

Our Speakers

Historic Tax Credit Basics



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Federal Historic Rehabilitation Tax Credit

- / 20% Credit against Federal Income Tax liability
- / Calculated on Qualified Rehabilitation expenditures
- / Incentive to preserve and rehabilitate – NOT acquire
- / Credits are utilized easily by large corporate investors
- / Sophisticated market of investors for the credits
- / Real Estate developers / owners partner with corporate investors to monetize
- / Preservation aspects jointly administered by NPS and State Historic Pres. Offices (SHPOs)
- / Tax aspects administered by the IRS
- / Tax Credits = dollar-for-dollar reduction in tax liability (contrast to deduction)
- / RTC is the most important (in dollar volume) federal preservation program
- / Available in all 50 states, the Virgin Islands and Puerto Rico





“I have an Old Building and someone told me I can get a tax credit, please call me back...”

Qualifying Buildings

- / National Register Properties – individual or in district
- / Generally, at least 50 Years Old
- / Architecturally or historically significant
- / Role of the National Park Service
- / Three Part Process
- / Since 1977, more than 50,000 projects with over \$135.7B in investments*
- / In 2025, 939 proposed projects were approved by NPS; estimated rehab costs \$8.64B
- / In FY 2025, top 4 states were New York (106), Louisiana (94), Virginia (67) and Ohio (61)

*Source: Annual Report for Fiscal Year 2025: Federal Tax Incentives for Rehabilitating Historic Buildings National Park Service



Qualifying for the Rehab Credit

Option #1

Building is listed in the National Register of Historic Places

Option #2

Building is located in a registered historic district and certified as being of historic significance contributing to the district

- / Must be a “building”
- / Building is defined as a structure or edifice enclosing a space within its wall and usually covered by a roof
- / Building must be depreciable



Qualifying for the Rehab Credit

Substantial Rehabilitation Test

- / 24 Month Test
- / 60 Month Test—Phased

Standard Rehabilitation Test

- / Look back from placed in service date to basis in building 24 months prior or beginning of project, whichever is later
- / QREs must exceed prior basis or \$5,000, whichever is greater
- / Rolling 24-month window

Phased Rehabilitation Test

- / Must have plans and specifications showing two or more phases prior to beginning construction
- / 60-month window
- / Otherwise, similar rules



“The first thing we are going to do is update the windows...”

The National Park Service Rules

Part 1

Evaluation of Significance

Part 2

Description of Rehabilitation

Part 3

Request for Certification of Completed Work



Developer Perspective

NPS Part 1/Part 2 Timing

Part 1: Historic Preservation Certification application

Part 2: Approval/Conditional Approval/Denial

Rehabilitation is consistent with the historic character of the property and, where applicable, with the district in which it is located

- / Rehabilitation will meet the Secretary of the Interior's standards for rehabilitation if conditions are met
- / Rehabilitation is not consistent with the historic character of the property or district and the project does not meet the Secretary's standards for rehabilitation





**“Someone told me that the IRS
will pay for the cost of
construction...”**

Credits vs. Deductions

	Deduction	Credit
Income	\$1000	\$1000
Less: Deductions	-200	0
Taxable Income	800	1000
Tax @ 20%	160	200
Less: Credits	0	-200
Net Tax Due	\$160	\$0



Credits vs. Deductions

Qualified Rehabilitation Expenditures	\$4,900,000
Credit Rate:	<u>20%</u>
Credits:	\$ 980,000

Calculate the equity amount:

\$0.80 per credit multiplied by \$980,000 credits = \$784,000



Typical Capital Stack

Financing Source	Amount
Senior Loan	\$19,000,000
HTC Bridge Loan	\$8,000,000
Federal HTC Equity	\$4,500,000
State HTC Equity	\$4,500,000
Subordinate Debt	\$2,000,000



**“A friend of mine sold his credits
to an investor...”**

Developer Perspective

NPS Part 1/Part 2 Timing

- / Investor makes capital contribution in ownership entity in exchange for 99% ownership interest
- / Capital contribution equal to set amount per each \$1.00 of HTC
- / Rehabilitation credit claimed during a 5-year period beginning in the taxable year in which the QREs are placed in service
- / Important to reconcile equity installments with projected costs/schedules





“I added up my construction costs and multiplied by 20% to calculate my credits...”

Qualified Rehabilitation Expenditures

Includes costs related to:

- / Walls, partitions, floors ceilings
- / Permanent coverings such as paneling or tiling
- / Windows and doors
- / Air conditioning or heating systems, plumbing and plumbing fixtures
- / Chimneys, stairs, elevators, sprinkling systems, fire escapes
- / Construction period interest and taxes
- / Architect fees, engineering fees, constructions management costs
- / Reasonable developer fees

Does NOT Include costs related to:

- / Land and interest carry on land
- / Building acquisition and interest carry on acquisition
- / Acquisition-related costs
- / Site improvements and landscaping
- / Enlargements and demolition
- / Personal property
- / Tax-exempt use property





**“We just finished construction
and we are ready to sell our
credits...”**

Who Can Claim the Credit?

Historic credits are shared among owners based on the PROFITS allocation:

'Profits' are considered to include the owner's share of:

- / Taxable Income
- / Operating Cash Flow

These allocations must remain the same throughout the recapture period

Unused credits can carryback 1 year or carryforward 20 years



Who Can Claim the Credit?

Timing of Ownership is Absolutely Critical:

- / If you own the project throughout the rehab but sell it prior to it being placed in service, you CANNOT claim the credit
- / If you bought into ownership just *prior* to, and owned it the day it was placed in service, you CAN claim the credit
- / If you bought into ownership *after* it was placed in service, you CANNOT claim the credit





“Our partner wants to sell the building within two years of completing the rehab...”

Compliance Period

- / HTCs are subject to a 60-month compliance period, known as the Recapture Period
- / Dispositions during Recapture Period trigger claw back of HTCs, subject to vesting rules
- / Disposition includes any sale, transfer, gift or casualty
- / New work that does not comply with the secretary's standards can trigger recapture





**“I heard that some of the rules
for the credits have changed...”**

Qualified Rehabilitation Expenditures

Old Rules

- / 20% federal historic tax credit available for the taxable year in which the qualified rehabilitations expenditure are placed in service
- / 10% tax credit available for pre-1936 buildings

New Rules

- / 20% federal historic tax credit is taken into account for any taxable year during a 5-year period beginning in the taxable year in which the qualified building is placed in service. The credit is an amount equal to the ratable share, 20% of QRE, for each year.
- / Qualified Building
 - Listed in the National Register of Historic Places
 - Located in a registered historic district and certified by the Sec of the Interior as being of historic significance to the district
- / 10% tax credit is eliminated



New Rule: Recognition of Historic Tax Credit

Year	Old Rule Historic Tax Credit	New Rule: Tax Cuts & Jobs Act Historic Tax Credit
2018	\$ 1,000,000	\$ 200,000
2019		200,000
2020		200,000
2021		200,000
2022		200,000
Total	\$ 1,000,000	\$ 1,000,000

HTC GO Re-introduced

Key Provisions of the HTC GO Act:

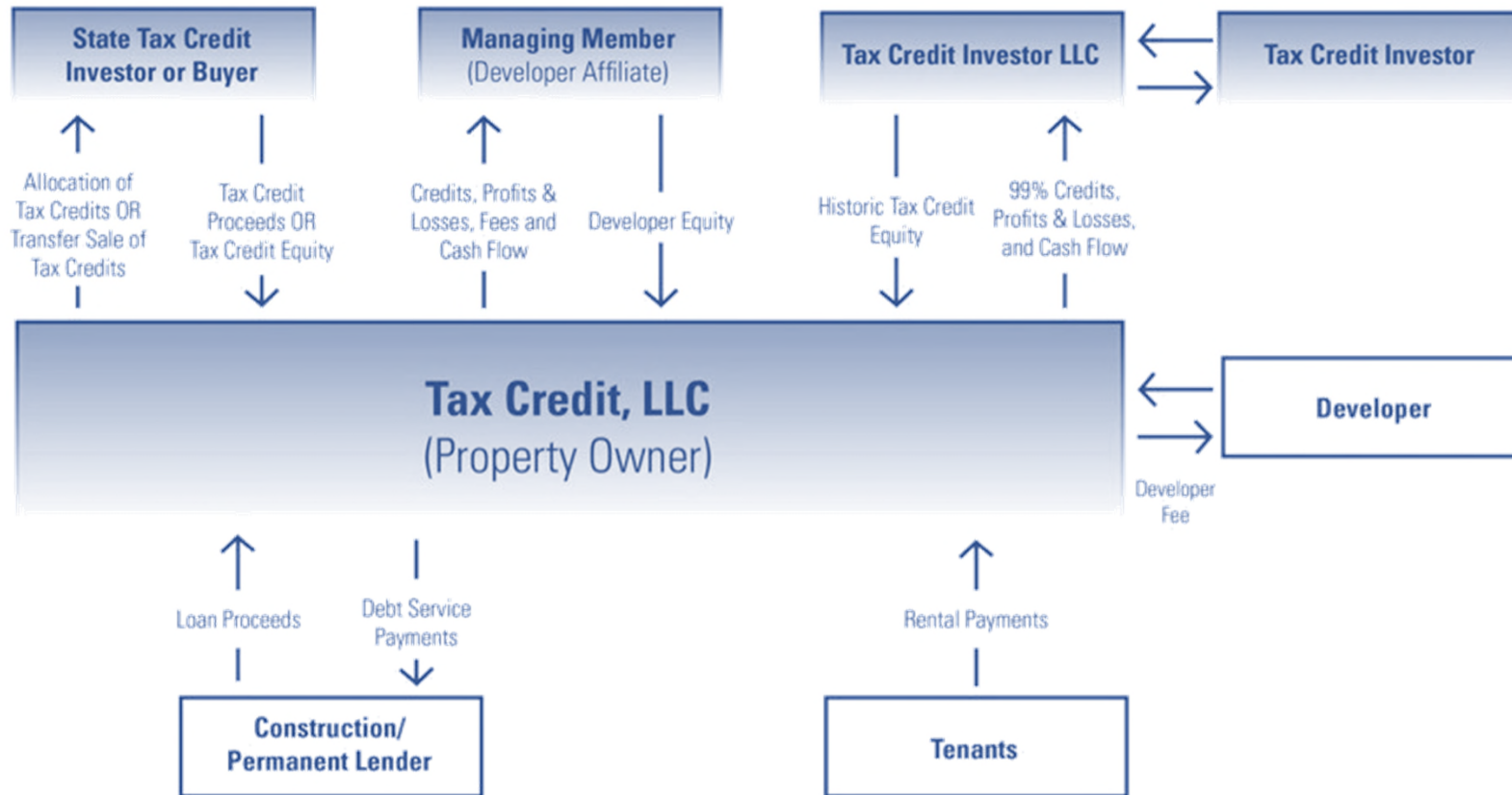
- / Return to the One Year Credit
- / Lowering the Substantial Rehab Test
- / Eliminating the HTC Basis Adjustment
- / Modifying the Tax-Exempt Use Rules
- / Increases the Credit for Smaller Projects and Rural Projects

More Discussion about this during the Conference

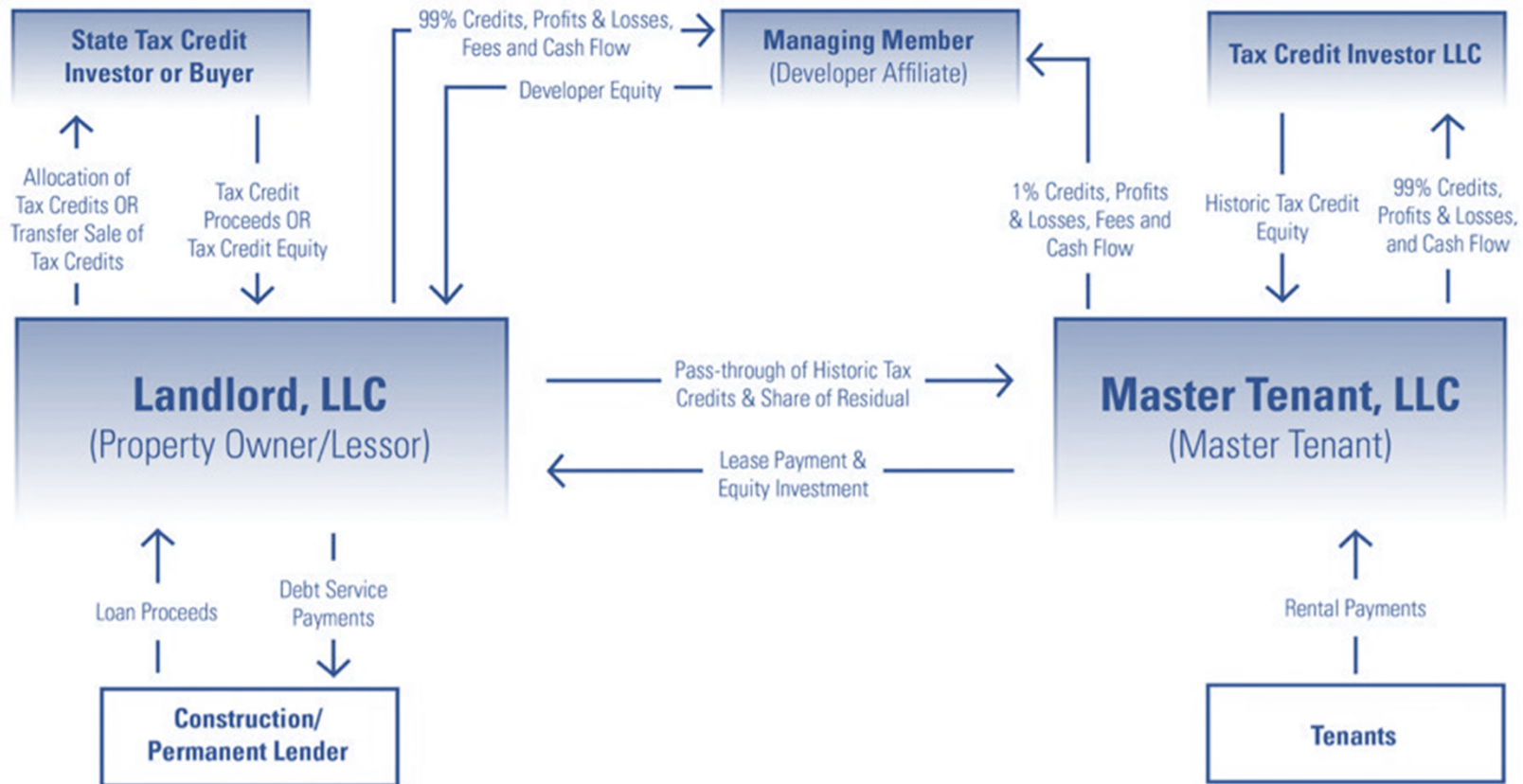


“I just want to sell my credits to an investor, that’s all...”

Single Tier Structure



Lease Pass Through Structure (Master Lease)



Issues with the current market

- / Lower Pricing
- / Some deals having a hard time finding any investor
- / But stay tuned: with changes in the energy credits as a result of the OBBBA, will more tax equity return to the market?
- / Historic Tax Credit Coalition working on improving the credit
 - www.historictaxcredit.com



The Projections

Purpose of a good set of projections:

- / Analyze Cash flow
- / Depreciation allocation (Lease Pass-Through)
- / Estimate QRE and Credits
- / Used for underwriting by investors
- / Used by working group to refine transaction structure
- / Blueprint for the preparation of the legal documents
- / Attached to the Partnership/Operating Agreement as an Exhibit



SOURCE AND USE OF FUNDS

Description	Total	Acquisition Basis	Qualified Rehabilitation Expenditures (QREs)	Site Improvements	Personal Property	Funded Expense	Other
SOURCES							
Federal Investor Member Equity	2,042,146	12%					
State Investor Member Equity	1,831,153	11%					
Permanent Loan	9,312,000	54%					
Managing Member Equity	2,544,500	15%					
Deferred Developer Fee	1,417,730	8%					
Total Sources:	17,147,528	100%					
USES							
Acquisition	1,240,000	1,052,500	-	-	-	-	187,500
Construction Hard Costs	12,528,995	325,555	11,637,260	466,180	100,000	-	-
Total Hard Costs	13,768,995	1,378,055	11,637,260	466,180	100,000	-	187,500
Soft Costs							
Design Fees	339,000	-	339,000	-	-	-	-
Legal & Accounting	200,000	-	66,667	-	-	66,667	66,667
Permits	27,432	-	27,432	-	-	-	-
Property Taxes	5,000	-	5,000	-	-	-	-
Environmental, Market Studies, & Appraisals	47,828	-	47,828	-	-	-	-
HTC Fees including Heritage Consulting Group	40,000	-	40,000	-	-	-	-
Marketing	25,000	-	-	-	-	25,000	-
Construction Loan Closing Fee	93,120	-	12,844	-	-	80,276	-
Construction Loan Interest	256,164	-	96,853	-	-	159,310	-
Bridge Loan Closing Fee	59,792	-	59,792	-	-	-	-
Bridge Loan Interest	127,685	-	96,305	-	-	31,380	-
Predevelopment Mezz Debt Interest	174,000	-	-	-	-	174,000	-
Operating Reserve	257,000	-	-	-	-	-	257,000
Insurance	52,702	-	52,702	-	-	-	-
Soft Cost Contingency	98,555	-	49,277	-	-	49,277	-
Total Soft Costs	1,803,277		893,700	-	-	585,910	323,667
Development Fee	1,575,255	-	1,575,255	-	-	-	-
Total Uses:	17,147,528	1,378,055	14,106,215	466,180	100,000	585,910	511,167



Various Terms & Definitions Working Together





“What other subsidies can I
access...”



State Historic Tax Credits

State credit laws vary in many respects from state-to-state

Other Issues

Development Fee

- / Amount must be reasonable
- / Payment Timing

Fees paid to a related party

- / Example—property management fee subject to reasonableness

Tax Exempt-Use Property

- / Check the tenants!!!

Investor requirements:

- / Cost Certification
- / Annual audited financials required? Tax or GAAP basis?

Refinance

- / During the Compliance Period
- / Cash Waterfall Planning

Reserve requirements

Contingency requirements

Tax priority payments

- / Is 50(d) income and losses from the partnership considered when calculating these payments?



Thank you!

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