HISTORIC TAX CREDIT COALITION

<u>Economic Development and Historic Preservation in Crisis</u>

Time to Update the Historic Tax Credit after 40 Years

For over 40 years the Historic Tax Credit (HTC) has been a critical incentive to redevelop communities. It preserves more American history than any other federal program. The HTC is also a tool to address 21st century challenges. The greenest building is a building that is already built. Rehabilitating a building reduces the embedded carbon footprint of construction by as much as 50% before the work even starts.[1] In addition, rehabilitated buildings are more energy efficient.[2]

National Park Service 2021 data show, however, that **usage of the HTC is down nearly 20%** compared to three years ago (2019). The number of projects continues to decline even as the economy is rebounding. Historic buildings have simply become more difficult to rehabilitate.

The HTC has lost value over the past 10 years due to multiple complex factors including new IRS interpretations, administrative burdens, changes in the credit structure, along with spreading the distribution of the credit over 5 years enacted in Tax Cuts and Jobs Act of 2017. The result is that the value of the tax credit investment has dropped 20-25%. These issues, combined with rising interest rates, and skyrocketing costs of materials and labor, have exacerbated financing challenges already present with these projects.

While Congress significantly enhanced other federal investment tax credits recently, the HTC is at a disadvantage in the marketplace. Additionally, though 50% of all HTC projects are under $1 million in project costs, these changes have made it especially difficult to bring outside investment to rural and smaller projects.

The HTC is overdue for a rehabilitation of its own; it has not been improved since 1986.

<u>The Historic Tax Credit Growth and Opportunity Act (HTC-GO -S.2266/H.R. 2294)</u> would bring more value to the credit, further incentivize smaller projects, and make it easier for nonprofits to use the tax credit.

Provisions to enhance the federal HTC

- Temporary credit increase to 30% (House bill only)
- Permanent increase to 30% for small projects with Qualified Rehabilitation Expenses under $2.5 million
- Elimination of the basis adjustment for the HTC, restoring value to projects small and large and making it more compatible with other tools including the Low-Income Housing Tax Credit
- Change in the Substantial Rehabilitation test to 50% of an owner's adjusted basis in the building (currently it is 100%), making more historic buildings eligible for the credit
- Elimination of the Disqualified Lease Rules to allow buildings operated by nonprofits to be better able to take advantage of the HTC.[3]

If no action is taken to modernize the federal HTC, only the easiest historic buildings will be rehabilitated, but more complicated buildings and those in neighborhoods with lower rents will not happen. Hundreds of projects have simply not happened in the last three years because they are too challenging in the current environment. For over 40 years, the HTC has been a highly effective incentive that attracts private funding to the rehabilitation of historic properties – in both rural and urban communities. It is time to restore the program to its prior level of effectiveness.

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[1] AIA's Blueprint for Better report

[2] https://climatecrisis.house.gov/report

[3] These provisions can be found in the House-introduced Historic Tax Credit Growth and Opportunity Act (HTC-GO) (H.R. 2294). The Senate bill (S. 2266) has all the same provisions except the temporary increase.