Monday, July 30, 2012

Crediting Development

Developers Can Use Tax Credits To Finance Projects

State, Federal Offsets Help Recover Costs In Tight Times

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Special To Banker & Tradesman

Many developers tend to think "traditional" when it comes to commercial real estate financing sources, resulting in a scramble to obtain the funds necessary to finance a project. Without knowledge of how to secure available federal and state tax credits specific to projects, developers unwittingly "leave money on the table."

Tax credits allow a dollar-for-dollar offset against taxes due. As such, they act as a form of tax payment. Tax credits are not to be confused with a tax deduction, which reduces adjusted gross income and can lessen the tax due. Tax credit recipients can use the credit to offset taxes, or can sell the credit in order to gain income. Restrictions, limitations, recapture risk, compliance obligations and transferability of the tax credit are dependent on the type of tax credit issued.

A variety of tax credits exist, including those for

historical remediation, low-income housing, renewable energy and brownfields projects.

Historic rehabilitation tax credits promote the rehabilitation of historic buildings by the private sector. This is one of the nations' most successful and cost-effective community revitalization programs, as historic renovations – which are extremely expensive – may not otherwise be undertaken without this tax credit.

State and federal historical rehabilitation tax credits together can offset as much as 40 percent of a construction project's budget and they can make or break the feasibility of resurrecting a building with significant community value. With these credits, preservation efforts are more economically appealing than replacement costs. Likewise, being designated as a historic place may increase property values, thereby enhancing the property's economic bottom line.

The market for tax credits allows for the completion of often essential projects that might not otherwise see the light of day due to the difficulty of financing through traditional funding avenues.

It is important to note that the process of applying for, securing and monetizing tax credit awards is an information and document sensitive process which is enhanced by using a consultant, a broker or a syndicator, and at times a lawyer to complete the paperwork.

Energy Credit Revenue

There are two significant tax credits for renewable energy projects – investment tax credits (ITC) from capital investments in the technology and/or the facility that creates renewable energy; and renewable energy credits (RECs) that are generated as a result of the production of renewable energy.

ITCs amount to 30 percent of the project capital costs, whereas the REC formula is organic -- for each megawatt hour of electricity a renewable energy project generates, the owner receives one REC. These RECs can then be sold, allowing the producer of the renewable energy to reap revenue from the credit.

RECs can be purchased from companies that supply power, natural gas, biomass, and energy products, or from any producer of renewable energy. This source of revenue subsidizes the operating costs of a renewable energy facility, which is necessary to allow said facilities to remain financially feasible. A REC is retired once it is sold, ensuring that the credit is used but once.

Increasingly, businesses are investing in RECs as a means to implement more eco-conscious practices. Purchasing RECs allows a company to support renewable energy development, even when it does not produce renewable energy and is not directly utilizing renewable energy for its consumption needs. RECs are designed to encourage the development and distribution of renewable energy technology and the production of renewable energy.

Recovering Cleanup Costs

Finally, mention needs to be made of the Massachusetts Brownfields Tax Credit. 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 intended to encourage the reclamation of polluted property as well as to enhance economic growth by fostering the rehabilitation of abandoned properties.

If the property qualifies for the credit, costs related directly to the environmental clean-up – such as outlays to determine, contain or remove contamination – will apply toward the issuance of credit. By monetizing the credit, often a brownfields property owner that cannot or does not desire to use the tax credit can recover up to 50 percent of the eligible costs of cleaning up the site.

The tax credits outlined above illustrate a sound approach to attracting new investment and financial activity during a challenging economic climate. □