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## **Tax Credit Financing "A critical component to real estate redevelopment"**

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When it comes time to finance a new project or redevelopment initiative, tax credit incentives can offer a developer substantial equity towards their capital stack rather than having to invest their own capital or highly leverage the financing. Without having the knowledge or guidance of how to secure available federal and state tax credits specific to projects, developers forgo opportunities to capitalize their projects with tax credit equity.

Federal and state tax credits can often be used to reduce tax liabilities and the event the developer cannot use the tax credits they can sometimes be monetized or syndicated. Monetization, transferring or syndication of tax credits require in depth knowledge of the statutory guidelines that allow for the tax credits to be earned/generated and monetized. There are complex limitations, restrictions, tax credit recapture and compliance requirements that need to be considered when utilizing a tax credit financing as part of a projects capital stack.

The Federal Historic Tax Credit program is one of the nation's most successful and cost effective public/private revitalization programs. New England is not short on historic assets and the tax credit equity is highly sought after to finance redevelopment projects. On December 30, 2013 the IRS issued Revenue Procedure 2014-12 setting forth its much-anticipated safe harbor for investments in historic projects. Tax Credit investors have been slow to get back into the market in 2014 as they digest the safe harbor provisions and the lull in the market has created a very strong demand for tax credit equity.

The Historic Tax Credit programs in Mass. and R.I. , are among the best programs in the country. In R.I., in 2013 the General Assembly re-enacted the Historic Tax Credit program after five years of dormancy. The program now has a \$5 million per project cap, allowing many projects to participate. The credits became available in the summer of 2013 and were immediately oversubscribed. In January of 2014, Governor Chafee proposed and additional \$52 million in additional funding for the program as part of his 2015 budget.

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The Massachusetts Historic Tax Credit program was first approved eleven years ago and has been a tremendous success. The Tax Credit program, which is administered by the Massachusetts Historical Commission, is currently capped at \$50 per year and very over subscribed. While Governor Patrick has not mentioned the Historic Tax Credit program in his recent economic development plan, the legislature is contemplating a potential increase the program to \$60 million while focusing on the State's Gateway Cities.

Recently extended through 2018 the Massachusetts Brownfield Tax Credit program was established to encourage the reclamation of polluted property and enhance economic development by incentivizing property owners to remediate underutilized or abandoned properties. If the property

qualifies for the Brownfield tax credit, costs related directly to the environmental clean up of a can apply toward the issuance of credit. By monetizing the credit property owners can recover between 25% and 50% of the eligible costs of cleaning up the site.

Understanding the proper use, structure and mix of statutory Tax Credit incentives are critical when assessing a project's financial viability as often times many of these incentives are over looked.

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