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The Big Five: Key Tax Credits and Public Incentives

When planning a new facility, accessing public incentives can help your company to leverage capital and receive a higher return of your investment.

When planning a transformative project, tax credits and incentives can go a long way toward boosting capital — especially when the project involves job creation or a major capital investment. While the Tax Cuts and Jobs Act of 2017 modified some longstanding programs, it also established the valuable new Opportunity Zones program. Other public incentive programs that may be applicable to your project include Property Assessed Clean Energy (PACE) loans, New Markets Tax Credits (NMTC), Historic Tax Credits (HTC), and Tax Increment Financing (TIF). What's the key to success? Investigating available incentives to find a good fit for you and your community and weighing your incentive options before making your location decision. In some cases, it even makes sense to modify a project to align with particular incentives that will make it more viable and result in a higher ROI.

Know Before You Go

The five most relevant public finance programs you should know about are Property Assessed Clean Energy (PACE) financing, Opportunity Zones, Historic Tax Credits, New Markets Tax Credits, and Tax Increment Financing. Following are updated details on each of these programs:

1. **PACE Financing.** More than 30 states and the District of Columbia have passed PACE-enabling legislation to provide low-cost loans for energy efficiency upgrades or installations repaid through special property tax assessments. Applicable to energy retrofits, renovation or new construction projects, PACE loans lower the cost of capital, cover up to 100 percent of the energy efficiency project costs, and are usually available with a 20-year fixed-rate and a high loan-to-value (LTV) ratio.
2. **Opportunity Zones.** As part of the Tax Cuts and Jobs Act, thousands of economically distressed communities across all 50 states, D.C., and U.S. territories were designated as Opportunity Zones. The Opportunity Zones program offers federal tax incentives for investing unrealized gains in Qualified Opportunity Funds, which are investment vehicles created specifically for this purpose. Benefits can include tax deferral, tax reduction, or even permanent tax exclusion.
3. **HTC Program.** The longstanding federal Historic Tax Credits program provides a 20 percent tax credit for certified rehabilitation of properties listed on the National Register of Historic Places. Modifications under the Tax Cuts and Jobs Act include spreading out the credit over five years and eliminating a 10 percent credit for old, but not certified-historic, buildings.
4. **NMTC Program.** The New Markets Tax Credit program is a 39% federal tax credit used to encourage investment in low-income census tracts. Competition for the credits is fierce. Project sponsors must demonstrate that their projects have a high level of community benefit, including job creation and retention, community services, and positive impact on the environment.
5. **Tax Increment Financing (TIF) Districts.** Designated by municipalities, TIF districts incentivize economic development and public improvement projects in blighted areas by providing some or all of the new tax revenue generated by the project to the developer as upfront capital or over time. It is important to note that the Tax Cuts and Jobs Act made upfront TIF

proceeds taxable income for private developers unless the new development will be owned by a government entity or was part of an approved master plan before the Act took effect. The change will significantly affect the viability of some projects and may require creative new approaches to incentive strategies by municipalities and developers.

Don't let fear of government paperwork and compliance requirements keep you from considering public incentives. Many owners are pleasantly surprised to find that the requirements aren't as onerous as perceived. As you home in on a particular site, a key negotiating tactic is to demonstrate that a particular incentive — or combination of incentives — is a key factor in choosing a location. Proving your commitment to improving the community can help land these incentives and lead you to realizing a higher ROI and more valuable project in the long run.

Editor's Note: Area Development's Indianapolis Consultants Forum featured a presentation on tax credits and incentives in the financing package by Brad Elmer, CFA, Managing Director at Baker Tilly Capital. The preceding were some key ideas from Elmer's presentation and subsequent sit-down interview as compiled by Jennifer Harris, Area Development contributor, akrete communications.

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