Are you considering a significant building rehabilitation project?

Does your historic building need restoration to remain relevant to today’s business environment?

Could your company put an old building to new use if given some financial incentive?

The restoration of a building after decades of wear and deterioration creates a heavy financial burden for those who undertake the project; however, the gains to a community are plenty. The historic rehabilitation credit can make possible the projects that would otherwise struggle to obtain the necessary funds. While an excellent funding resource, the credit comes with a variety of complex challenges that must be considered for an organization to obtain and realize the desired benefits. In the last few years, the industry has been in a state of great flux as we stay current with the nuances and developments.

The two existing rehabilitation tax credit options are based on the qualified rehabilitation expenditures for different building types:

- Nonhistoric commercial buildings first placed in service before 1936 may receive a tax credit for 10 percent of qualified rehabilitation expenditures
- Certified historic structures may receive a tax credit for 20 percent of qualified rehabilitation expenditures

Common challenges, uncommon service

Organizations seeking to claim the historic building tax credit often face similar issues. RSM’s team of specialists understands the complex rules and regulations encountered when in pursuit of the rehabilitation tax credit and may be able to help you lessen the financial costs associated with restoration. Our team can help your company:

- **Determine eligible costs and credit amounts:** Once a project is approved, it’s important to determine the amount of the credit for which your company is eligible. This can be difficult to do without a deep understanding of tax credits.

- **Assess the usability of the tax credits:** It is a common misconception that anyone can use the tax credit and realize the full benefit immediately after it is received. This is not true. There are many complex tax issues that can prevent an individual or organization from realizing the benefit of tax credits. Spend your time and resources wisely by knowing how well you will be able to use the credit.

- **Comply with requirements:** Each step of the way, the project will need to comply with complex financing arrangements, as well as reports to historical authorities, state departments of revenue and the IRS. RSM has experience with cost-effective compliance management.

**Estimating future financial performance**

The complex legal structures used in conjunction with historic rehabilitation projects can obscure the ultimate financial results to developers and investors. Understanding the structure and flow of funds is critical.

RSM follows best practices around identifying, securing and utilizing rehabilitation tax credits. The chart on the reverse illustrates the many variables that need to be managed to effectively realize the benefits from rehabilitation projects.
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<th>Phase</th>
<th>Description</th>
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<td>Initial consultation</td>
<td>Gain an understanding of potential project, provide initial consultation, and discuss the benefits and risks of federal and state historic tax credits.</td>
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| Phase I – analysis of deal structure, feasibility, balance of sources and uses initial cash flow | Prepare initial financial projection from the information provided for use by prospective lenders, investors and their counsel. The projection includes:  
- Schedule of projected sources and uses  
- Allocation of estimated hard and soft development costs  
- Investor benefit schedule |
| Analysis of term sheets                                              | Review and comment on term sheets from tax credit investors, specifically with respect to investor equity amount and timing, net benefit to owner or sponsor and all other qualitative aspects of the offers. |
| Phase II – completion of financial projections generally based on term sheets from tax credit equity investors | Prepare financial projections from the information provided for use by prospective lenders, investors and their counsel. The projections can include:  
- Entity flow chart  
- Projection of net operating income, cash flow, debt service and preferred returns to investors  
- Source and uses for landlord and master tenant entities  
- Section 704(b) capital account analysis with tax credit investor benefit schedule  
- Computation of investor exit tax liability  
- Computation of at-risk limitations for investor and owner entity based on projected qualified and nonqualified nonrecourse debt  
- Calculation of qualified rehabilitation expenditures  
- Depreciation schedules  
- Detailed loan amortization  
- Timing of all development cash flows and bridge–lending |
| Consultation on deal as needed                                       | Provide consultation regarding entity structure and deal terms to generate maximum benefit of: tax credits, grants, deferred developer fees, cash flow, taxable income and residual value. Participate on conference calls. |
| Review of documents                                                  | Review legal documents such as: operating and partnership agreements, developer agreements, loan and grant documents, lease agreements, etc. relative to structure for consistency with the projection, compliance with applicable tax laws and highlight potential risk areas related to the transaction. |
| Reasonableness opinions                                              | Provide opinion as to reasonableness of related party fees or transactions.                                                                                                                                       |
| Accounting services                                                  | Assist with setup of accounting and tax reporting for the entity structures.                                                                                                                                       |
| Cost certifications                                                  | Perform cost certification of qualified rehabilitation expenditures for tax credit investor and compliance requirements for grants, state tax credits, etc.                                                                 |
| Financial statement and tax return preparation                       | Prepare financial statements of owner or master tenant and other related entities and prepare tax returns of landlord or master tenant and other related entities.                                                                 |
| Debt exit and restructure                                            | Assist with post–recapture period investor disposition and entity consolidation.                                                                                                                                 |