

Downtown Partnership Presentation

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Historic Preservation Tax Credits

What Kinds of Buildings Qualify? Or “How Old Does the Building Have to Be?”

- Certified Historic Structure - 20% Credit
There's No Specific Age Requirement
- Non-Historic Structure - 10% Credit
Age Matters - Must have been originally placed in service before 1936.
- Use after rehab can be different than historic use

20% Credit

- The building must be ‘historic’
 - Located on or eligible for the National Register, or
 - Located in National Register historic district, or
 - Located in local historic district and certified by the Fed as an eligible district.

Eligible Costs

(Alias “Qualified Rehabilitation Expenditures” or QREs)

- Amount properly chargeable to capital account
- Interior demolition

What is Not a Federal QRE?

- Land & All Interest Carry on Land
- Building Acquisition & Interest Carry on Acquisition
- Acquisition-Related Costs (legal & recording)
- Site Improvements & Landscaping
- Enlargements & Exterior Demolition
- Furniture, Fixtures and Appliances
- Tax Exempt Use Property (explained later)

Sources and Applications

	Total	Qualified Rehabilitation Expenditures	Depreciable Non-Eligible Basis	Funded Expense	Other
Tax Credit Equity	77,000				
1st Mortgage	406,633				
Deferred Developer Fee	120,000				
Alternative Sources	107,867				
TOTAL SOURCES:	711,500				
Acquisition Costs-Land	40,000	-	-	-	40,000
Acquisition Cost- Building	120,000	-	120,000	-	-
Construction Period Carrying Costs	20,000	10,000	10,000	-	-
Permanent/Construction Loan Fee	6,000	-	-	6,000	-
Achitectural, Engineering	28,000	28,000	-	-	-
Construction Contract	300,000	300,000	-	-	-
Site Improvements	5,000	-	5,000	-	-
Contingency	35,000	35,000	-	-	-
Appliances	-	-	-	-	-
Historic Tax Credit Application Fee	2,500	2,500	-	-	-
Professional Fees	15,000	15,000	-	-	-
Marketing & Leasing Reserves	20,000	-	-	-	20,000
Syndication Costs	-	-	-	-	-
Development Fee	120,000	120,000	-	-	-
TOTAL APPLICATIONS:	711,500	510,500	135,000	6,000	60,000

Tax Credit Calculation

	Federal Rehabilitation Credit
Qualified Rehab Expenditures	510,500
Credit Rate	<u>20.00%</u>
Total Calculated Credit	<u><u>102,100</u></u>
Tax Credit Investor Ownership	<u>99.99%</u>
Total Credit to Investor	102,090
Price Per Credit	<u>1.00</u>
Total Price Paid	<u><u>102,090</u></u>

What Triggers the Credit?

- Placement in service
CO, TCO or U&O is evidence of placement in service

Who Can Claim the Credit?

Historic credits are shared among owners based on the PROFITS allocation

- 'Profits' is considered to include the owner's share of:
 - Taxable income
 - Operating cash flow
 - Distributions upon sale
- These allocations must remain the same during the recapture period

Who Can Claim the Credit?

Timing of Ownership is Critical

- Owned during rehab & sold prior to placed in service = CAN'T CLAIM
- Bought into ownership just prior to and owned the day placed in service = CAN CLAIM
- Bought into ownership after placed in service = CAN'T CLAIM

What is Recapture?

- Recapture is the return of the credits, or a portion of them, to the government
- Usually triggered by doing something

What is the Risk of Recapture?

- **Triggering recapture**
 - Disposition of the property**
 - Disposition of at least 1/3 partnership interest**
 - Noncompliance with Secretary's Standards**
 - Property becomes 'tax exempt use property'**
- **Amount of recapture**
 - 100% of the credit in the first 12 months from placed in service**
 - Declines 20% every 12 months thereafter**
 - Possible recapture becomes zero after 60 months**

Tax Exempt Use Property (Part I)

- Ownership by Tax Exempts Limited

Property entirely owned by a tax exempt/non-profit is NOT eligible for the federal credit

Generally then, a tax exempt must create a partnership with a taxpayer to access the federal credit

Examples of tax exempts includes non-profits, municipalities, & educational institutions

Tax Exempt Use Property (Part II)

■ Tax Exempt Tenants

It is an issue ONLY if at least 50% of the leasable square footage is leased to tax exempts, then, it is an issue if

- One lease is for greater than 20 years, or
- A tax exempt has fixed price purchase option, or
- Property previously used by a tax exempt, or
- Property financed by tax exempt debt.

“Or” means you only need one bullet point.

Maryland State Historic Tax Credit

- Maryland Heritage Structure Rehabilitation Tax Credit Program for residential and commercial projects
- Commercial credit equal to 20% of Qualified Rehabilitation Expenditures

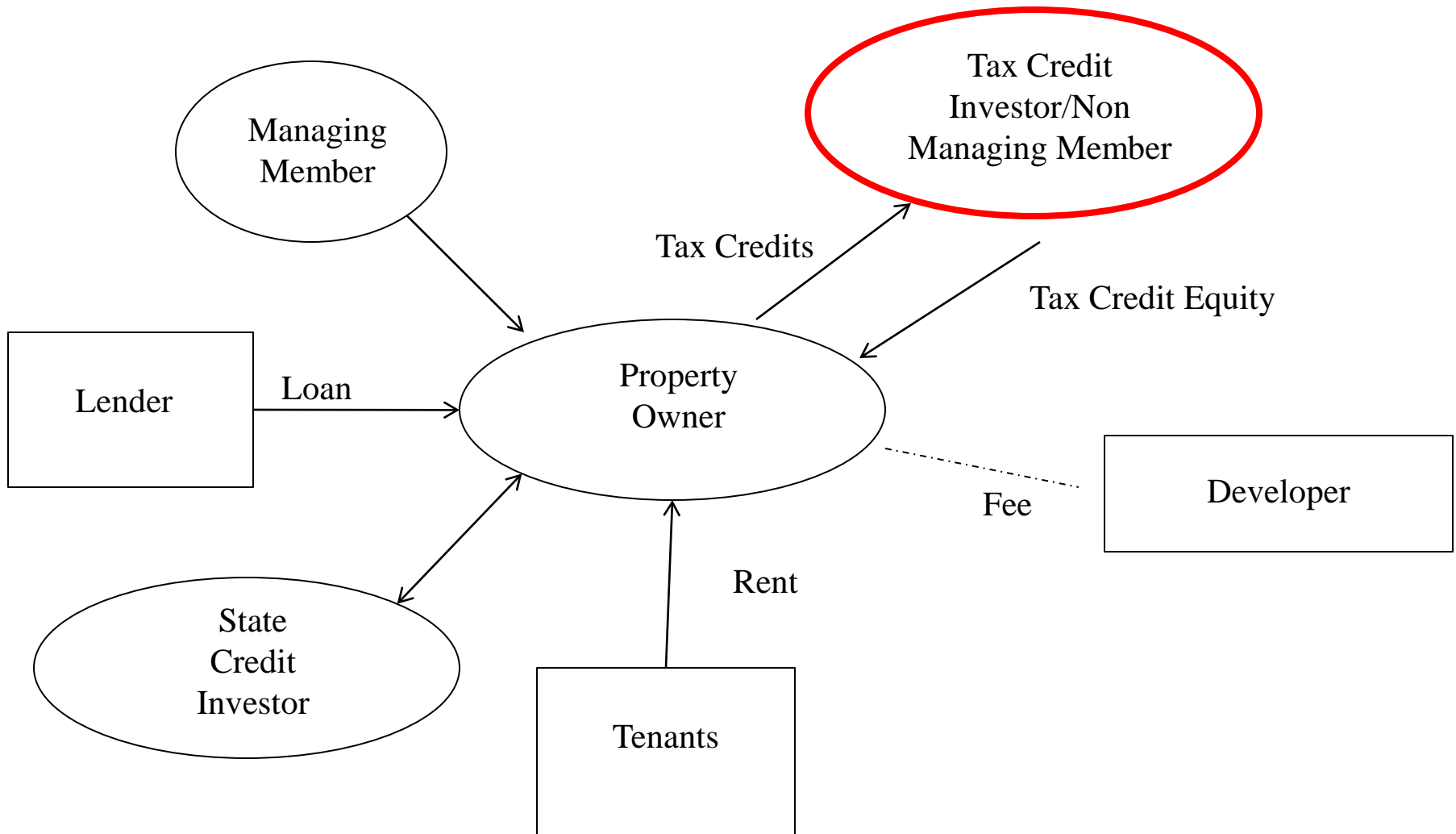
Maryland State Historic Tax Credit

- Amount of commercial tax credits distributed each year is based upon an annual appropriation in the state's operating budget
- Available appropriation fluctuates from year to year

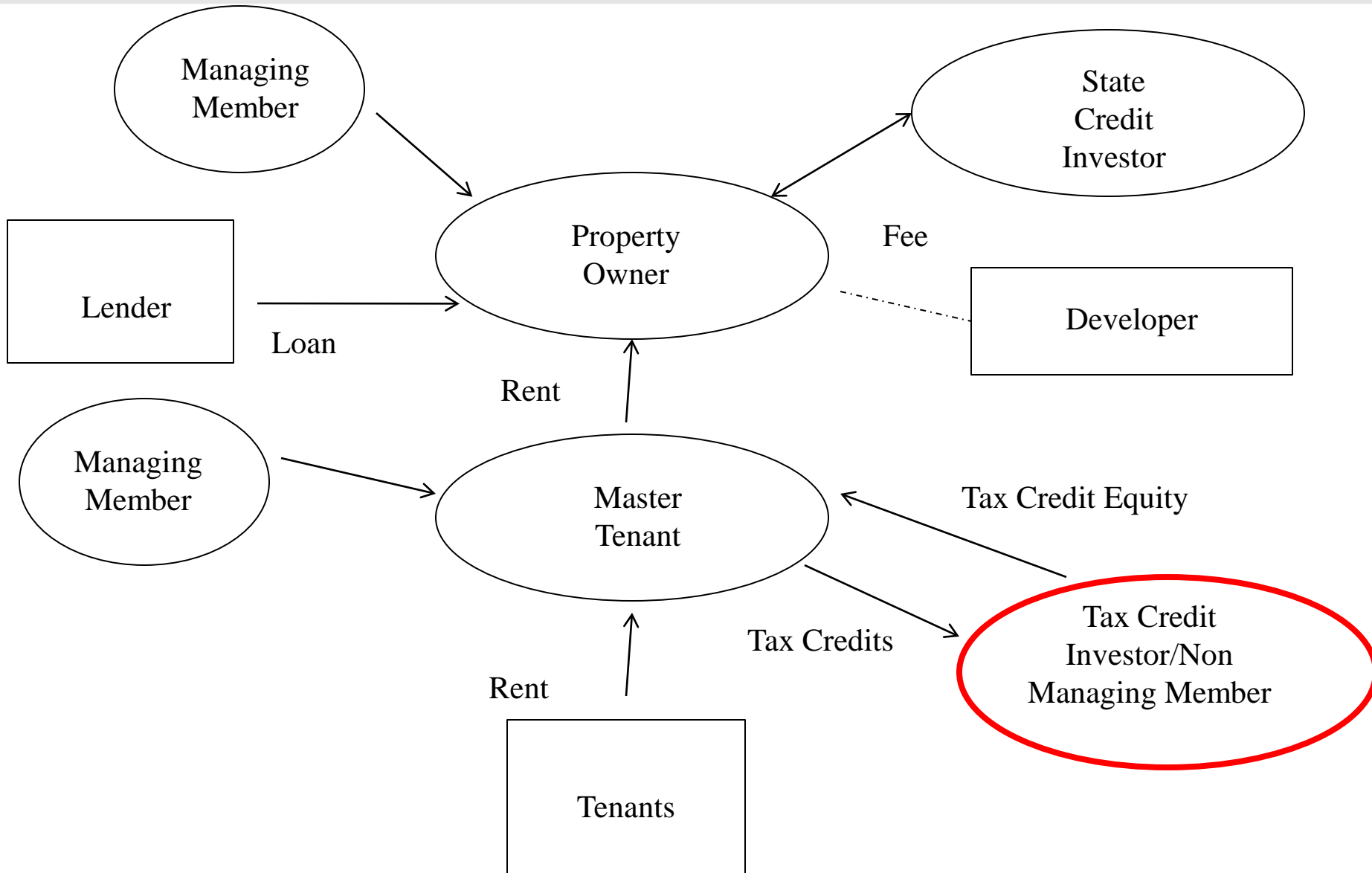
Maryland State Historic Tax Credit

- Applications for commercial tax credit accepted once annually
- Competitively reviewed and ranked
- Projects achieving highest scored ranking are allocated the credits
- 2010 credits already awarded in the amount of \$7,000,000

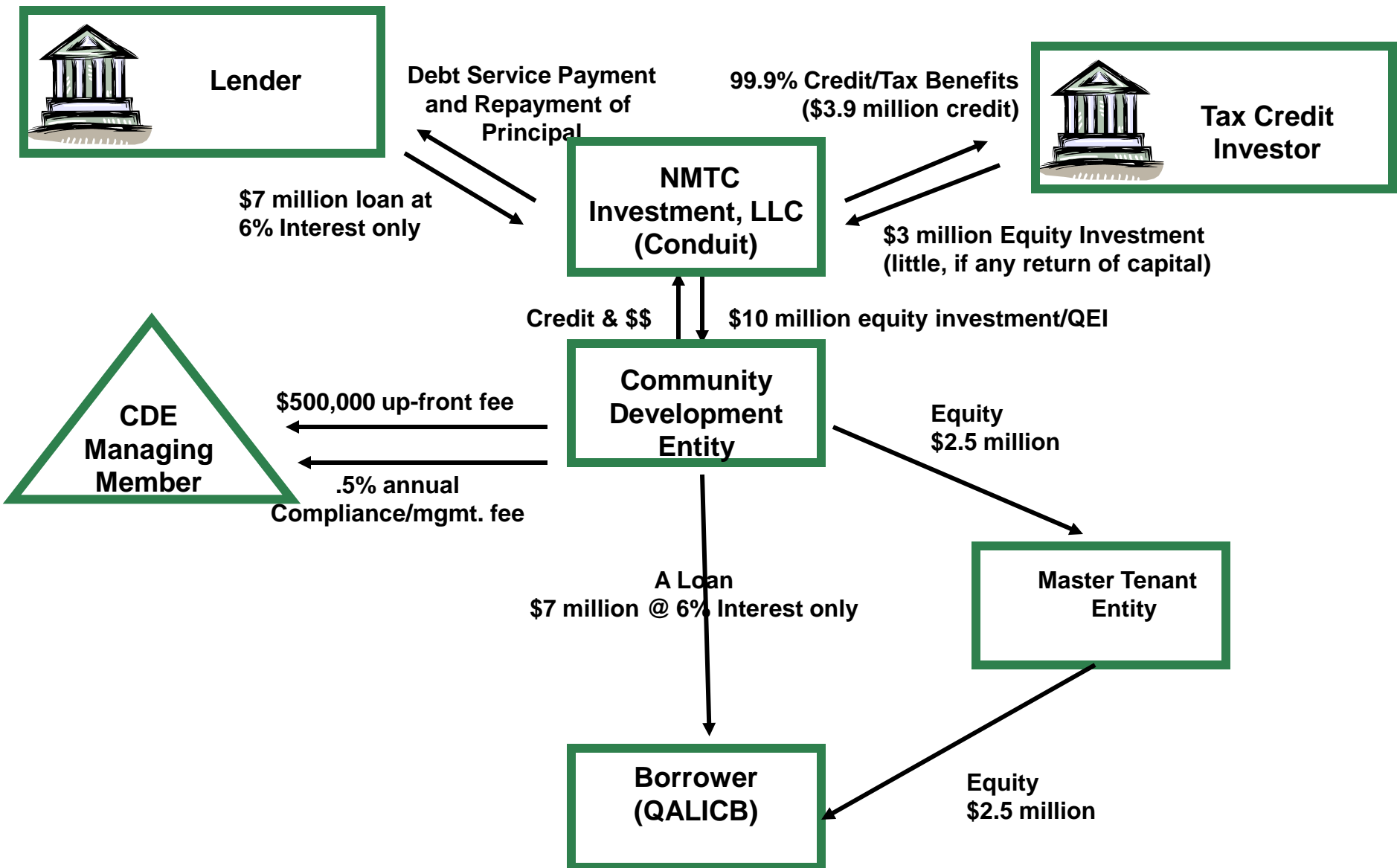
SINGLE ENTITY STRUCTURE



MASTER LEASE STRUCTURE



Leveraged NMTC/HTC Structure



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