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Tax credit incentives help abandoned, unused and contaminated properties become viable projects

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Tax Credit Overview:

Tax credit programs, in addition to performing a rehabilatory function, foster the development of properties that would otherwise not be economically viable projects. Tax credits are the privatization of a government function, given that they can spark the rehabilitation of historically significant buildings, or the cleanup of contaminated land. Essentially, tax credits allow the government to defer tax revenue in order to efficiently allocate capital elsewhere in the economy so as to create greater recurring tax revenue.

This article will focus on two separate tax credits, one of which aids and assists projects that reposition and re-tool abandoned or unused buildings, and the other remediates contaminated property into self-sustainable projects. Without state and/or federal tax credit Incentives, many of these properties would remain neglected and undeveloped.

Historic Rehabilitation Tax Credits:

For properties that are listed on the National Register of Historic Places, or are in a Historic District, there is a tax credit equal to 20% of the qualified remediation expenses (QRE's) for rehabilitation expenses that meet the federal guidelines for preservation of historic structures. These guidelines are administered by the National Parks Services (NPS). Several states have their own historic tax credit program, and they follow the NPS standards, but have their own unique processes. QRE's represent those costs that meet the NPS standards. There is also a federal 10% tax credit for rehabilitation on buildings that are not on the historic register or in a historic district, but were placed in service prior to 1936. These rehabs do have certain restrictions, but are not subject to the NPS Standards, so they are more flexible. Nevertheless, when rehabilitating a historically significant property the costs are higher, therefore, a tax credit becomes necessary to make the financial numbers on such projects work.

When you combine the state and federal tax credits, these incentives can recover up to 40% of the construction project's budget. In many cases this means the difference between an unrealistically expensive project, and one that is financially feasible.

Mass. Brownfields Tax Credits:

Although some commercial property owners will go out of their way to avoid brownfields sites, others recognize the benefits inherent in the Brownfields Tax Credit, which is meant to encourage the reclamation of polluted property as well as to enhance economic growth by fostering the rehabilitation of abandoned properties, which in turn creates jobs and generates property, excise and income taxes. The Mass. Brownfields Tax Credit (BTC) allows owners or lessees to receive a tax credit of up to 50% of costs directly incurred in remediating environmental contamination in situations where the remediation is cleaned up without restrictions; where the contamination was not caused by the taxpayer; and where the property is located in an economically distressed area.

The Mass. BTC program allows taxpayers to utilize the tax credit or transfer it to any Mass. taxpayer. These transfer provisions have created a secondary marketplace for the trading of tax credits. However, despite the program's prior successes, as of only a few months ago, the Mass. BTC was close to expiration before being saved by a last-minute budget deal. In Mass., the pace at which contaminated land was being converted back into viable, usable land had slowed dramatically, largely due to the uncertainty surrounding the pending sunset (expiration) of the statute that governs the program, as well as the issuance of a Draft Directive by the Department of Revenue to implement more rigorous procedures, guidelines, and timelines for the receipt of the BTC. In July of this year, the FY14 budget for the Commonwealth of Mass. passed, which included a provision extending the BTC for five more years, through August 2018. This ensures at least 5 more years of availability of the BTC as an incentive for cleaning up these contaminated sites.

How Tax Credits Can Help:

The market for tax credits allows for the completion of important projects that might not otherwise have come to fruition because of the difficultly of financing them through traditional lending channels. Generating tax credit equity for such ventures, while providing tax planning benefits to buyers of tax credits, frees up businesses to invest in equipment, personnel, upgrades and other needs that would inevitably be scrapped if these dollars were being paid as taxes. Hence, there is an expansive economic stimulus created by the tax credits, in addition to its core purpose, that being contamination cleanup or historical rehabilitation. Studies have shown that the economic benefits to states and the federal government vastly outweigh the costs of the tax credits.

The process of applying for and securing tax credit awards typically requires a consultant, and the monetization of tax credits requires the assistance of a broker or a syndicator. When such professionals are used in the early project stages, the flow of the project can be aided, as costs that may have been excluded can be captured, and the potential tax credit equity can be built into a proposed budget or development pro-forma, which can lead to more control over financing costs.

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