Tax Credits

Historic Tax Credits (Historic Properties anywhere)

Fed provides 20% tax credits for qualifying rehabilitation of income producing historic properties- Managed by National Park Services?

Historic Preservation Tax Incentives (U.S. National Park Service)

North Carolina will offer between 15-20% state tax credits for qualifying rehabilitation expenditures. State Program is administered by Historic Preservation Office.

- Must be listed with the National Register of Historic Places or within a National Register Historic District
- Facts Sheet
  - open

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New Market Tax Credits (North & West Part of County & Jefferson)

Only a Federal Program

"receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries called Community Development Entities (CDEs). The credit totals 39% of the original investment amount and is claimed over a period of seven years."

CDEs are financial intermediaries through which private capital flows from an investor to a qualified business located in a low-income community

CDEs can make loans and investments to businesses operating in low-income communities on better rates and terms and more flexible features than the market.

Federal Opportunity Zones (West Jefferson into Creston & Warrensville)

Benefits of Opportunity Zones

- Temporary deferral of taxes on previously earned capital gains. Investors can place existing assets with accumulated capital gains into Opportunity Funds. Those existing capital gains are not taxed until the end of 2026 or when the asset is disposed of.
- Basis step-up of previously earned capital gains invested. For capital gains placed in Opportunity Funds for at least 5 years, investors' basis on the original investment increases by 10 percent. If invested for at least 7 years, investors' basis on the original investment increases by 15 percent.
- Permanent exclusion of taxable income on new gains. For investments held for at least 10 years, investors pay no taxes on any capital gains produced through their investment in Opportunity Funds (the investment vehicle that invests in Opportunity Zones).

Can be used for commercial and industrial real estate, housing, infrastructure, and existing or start-up business investments.

No requirement for housing to be affordable.

US HUD Zone (Jefferson into Wagoner & Western part of the County)

Small businesses within the zone (SBA Definition) are eligible for…

- The government limits competition for certain contracts to businesses in historically underutilized business zones. It also gives preferential consideration to those businesses in full and open competition.

- Joining the HUBZone program makes your business eligible to compete for the program's set-aside contracts. HUBZone-certified businesses also get a 10% price evaluation preference in full and open contract competitions.

- HUBZone-certified businesses can still compete for contract awards under other socio-economic programs they qualify for.

Building Efficiency Credit

Check link for eligibility and deduction

[Energy efficient commercial buildings deduction | Internal Revenue Service]

Low-Income Housing Tax Credit

[What is the Low-Income Housing Tax Credit and how does it work? | Tax Policy Center]

This subsidizes the acquisition, construction, and rehabilitation of affordable rental housing for low- and moderate-income tenants

Originally comes from the Feb but then the State administers them (NC Housing Finance Agency). NC Housing finance Agency then award the credits to private developers of affordable rental housing projects through a competitive process. Developers generally sell the credits to private investors to obtain funding. Once the housing project is placed in service (essentially, made available to tenants), investors can claim LIHTCs over a 10-year period.

Owners/ Developers must satisfy one of the three the income test and the gross rent test for 15 years.

- At least 20 percent of the project's units are occupied by tenants with an income of 50 percent or less of area median income adjusted for family size (AMI).
- At least 40 percent of the units are occupied by tenants with an income of 60 percent or less of AMI.
- At least 40 percent of the units are occupied by tenants with income averaging no more than 60 percent of AMI, and no units are occupied by tenants with income greater than 80 percent of AMI.
- The gross rent test requires that rents do not exceed 30 percent of either 50 ($25,413.50) or 60 percent ($30,496.20) of AMI, depending upon the share of tax credit rental units in the project.

How to calculate Credit

How to Calculate the Low Income Housing Tax Credit (LIHTC) - Westmont Advisors

1. **Determine 'Eligible Bases'**
   All costs must be depreciable- "All 'hard' construction costs and most depreciable 'soft' construction costs.
   Costs that are not eligible are ***land***, insurance and property tax expenses, ect

2. **Applicable Fraction & Qualified Basis**
   Applicable Fraction- *lesser of* 1) affordable units as a percentage of total units or 2) low-income housing square footage as a percentage of total project square footage
   Qualified Basis – Equal to eligible basis multiplied by applicable fraction
   (in 2025) basis boosts of 30% were eligible for Counties impacted by the hurricane
   Projects located in Opportunity Zones are eligible for 10% boost
3. **Applicable Annual Percentage tax credit**
   9% Credit for all eligible construction and 'substantial' rehabilitation costs for a period of 10 years.
   Credits may be sold to investors on the private market

	If using conventional financing (9% LIHTC)	If using tax-exempt bonds (4% LIHTC)
Total development costs	$21,000,000	$21,000,000
Less: Ineligible costs, including land	<1,000,000>	<1,000,000>
Eligible basis (Total LIHTC eligible costs)	20,000,000	20,000,000
Applicable fraction	100%	100%
Qualified basis (Eligible basis X Applicable fraction)	20,000,000	20,000,000
Applicable percentage (AFR)*	9.00%	3.22%
Annual credit before basis boost	1,800,000	644,000
Basis boost (130%)	540,000	--
Annual credit after basis boost	**2,340,000**	**644,000**
Total credit (Annual credit X 10)	**23,400,000**	**6,420,000**

*The applicable percentage varies based upon the AFR. The AFRs used in the example above are effective as of January 2016.