

Tax Credit Calculation Examples

THESE CALCULATIONS ARE OFFERED AS EXAMPLES ONLY AND DO NOT NECESSARILY REPRESENT THE ACTUAL AMOUNT OF ANY TAX CREDIT THAT AN INDIVIDUAL MIGHT OBTAIN. THE CREDITS AVAILABLE AND USABLE BY ANY INVESTOR CAN ONLY BE DETERMINED BY THAT INVESTOR IN CONSULTATION WITH HIS OR HER OWN TAX ADVISOR.

Historic Tax Credits are based on the total QREs – the amount spent on renovations to the historic structure. In order to be validly included as QREs, such expenditures must be “straight line” depreciated on a 39- or 40-year schedule and, therefore, cannot be “bonus” depreciated otherwise accelerated. The total QREs are estimated based on the best available construction budget and other anticipated costs but are inherently projections only. The exact amount of QREs is calculated by an accounting professional at the completion of the project and then reported to the National Parks Service on the “Part 3 Application.”.

Some of our assumptions in the calculations provided below will prove to be inaccurate, possibly for the reasons described in Exhibit B, Risks of Investing. Therefore, the results of investing illustrated in our calculation are likely to differ in reality, for better or for worse, possibly by a large amount.

Estimated Available Tax Credit – 5 East Main Street, Springville

Total Estimated QREs \$788,000

20% Federal Historic Tax Credit / 30% State Tax Credit \$157,600 + \$236,400

99% of Credits expected to be available to 3 E Main Owners \$156,024 + \$234,036

Estimated Value Per \$5,000 of Investment

The Offering allows for a maximum of 375 and a minimum of 325 shares.

In the event that only 325 shares are sold:

A \$5,000 investment will likely result in an allocation to the investor of \$480 of federal historic tax credits each year for five years (\$2,400 total) and \$3,600 of New York State tax credits in the first year following placement in service, for a total of \$6,000 of combined tax credits, in addition to potential distributions of cash flow.

To determine an appropriate amount of investment, you must consider several things. To the extent a taxpayer receives a refund of State Historic Tax Credits (because the credits exceed their state tax liability), the refund must be recognized as income for federal tax purposes and so a “net” value should be considered. While the State Credit is reimbursable, there are limits on how much Federal credit you can use in a given year based on income level and the amount of passive activity income you have. Further, the Federal Credit must be used ratably over five years (20% of the total credit each year). When considering an investment, you may want to first determine your Passive Activity limitations so you know

how much credit you can utilize. This will be based on your tax bracket and whether you received certain passive income (i.e. stock dividends).¹ Other favorable exemptions to these limits apply to corporations, electing real estate professionals and others.² Second, calculate the net value of the tax credits based on your investment amount and tax bracket.

Without any passive income, an individual allocated credits may claim a deduction designed to be the equivalent of the Federal Credit up to \$25,000.³ Most investors in the offering (unless they already have passive losses up to the \$25,000 cap) should be able to claim the deduction equivalent of the credit. This effectively “simulates” the credit, as the amount of credits that otherwise cannot be used are divided by the applicable tax rate and the taxpayer can claim a deduction for that amount, resulting in the same value. This exemption is phased out for the historic tax credit, for annual income levels \$200,000 and up.

2025 Tax Rates (partial table)

Tax Rate	Individuals	Married Filing Jointly
12%	\$11,925 to \$48,475	\$23,850 to \$96,950
22%	\$48,475 to \$103,350	\$96,950 to \$206,700
24%	\$103,350 to \$197,300	\$206,700 to \$394,600

EXAMPLE: Joint Income of \$92,000 with no passive income sources

Assume this couple invests \$6,000 and is allocated \$576 of federal HTC in one year. Due to their \$92,000 in income, they have a marginal federal effective tax rate of 12%. That couple is able to take a deduction of \$4,800 (\$576 divided by 12%) in one year. They could claim that same deduction equivalent in years 2 through 5.⁴

Total Investment	\$6,000
Six shares Federal HTC – expected allocation	\$2,880 total <i>(\$576 per year), deduction equivalent of \$4,800/yr. at 12% tax rate.</i>
Six shares State HTC – expected allocation	\$4,321

¹ <https://www.irs.gov/taxtopics/tc425>

² https://www.irs.gov/publications/p925#en_US_2024_publink1000296797

³ Defined under I.R.C. § 469(j)(5) and permitted under I.R.C. § 469(i)(1).

⁴ Assuming the tax credits are allocated for future years in the same amount, their income level and marginal tax rate did not change, and no passive losses counting against the cap.

12% Expected tax on income received from NYS HTC Refund ⁵	(\$518)
Net Value of Tax Credits (over five years)	\$6,683

EXAMPLE: Joint Income of \$120,000, with no passive income sources

This couple has a marginal tax rate of 22%. Assuming they also invested \$11,000 and were allocated \$1,065.20 in federal HTCs in year 1, they would be able to claim a deduction equivalent of \$4,800.91 (\$1,065.20 divided by 22%), well under the \$25,000 maximum. They could claim that same deduction equivalent in years 2 through 5.⁶

Total Investment	\$11,000
Eleven shares Federal HTC – expected allocation	\$5,281 total <i>(\$1,065.20 per year), deduction equivalent of \$4,800.91/yr. at 22% tax rate.</i>
Eleven shares State HTC – expected allocation	\$7,921
22% Expected tax on income received from NYS HTC Refund ⁷	(\$1,743)
Net Value of Tax Credits (over five years)	\$11,459

Notably, the examples above should consider that any passive losses from an activity in which the taxpayer actively participates must first be applied to the \$25,000 cap before any deduction equivalent of HTCs. The deduction equivalent from any low-income housing tax credits should be taken into account last against the cap.

Depreciation and Losses

Given the large capital investment being made, projected depreciation and potential net losses may be another factor for consideration. Those losses are distributed by the Property Owner and Tenant to ACCO based on ownership percentages and then distributed pro rata to Members similar to cash or tax credits. The ability to use these losses is highly dependent on your own tax situation and insufficient basis/negative capital account following basis adjustment resulting from the claim of the Federal Historic Tax Credits (see “Risks of Investing” for more detail). The method for all calculations is Straight Line

⁵ Assuming NYS HTC is Fully Refunded because NYS taxpayer has no NYS tax liability to which such credits would apply/reduce.

⁶ Assuming the tax credits are allocated for future years in the same amount, their income level and marginal tax rate did not change, and no passive losses counting against the cap.

⁷ Assuming NYS HTC is Fully Refunded because NYS taxpayer has no NYS tax liability to which such credits would apply/reduce.