

Tax Credits, a Great Opportunity for Your Bank

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Whether you're a CFO looking to lower your effective tax rate, a community investment officer looking to improve your bank's CRA rating, or a wealth manager looking to reduce your clients' tax liabilities, there are significant benefits from understanding how tax credits create such opportunities. Through a series of upcoming articles in the GBA E-Bulletin, we'll be providing educational insight about tax credits and the respective benefits for individuals and corporations.

Overview

Tax credits are governmental incentives used to encourage specific business activities by mitigating tax liabilities for individuals or businesses. Federal and state governments offer these incentives to promote a particular economic, social or other purpose of public interest.

A tax credit is much more valuable than a deduction. Rather than reducing one's taxable income as with a deduction, a credit enables the taxpayer to reduce its tax liability dollar-for-dollar (see comparison table at right).

A number of different tax credit programs exist including low income housing, film/entertainment, renewable energy, research and development, jobs training, historic and federal. Many of these credits can be sold by the generator of the credit to other taxpayers.

Value of Tax Credits vs. Tax Deductions for a Business

	Tax Deduction	Tax Credit
Income	500,000	500,000
Charitable Deduction	(100,000)	-
Taxable Income	400,000	500,000
Tax Rate	21%	21%
Tax Credit		100,000
Taxes Due	84,000	5,000
Tax Savings	21,000	100,000

Here in Georgia, the most prominent example of a tax credit program's economic benefits is obviously our state's film tax credit. Since the Entertainment Industry Investment Act was signed in 2008, Georgia has become the "Hollywood of the South" and one of the top-three filmmaking destinations in the world. The economic impact of the film industry has grown from \$241 million just 10 years ago to generating \$9.5 billion to the state in 2017.

Types of Tax Credits

There's a wide variety of tax credits that positively impact our communities. Here's a list of popular federal and state tax credits and a brief description of each:

■ Popular Federal Tax Credits

- The [Low-Income Housing Tax Credit \(LIHTC\)](#) is the federal government's primary program for encouraging private investment in the development of affordable rental housing for low-income households;
- The [Historic Tax Credit \(HTC\)](#) program encourages private sector investment in the rehabilitation of historic buildings; and,
- The [Renewable Energy Investment Tax Credit](#) program encourages the construction of utility-scale renewable energy production facilities, including solar energy.

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▪ Popular State Tax Credits

- **Film, Television & Digital Entertainment** - The film and entertainment business generates an influx of jobs and purchases in a filming location. The local economy is boosted by the production crews', workers' and actors' use of local hotels, restaurants and shopping venues. Georgia provides for a credit up to 30% of eligible expenditures;
- **Affordable Housing Tax Credit** – Awarded for private investment in the development of affordable rental housing for low-income households; and,
- **Historic Tax Credits** – Awarded for private investment in the rehabilitation of historic buildings. Some states offer Abandoned Mill and/or Textile Revitalization Tax Credits which are similar in nature and purpose.

Ideal Investors in Tax Credits

For Federal credits, such as the Federal LIHTC, a widely held C-Corporation is an ideal investor as they are exempt from passive loss restrictions which serve to limit the use of tax credits and depreciation deductions.

For state credits, any taxpayer paying \$25,000 or more in state taxes typically is in the best position to reap the benefits of state tax credits.

Key Benefits for Banks

Key benefits of Federal credits include:

- **Competitive rates of return.** After-tax yields for multi-investor funds can range of 4.5%-5.5%, with CRA driven funds being typically lower dependent on the bank's motivation;
- **CRA consideration** for community development activities (particularly for LIHTC projects and funds);
- **Lending and depository opportunities** related the project; and,
- **Positive public relations** from investing in such community initiatives.

The key benefits of state credits are the cash savings from a dollar-for-dollar tax offset, as noted earlier.

Next time, we'll take a look at the state credits available in Georgia, namely LIHTC, film and historic. Please feel free to reach out with any questions or suggestions for future articles.



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