



Note: *The draft you are looking for begins on the next page.*

Caution: DRAFT—NOT FOR FILING

This is an early release draft of an IRS tax form, instructions, or publication, which the IRS is providing for your information. **Do not file draft forms.** We incorporate all significant changes to forms posted with this coversheet.

However, unexpected issues occasionally arise, or legislation is passed—in this case, we will post a new draft of the form to alert users that changes were made to the previously posted draft. Thus, there are never any changes to the last posted draft of the form and the final revision of the form. Forms and instructions are subject to OMB approval before they can be officially released, so we post drafts of them until they are approved. Drafts of instructions and publications usually have some additional changes before their final release. Early release drafts are posted at [IRS.gov/DraftForms](https://www.irs.gov/DraftForms) and remain there after the final release is posted at [IRS.gov/LatestForms](https://www.irs.gov/LatestForms). Also see [IRS.gov/Forms](https://www.irs.gov/Forms).

Most forms and publications have a page on IRS.gov: [IRS.gov/Form1040](https://www.irs.gov/Form1040) for Form 1040; [IRS.gov/Pub501](https://www.irs.gov/Pub501) for Pub. 501; [IRS.gov/W4](https://www.irs.gov/W4) for Form W-4; and [IRS.gov/ScheduleA](https://www.irs.gov/ScheduleA) for Schedule A (Form 1040), for example, and similarly for other forms, publications, and schedules for Form 1040. When typing in a link, type it into the address bar of your browser, not a Search box on IRS.gov.

If you wish, you can submit comments to the IRS about draft or final forms, instructions, or publications at [IRS.gov/FormsComments](https://www.irs.gov/FormsComments). Include "NTF" followed by the form or publication number (for example, "NTF1040", "NTFW4", "NTF501", etc.) in the body of the message to route your message properly. We cannot respond to all comments due to the high volume we receive and may not be able to consider many suggestions until the subsequent revision of the product, but we will review each "NTF" message.

If you have comments on reducing paperwork and respondent (filer) burden, with respect to draft or final forms, please respond to the relevant information collection through the Federal Register process; for more information, click [here](#).

Instructions for Form 8874



(Rev. December 2026)

New Markets Credit

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

Future Developments

For the latest information about developments related to Form 8874 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8874](https://www.irs.gov/Form8874).

What's New

Credit made permanent. The new markets credit was made permanent by P.L. 119-21, commonly known as the One Big Beautiful Bill Act.

General Instructions

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.

Taxpayers that aren't partnerships or S corporations, and whose only source of this credit is from those pass-through entities, aren't required to complete or file this form. Instead, they can report this credit directly on Form 3800, Part III, line 1i.

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. For details, see Rev. Rul. 2003-20 and Rev. Rul. 2010-17.
- 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 or a non-real estate 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 or a non-real estate 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, Notice of Qualified Equity Investment for New Markets Credit, when a qualified equity investment is acquired.

Exceptions. An equity investment in an entity that otherwise qualifies as a qualified equity investment or a non-real estate qualified equity investment is eligible to be designated as a qualified equity investment if made prior to an allocation agreement, but only if the following apply.

- 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 doesn't receive an allocation under that NOAA, 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)(B) and -1(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 are listed on the CDFI Fund website at [CDFIFund.gov](https://www.CDFIFund.gov).

Non-real estate qualified equity investment. If a qualified equity investment is designated as a non-real estate qualified equity investment, then the qualified equity investment may only satisfy the substantially-all requirement if the CDE makes qualified low-income community investments that are directly traceable (including investments made through one or more CDEs) to non-real estate qualified active low-income community businesses. The proceeds of a non-real estate qualified equity investment cannot be used for transactions involving a qualified active low-income community business that isn't a non-real estate qualified active low-income community business. See Regulations section 1.45D-1(d) for details about qualified low-income community investments.

How To Figure the Credit

A credit is generally 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% (0.05) (6% (0.06) for the fourth through seventh years). However, the credit isn't allowed for a credit allowance date if the investment isn't 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 or otherwise cashed out by the entity.

Exception. If a CDE fails to use substantially all of the proceeds of a qualified equity investment to make qualified low-income community investments, the CDE may avoid recapture of the credit if it corrects the failure within 6 months after the date it becomes aware (or reasonably should have become aware) of the failure. Only one correction is permitted for each qualified equity investment during the 7-year credit period.

See section 45D(g) and Regulations section 1.45D-1(e) 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 2025 Form 1040 is reported on Schedule 2 (Form 1040), line 17a, and the amount on a 2025 Form 1120 is reported on Schedule J, line 9z.

You aren't 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.

Tip: Qualified CDEs must provide taxpayers holding a qualified equity investment with a completed Form 8874-B, Notice of Recapture Event for New Markets Credit, when a recapture event occurs.

Basis Reduction

You must reduce your basis in your qualified equity investment by the amount of the new markets credit determined under section 45D (even if part or all of the credit isn't allowed for the current year and is carried back or carried forward). However, don't 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 (as in effect before its repeal on March 23, 2018), or
- Certain qualified community assets under section 1400F (as in effect before its repeal on March 23, 2018).

Additional Information

For more details, see section 45D, Regulations section 1.45D-1, or [CDFIFund.gov](https://www.cdfifund.gov).

Specific Instructions

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. Enter "5" for the first, second, or third year of the 7-year credit period. 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).

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

You aren't 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 instructions 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 burden for individual and business taxpayers filing this form is approved under OMB control number 1545-0074 and 1545-0123 and is included in the estimates shown in the instructions for their individual and business income tax returns. The estimated burden for all other taxpayers who file this form is shown below.

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 for the tax return with which this form is filed.