

# Novogradac Journal of Tax Credits

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## HISTORY AND THE HILL



### Historic Tax Credit Faces Multiple Threats on the Hill

By John Leith-Tetrault, National Trust Community Investment Corporation

If you care about the federal historic tax credit (HTC), it's time to stand up and be counted. If you want your children and grandchildren to enjoy America's extraordinary architectural heritage, you need to sign up now for the campaign to save the federal HTC. The stars are aligning in Washington, D.C. for a serious challenge to all of the community development tax credits—historic, new markets and low-income housing. It would be smart if a grand alliance of these three interest groups created a lobbying effort greater than the sum of its parts, but for now, the HTC industry must make its own case.

#### Background

It may be surprising to some that the federal HTC was created in 1981 during the first term of the Reagan Administration to help jump start the economy. The last time comprehensive tax reform was implemented in 1986, the current 10 percent and 20 percent rehabilitation tax credits were reduced from 25 percent and 15 percent respectively. But the same legislation also created the LIHTC.

Based on the 1986 experience, there are both opportunities and threats in the upcoming 2012-13 debate on fundamental tax reform. The opportunities include the chance to make important changes to the existing credit, and to educate federal legislators on the merits of the HTC. The HTC market could also gain some new corporate investors as some companies look for new ways to achieve a targeted effective tax rate.

Threats would include the potential for a reduction in credit percentage, similar to what was done in 1986, or the outright elimination of either or both the 10 percent and 20 percent credits. Changes to the new markets or LIHTCs would also have an

impact on the HTC because it is often twinned with the NMTC or LIHTC. An outright loss of the federal HTC would mean the elimination of jobs, private investment and a critical tool for revitalizing urban and rural communities. It would also seriously erode support for the 31 existing state HTCs, which are not permanent fixtures in state tax codes. The compelling argument that these credits leverage, for states that have them, a disproportionate share of federal HTC investment would no longer be available to make the advocacy case.

#### The Threats

Most who follow the historic tax credit industry know that a report, *Back in Black*, issued by Sen. Tom Coburn, R-Okla., targets the federal 10 percent and 20 percent rehabilitation credits, along with the NMTCs and LIHTCs, for elimination. More recently a corporate, centrist Democratic organization, the Third Way, recommended to the recently created Select Committee on Deficit Reduction (better known as the Super Committee) that the two rehabilitation credits should be reduced to 5 percent and 10 percent.

Michael Hanson, a partner at the C2 Group and the consultant for the Historic Tax Credit Coalition, said, "The threats to the HTC and other credits are real. When fundamental tax reform takes place, every credit, deduction and exemption is in jeopardy of being reduced or eliminated. For any credit to survive it will need to have a strong and broad base of support and a good story to tell. The HTC has a great story. What it needs is a broader and more intense base of support."

#### The Case for the Historic Tax Credit

The talking points for this campaign are easy to write be-

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cause we have made the same points in support of H.R. 2479, the Creating American Prosperity through Preservation Act (CAPP Act), introduced in June by Reps. Aaron Schock, R-Ill., and Earl Blumenauer, D-Ore., to modernize the HTC. Here are History and the Hill's top 10 reasons the HTC should remain in the tax code.

1. The HTC has created more than two million jobs, leveraged \$90.4 billion in private sector investment and rehabilitated more than 37,000 existing buildings since its inception. It is significantly more efficient at creating jobs than infrastructure improvements, manufacturing incentives and many other frequently used stimulus strategies. More than 75 percent of the economic ripple effect of the HTC stays in the state and local communities where the project is located, according to the Second Annual Report on the Economic Impact of the Federal Historic Tax Credit from Center for Urban Policy Research at Rutgers University.
2. The HTC has paid for itself, generating \$22.3 billion in federal tax revenue to more than offset \$17.5 billion in tax expenditures since 1981.
3. The annual cost to the Treasury is relatively small. In 2010, 20 percent credit certifications amounted to only \$655 million.
4. Historic rehab has a proven track record of community revitalization like no other federal credit, spurring additional investment in adjacent buildings.
5. Historic rehab takes place in existing communities that are already supported by roads, public transit, utilities and schools. It is the ultimate smart growth strategy.
6. Two-thirds of all National Park Service approvals are for buildings located in qualified low-income census tracts that need economic development the most.
7. Historic commercial buildings are inherently more energy efficient due to their superior construction materials. Experience over the past 10 years (notably the Empire State Building) has shown that the superior energy performance of historic properties can be greatly enhanced through careful retrofit at relatively low cost.
8. Historic rehab helps retain a community's sense of place and has proved to be a unique generator of tourism that is a major economic driver for local economies.
9. The historic tax credit shifts exposure to project failure to the private sector that bears the full risk of tax credit recapture in the event of foreclosure. The credits cost the government nothing until the project is successfully placed in service. Unlike government grants or loan guaranties that are paid in up front, the HTC is performance based and does not fully vest until the building has successfully operated for five years.
10. These iconic building exteriors and interiors are beautiful and inspiring, and define the cities and towns in which they are located.

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## The Campaign

The good news is that the initial efforts of the Historic Tax Credit Coalition have now been greatly enhanced by the recent announcement of the National Trust for Historic Preservation to mount a major public education campaign to save the historic tax credit. The National Trust has seasoned public policy staff and a robust web site, [www.preservationnation.org](http://www.preservationnation.org), through which the story of the HTC can be told. The Trust will be reaching out to its membership and state and local preservation organizations and hopes to enlist the help of Preservation Action, the National Housing and Rehabilitation Association and the National Conference of State Historic Preservation Officers to create a broad-based coalition to build awareness of the value of the federal HTC in both Congress and the executive branch. History and the Hill recently learned that the Trust will bring on a veteran Capitol Hill consultant to kick off the campaign over the next 60 days.

"The historic tax credit is a job creating investment in our legacy of historically significant communities," says Tom Cassidy, vice president for government relations and policy at the National Trust for Historic Preservation. "The National Trust is preparing its campaign to work with the Historic Tax Credit Coalition and other preservation partners to ensure that the public – and Congress – better understand the role of this tax credit in maintaining economically viable main streets throughout the country."

Stand up and be counted. Take action by logging on to [www.preservationnation.org](http://www.preservationnation.org).



*John Leith-Tetrault has 32 years of experience in community development financing, banking, community organizing, historic preservation, training and organizational development. He has held senior management positions with Neighborworks, Enterprise Community Partners, Bank of America and the National Trust for Historic Preservation. Mr. Leith-Tetrault is the founding president of the National Trust*

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