
Historic Rehabilitation and Low Income Housing Tax Credits

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Rehabilitation Tax Credit

Federal income tax credit equal to 20% of *Qualified Rehabilitation Expenditures* for a *Substantial and Certified Rehabilitation* of a *Certified Historic Structure*

Certified Historic Structure

- Listed on the National Register of Historic Places
- or
- Contributing building in a registered historic district

Certified Rehabilitation

- Rehabilitation plan must be approved by state historic preservation office and National Park Service
- Follow the Secretary of the Interior's Standards for Rehabilitation
- Rehabilitation work must be approved upon completion by state historic preservation office and National Park Service

Substantial Rehabilitation

- Rehabilitation expenditures must exceed the cost basis of the CHS
- Expenditures measured within a 24 month period
- Alternatively, a phased rehabilitation allows expenditures over a 60 month period in planned phases

Qualifying Buildings

- Must be used in a trade or business (private residences do not qualify)
- Residential rental property, office, retail, or other commercial uses
- Alternative 10% credit for non-historic pre-1936 buildings does not apply to residential commercial uses

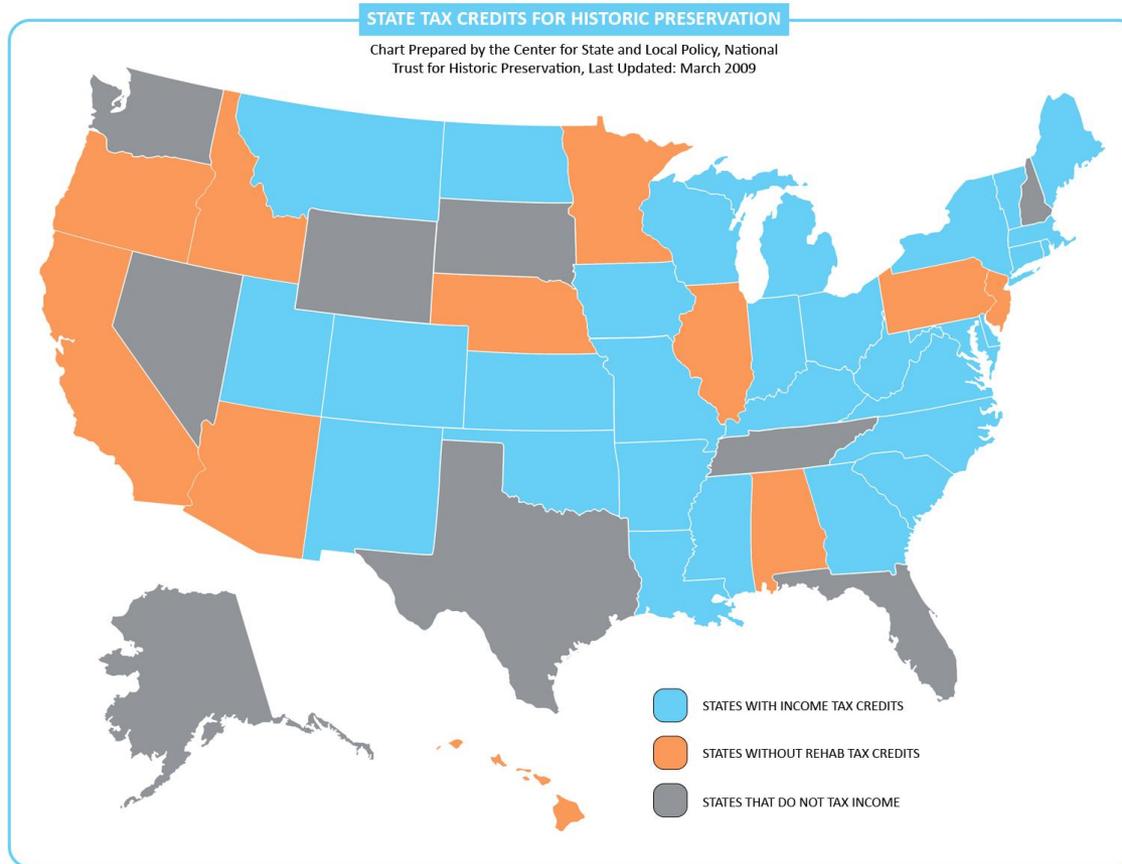
Earning the Rehabilitation Tax Credit

- HRTC earned in the year the certified rehabilitation is completed and the building is *placed in service*
- 60 month holding period to avoid recapture of HRTC

Limitations on Federal Rehabilitation Tax Credit

- Closely held C corporations (and individuals) are subject to *at risk* and *passive activity* limitations

State Historic Tax Credits



Kentucky Historic Rehabilitation Tax Credit

- Up to \$5,000,000 of total credits awarded annually
- 30% of qualified rehabilitation expenses for owner-occupied residential properties
 - minimum investment of \$20,000 is required, with the total credit not to exceed \$60,000
- 20% of qualified rehabilitation expenses for all other properties
 - minimum investment of \$20,000 or the adjusted basis, whichever is greater
 - maximum credit for property that is not owner-occupied residential is \$400,000

Kentucky Certified Historic Structure

- Available for historic property that is
 - Listed on the National Register of Historic Places
or
 - A contributing building in a National Register district
and
 - A certified rehabilitation per Secretary of Interior's Standards for Rehabilitation
- Apply to Kentucky Heritage Council; review is similar to federal HRTC process

Use of Kentucky Historic Rehabilitation Tax Credit

- Applied against Kentucky income tax liability, or
 - Refundable, or
 - Transferred to a financial institution
-
- Tax-exempt organizations, homeowners and out-of-state owners who cannot use the credit against Kentucky income tax liability can either apply for a refund or transfer the credit

Transfer of Kentucky Historic Rehabilitation Tax Credit

- Can be transferred to banks, which are subject to annual Kentucky financial institutions franchise tax
- Enter into tax credit transfer agreement with owner and provide the Department of Revenue with:
 - The name, address, employer identification number, and bank routing and transfer number
 - The amount of credits transferred
- No Kentucky income tax on the proceeds of the transfer of credit (federal income tax would apply)

Limitations on Kentucky Historic Rehabilitation Tax Credit

- If approved applications for HRTC exceed \$5,000,000, HRTCs are allocated proportionately
- Subject to 100% recapture against the owner (not a transferee) for disqualifying work within 3 years of completion

Low Income Housing Tax Credits

- Available to owners of residential rental property used for “low-income” housing
- Income qualifications:
 - At least 20% of the units must be occupied by households with incomes *at or below 50% of the area median income*, or
 - At least 40% of the units must be occupied by households *at or below 60% of the area median income*
 - Almost all projects qualify 100% of the units to maximize LIHTCs

Low Income Housing Tax Credits

- LIHTCs claimed over a ten year credit period
- Credit Amount
 - Present value of LIHTCs equal to 70% of the cost of rehabilitation or construction of qualifying units (fixed at 9% annually for projects completed before 12/31/2013)
 - Increased by 30% for projects designated by state housing finance agency as needed in order to be financially feasible
 - Present value of LIHTCs equal to 30% of the cost of acquisition of existing buildings or bond-financed projects

Low Income Housing Tax Credits

- Qualifying basis for LIHTC based on number of units occupied by low-income tenants at the end of the first year of the credit period
- Maximum rents set annually, based upon a maximum of 30% of qualifying tenant household income

Compliance Period

- Low-income use must be continuous for a 15 year compliance period
 - LIHTC recaptured if low income use is discontinued
- Extended low-income use requirement for an additional 15 years
 - May be terminated upon foreclosure, subject to a 3 year period for existing tenants

LIHTC Allocation

- Each state receives an amount of LIHTCs each year equal to \$2.15 per state resident
- State housing finance agencies annually allocate LIHTCs to projects based upon competitive scoring and an annual *Qualified Allocation Plan*
 - Kentucky Housing Corporation will allocate approximately \$9,275,000 of LIHTCs in 2011
- Construction/rehabilitation must be completed by December 31 of the second year following the allocation of the LIHTCs to the project

Combining Credits

- The same project can utilize
 - Federal and State HRTCs and LIHTCs
 - Federal and/or State HRTCs and NMTCs

Bank Involvement

- Construction Loan
- Equity Bridge Loan
- Partnership Equity for HRTCs and LIHTCs
- Permanent Financing (with or without Federal Home Loan Bank subsidy)
- Kentucky Historic Rehabilitation Tax Credit
- Community Reinvestment Act

Use of Limited Partnerships

- Allows sponsors to raise capital from equity contributions of investor limited partners
- Provides limited liability for investors
- Enables sponsor to control the project as the general partner and developer
- Tax credits are passed through the partnership to its partners
- Tax credits are allocated based upon partnership ownership percentages
- Banks invest directly or through syndicators

Subsidies and Layered Financing

- KHC Affordable Housing Trust Fund grants and loans
- CDBG and HOME loans
- Federal Home Loan Bank grants and loans
- Tax-exempt bonds
- HOPE VI Mixed Finance loans from PHAs
- HUD 221(d)(4) insured loans
- HUD 202 capital advances for senior housing

Analysis of Historic and Low Income Tax Credits

DEVELOPMENT BUDGET

LAND COST	\$10,000
BUILDING SHELL	340,000
REHAB CONSTRUCTION COSTS	3,000,000
A & E	300,000
ENVIRONMENTAL, APPRAISAL	7,500
LOAN COSTS	39,508
CONSTRUCTION INTEREST	98,769
TITLE, SURVEY	10,000
LEGAL	30,000
WORKING CAPITAL	<u>15,000</u>
SUBTOTAL	3,850,776
DEVELOPMENT FEE	<u>385,078</u>
TOTAL	<u>\$4,235,854</u>

SOURCE OF FUNDS

LIMITED PARTNER	\$2,515,754
GENERAL PARTNER	100
FIRST MORTGAGE	1,435,000
HOME/AHTF	200,000
DEFERRED DEVELOPER FEE	<u>85,000</u>
TOTAL	<u>\$4,235,854</u>

BUILDING ANALYSIS

GROSS SQ.FT.	35,000
NET RENTABLE SQ.FT.	31,500
CONSTRUCTION COST/SQ.FT.	\$85.71
TOTAL COST/SQ.FT.	\$121.02
NUMBER OF UNITS	37
TOTAL COST/UNIT	\$114,483
AVG. RENT/MO/UNIT	\$625.00
AVG. SQ.FT./UNIT	851
RENT/SQ.FT./MO.	\$0.73
RENT/EXPENSE INCREASE	2%/4%
OPERATING EXPENSES/UNIT/YEAR	\$3,500
OCCUPANCY	95%
RESERVES/UNIT/YEAR	\$225

TAX CREDITS & DEPRECIATION

REHABILITATION CREDIT %	20%
HRTC AMOUNT	\$765,171
BASIS REDUCTION	\$768,171
LOW INC. QUALIFIED BASIS	3,072,683
LOW INCOME CREDIT %	9.00%
ANNUAL LOW INC. CREDIT	286,741
DEPRECIABLE BASIS	\$3,373,176
MACRS PERIOD	27.5
ANNUAL DEPRECIATION	\$122,661
MARGINAL TAX RATE	35%
CAPITAL GAINS RATE	35%

LOAN TERMS

RATE	7.00%
AMORT.	40
TERM (YEARS)	15
COVERAGE %	1.25

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