

# State Tax Credit Exchange Overview of State & Federal Tax Credits

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# Tax Credits

## The Concept

- Governmental incentives aimed at fostering specific business activities
- Fosters specific social or environmental goals
- Credits are dollar for dollar offset against either a federal or state tax liability
- Not merely a tax deduction

**Why are tax credits employed?**

# Tax Credit Programs

## State & Federal

### State LIHTC

AR  
CA  
CO  
CT  
GA  
HI  
IL  
MA  
MI  
NM  
NY  
NC  
ND  
OK  
UT  
VT

### State Historic

AR MO  
CO MN  
CT NM  
DE NY  
GA NC  
IL ND  
IN OH  
IO OK  
KS PA  
KY SC  
LA UT  
ME VT  
MD VA  
MA WV  
MN WI  
MI

### State Film & Entertainment

AK  
CA  
CT  
FL  
GA  
IL  
LA  
MA  
NJ  
PA  
PR  
RI  
WV

### State Mill Redevelopment

NC  
SC

### State Renewable Energy

NC  
+++

### Federal Credits:

LIHTC  
Investment Tax Credits

- Historic
- Energy

## Renewable Energy Tax Credit North Carolina

Earned at the date eligible property is placed into service.

Credit for business property is equal to 35% of the cost of eligible property.

While credit is earned at the point the property is placed into service, it is received by the taxpayer/LLC over five years.

## Renewable Energy Tax Credit North Carolina

The credits are capped at \$2.5 million per installation.

Credit can be used to offset up to 50% of a taxpayer's NC income, franchise or premium tax liability. Taxpayer must elect the tax which the credit will be used in the year of the first installment the taxpayer receives.

For partnerships, the credit is allocated in accordance with the partnership's distributive share amounts pursuant to IRC § 702 and 704.

# Renewable Energy Tax Credit North Carolina

NC renewable energy installations has skyrocketed as a result of the NC credit. NC has been number or 2 or 3 in the installation of solar energy projects the last 2 years.

According to the NC DOR, the credit created at least \$717 million of spending in NC last year.

# North Carolina Credit **Income-Producing Rehabilitated Mill Property**

- Entire credit is earned in the year the project is placed into service (no 5 year spread)
- Credit can be allocated in any manner by a partnership as long as the recipient partner's basis as of the end of the year is equal to 40% of the credits received.

# North Carolina Credits

## **Income-Producing Rehabilitated Mill Property**

- NC Mill Credits may be used against 100% of a taxpayer's NC income, franchise or premium taxes but only one type per year. Taxpayer elects each year's new credits are received which tax they will apply against.
- Excess credits carry forward 9 years.
- Recapture occurs to the extent to the extent an owner's interest in the pass-through is reduced below two-thirds of what it was when the credit was earned within five years of the property being placed into service.

# Mill Tax Credits

## South Carolina

South Carolina Textiles Communities and other Communities Revitalization Act – authorizes a SC tax credit equal to 25% of qualified expenditures rehabilitating certain textile and industrial buildings.

The entire credit is earned when the building or phase is phase into service, but the credit is received in 5 equal annual installments.

## South Carolina Tax Credits

# Historic Rehabilitation

The Credit may be used to offset up to 100% of corporate or individual income tax liabilities as well as premium taxes.

Credits earned over a 3 year period for projects placed into service after June 9, 2015 (5 years, otherwise).

Excess South Carolina Historic Tax Credits carry forward for 5 years.

## South Carolina Tax Credits

# Abandoned Building

The Credit may be used to offset up to 100% of corporate or individual income tax liabilities as well as insurance company premium taxes.

(50% for projects placed into service before 6/9/15 – & cannot offset premium taxes).

Excess South Carolina Mill Tax Credits carry forward for 5 years.

The entire credit is earned may not exceed \$500,000 for any taxpayer in a tax year for each abandoned building site.

# Federal Solar ITC

Creates immediate GAAP permanent gain.

ITC is a one year credit can be carried back one year and forward 15).

IRR and net benefit is significant (receive substantial ITC and depreciation benefits). Typically 15-25%.

Extremely low risk underlying economics.

Five year step recapture.

# Federal Historic ITC

Usually bought at a discount to the credit.

Minimal depreciation and cash flow.

Structured consistent with IRS Revenue Procedure.

Returns typically in the low teens.

Five year step recapture.

## Federal LIHC

Requires purchase of a multiple-year strip.

Guidance exists which eliminates GAAP concerns.

Credits flow tax losses due to depreciation and usually no cash flow distributions.

Typically, safe underlying economics.

Fifteen year recapture period – though recapture seldom happens.

Returns are single digits due to CRA competition.

# **Business Overview**

STCE is an investor in and marketer of state and federal tax credits. The Firm operates in multiple states and transacts in multiple types of Tax Credits managed in a Principal Investing Division and an Agency Division.

The Firm also creates innovative new structures related to Tax Credits and explores Tax Credit financing and ownership structures, as well as works with state legislators to encourage and develop new Tax Credit programs.

## **Principal Investing Division:**

STCE invests in projects that generate allocable Tax Credits such as:

- Low Income Housing
- Solar Energy Production
- Alternative Energy Production
- Historic Building Rehabilitation
- Abandoned Building Rehabilitation
- Mill Rehabilitation
- Film & Entertainment

# CONCLUSION

Credits vary widely by state, but offer low risk opportunities for taxpayers to lower their effective tax rates.

Federal tax consequences are becoming progressively clear and well defined.

Both federal and state credits simple value-added opportunities at a time when taxpayers are clamoring for tax-savings ideas.