



Historic Tax Credit Program Overview

Nathan Pekul
Bakertilly US, LLP



The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought. Tax information, if any, contained in this communication was not intended or written to be used by any person for the purpose of avoiding penalties, nor should such information be construed as an opinion upon which any person may rely. The intended recipients of this communication and any attachments are not subject to any limitation on the disclosure of the tax treatment or tax structure of any transaction or matter that is the subject of this communication and any attachments. Baker Tilly US, LLP, trading as Baker Tilly, is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. © 2020 Baker Tilly US, LLP



What are we going to learn today?

- Qualified Rehabilitation Expense “QRE”
 - What are they and why do they matter?
- How to compute the federal and state tax credits of your project
- How do the credits help your project?
- Tax Reform
 - How did it change the program?

Qualified Rehabilitation Expenditures “QREs”

What qualifies?

- Hard Costs
 - Construction, Electrical, Plumbing, HVAC, etc.
- Soft Costs
 - Architectural Fees, Insurance, Capitalized Interest, Taxes, professional fees, developer fee, etc.

What doesn't qualify?

- Acquisition costs
- New construction / Enlargements
- Leasing expenses
- Reserves
- Some financing/attorney fees
- Any personal property and site improvements

Tax Credit Calculation

$$\text{QREs} \times \text{Credit Percentage} = \text{Tax Credit}$$

Federal Tax Credit		IL River's Edge Credit	
QREs	\$1,000,000	QREs	\$1,000,000
Credit %	<u>20%</u>	Credit %	<u>25%</u>
Total Credits	\$200,000	Total Credits	\$250,000

Credit Delivery – Time in which the credits are delivered. Currently earned 4% per year over 5 years.

Compliance Period – Period that the credits are subject to recapture. During this time no material alterations or ownership changes can be made.

What value do these credits bring to my project?

- Dollar-for-dollar reduction of federal income tax liability (*consult your accountant as to your specific usability of these credits*)
 - Unused credits can be carried back one year and carried forward 20 yrs
- Tax Credits can be monetized through syndication of the credits
 - This means bringing in an investor who can use the credits and is willing to pay a % per dollar of credits.
 - Tax credit investors can be institutional investors like banks, tax credit syndicators, corporations, and individuals.
 - Value of the credits are based on volume of credits, timing of credits, and market demand for the credits.

Let's do the math!

Federal Tax Credit

QREs	\$1,000,000
Credit %	<u>20%</u>
Total Credits	\$200,000

Investor	<u>99%</u>
Credits to Investor	\$198,000
Price Per Credit	<u>\$0.68</u>
Investor Equity	\$134,640

IL River's Edge Credit

QREs	\$1,000,000
Credit %	<u>25%</u>
Total Credits	\$250,000

Investor %	<u>100%</u>
Credits to Investor	\$250,000
Price Per Credit	<u>\$0.68</u>
Investor Equity	\$170,000

What changed with Tax Reform?

Other Considerations?

- Credit is now claimed over 5 years vs 1 year
 - Reduced credit pricing by \$0.07-\$0.10 per credit
- 10% credit was repealed
- Corporate tax rate reduced to 21% - impacted the market need for tax credits
- Changes to depreciation
- Historic Tax Credits can be paired with New Market Tax Credits, Solar Credits, and Low Income Housing Tax Credits.

How can Baker tilly help?

- Financial Modeling
- Structuring
- Pairing of tax credit programs
- QRE analysis
- Assistance with tax credit investors and bridge lenders
- Review and comparison of financing options
- Attorney collaboration
- Development support and advisory
- Market study analysis
- Construction budget review and analysis
- Construction cost audit
- Cost Certification
- Annual audit, financial statements and tax returns



Historic Tax Credit Program Overview

Nathan Pekul
Bakertilly US, LLP

Website: www.bakertilly.com

Email: Nathan.Pekul@bakertilly.com

Phone: 608-240-2505

