

THE HISTORIC TAX CREDIT COALITION

The Creating American Prosperity through Preservation (CAPP) Act

The federal Historic Tax Credit program ("HTC") was created in 1978 as a tool to drive economic development through the restoration and reuse of America's historic buildings. Since its inception, the HTC has been an important redevelopment tool, helping revitalize cities, towns and rural communities all across the country. The HTC is unlike any other federal credit. While it preserves landmark properties, it has a proven track record for stimulating renewed economic growth through private investment that creates jobs. From new retail centers to affordable housing to the development of charter schools, the HTC turns dilapidated and forgotten buildings into useful commercial and community assets.

Over the last thirty years the HTC has leveraged over \$90 billion in private investment toward the rehabilitation of historic buildings, creating over 2 million jobs and rehabilitating over 37,000 historic buildings. While the credit has been successful, it can do more.

The *Creating American Prosperity through Preservation Act* will provide for a more powerful credit by targeting it to the rebuilding of America's "Main Streets," strengthening state historic tax credits and encouraging every rehabilitation to become a model of energy efficiency. It's time to modify the HTC so it can adapt to the ever changing economy and the needs of large and small communities.

The CAPP Act includes five important changes to the current federal Historic Tax Credit that will strengthen the HTC and its ability to create new investment and jobs.

Rebuilding, Restoring and Revitalizing "Main Street"

Creating a more powerful HTC specifically targeted to commercial buildings on Main Street will bring jobs, new investment and economic opportunities to rural areas and small towns.

This provision increases the historic tax credit from its current 20 percent to 30 percent for "small projects"—those that have \$5 million or less in Qualified Rehabilitation Expenditures. This would help remove the current disincentive to develop small-scale buildings, which provide affordable commercial space for small businesses and upper floor housing that brings vitality back to America's Main Streets.

Strengthening State Historic Tax Credits

Thirty states have enacted state historic tax credits to encourage the development of historic properties, which, when combined with the federal Historic Tax Credits, create a powerful economic tool. State-by-state economic studies continue to document the impact of combining the two credits, however, current federal taxation of state credits

severely diminishes the full investment potential of state HTCs, which can often mean the difference between a project's success or failure.

This provision would eliminate federal taxation of the proceeds of state credits transferred through partnerships and sold as state tax certificates.

Energy-Efficiency and Historic Buildings - The Past Embraces the Future

Over 1 million historic buildings are eligible for the historic tax credit. The focus of federal energy policy must be broadened to include the rehabilitation of these properties. A small but critical increase to the 10 and 20 percent credits will encourage the installation of energy efficient materials and systems during a historic rehabilitation, thereby reducing fossil fuel costs and protecting the environment.

This provision will increase both the 10 and 20 percent credits by 2 percentage points, if the rehabilitation is successful in increasing the building's energy efficiency by 30 percent or more. This increase will provide a powerful incentive to install energy efficient systems and materials during the rehabilitation of a historic or older building.

Broadening the Number of Eligible Properties

In 1986 Congress stated that any building built before 1936 was eligible for the 10 percent rehabilitation tax credit, however, Congress did not index the date. This arbitrary date eliminates the eligibility of properties built after World War II that need rehabilitation and can serve as new commercial and community uses.

This provision would simply strike the 1986 date and define an older building as one that is built at least 50 years ago.

Targeting Development in Low-Income and Difficult to Develop Areas

Current law discourages nonprofits and government agencies from sponsoring the rehabilitation or leasing of historic properties. Nonprofits and local governments typically undertake the most difficult projects in areas of greatest need. The proposed changes would encourage the reuse of older buildings for employment and community health centers, school and affordable housing.

The tax-exempt use property rules of Section 168(h) penalize many non-abusive, nonprofit sponsored transactions. With some slight changes, many abandoned or underutilized buildings can be restored for uses that meet the needs of underserved areas.

This provision would modify Section 47(c) to limit the definition of a "disqualified lease" to those leases that are part of a sale leaseback. The other types of disqualified leases that inhibit the rehabilitation of these buildings: those with purchase options, leases in excess of 20 years, and leases in buildings that use tax-exempt financing, would be eliminated.