Tax Credit Basics

- Tax credits provide a dollar for dollar offset to a taxpayer's tax liability
  - A $100 tax credit reduces taxes by $100; thus a $1 of tax credit today is worth $1 to an investor
- Tax credit calculations include:
  - The basis for the tax credit (what it is based on)
  - The tax credit percentage (percent of the basis that is the credit amount)
  - Tax credit period –number of year for which a tax credit is received
  - Tax credit yield—the percentage of the tax credit value that investors will pay for the stream of tax credits
- Project/investment must meet applicable IRS rules to earn the tax credit

Low-income Housing Tax Credit

- Project must develop new low-income housing
- Basis is the depreciable investment in the project
- Credit is 9% or 4% of depreciable investment; depends on use of other federal subsidies, % of low-income units and other requirements
- Credit period is 10 years
  - Investor gets the 9% or 4% credit for 10 years

New Market Tax Credit

- Project must invest via a CDE in a qualified business in a low-income area
- Basis is the CDE's investment in the qualified business
- Tax credit amount is 39% (5% for first 3 years and 6% for next 4 years)
- Tax credit period is 7 years

Historic Investment

- Project must be a substantial investment to rehabilitate a historic property in accordance with Secretary's standards
- Tax credit basis is the rehabilitation investment in the building and related soft costs over a 24 month or 60 month period
- Tax credit is 20% of the basis: 5% a year over four years
- Tax credit period is four years

Parties to Tax Credit Investment

- Project developer or owner
- Tax credit investor
- Tax credit syndicator or intermediary
- Lawyers and accountants with tax credit expertise
- Other lenders and funders