) such investment has not been designated as a qualified CDFI investment for purposes of section 45U.”.

(2) The table of sections for subpart D of part IV of subchapter A of chapter 1 of such Code is amended by adding at the end the following new item:

“45U. Community development financial institution investment tax credit.”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to investments made after the date of the enactment of this Act.