



GIVING BACK
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thoughtfully before
donating to charity.

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Q&A

Tax credits viable option for some investors

As the last quarter of the year draws closer, wealth managers are busy analyzing portfolios for new and better ways to preserve their clients' wealth.

According to Atlanta-based private investment firm **PREF LLC**, federal or state tax credits may be a viable option for high-net-worth individuals, as well as businesses, to help mitigate tax liabilities.

PREF Vice President Steve Rothschild recently shared with Atlanta Business Chronicle how tax credits can be a benefit to investors.



Rothschild
PREF LLC

Q: What are tax credits and what purpose do they serve?

A. Tax credits are incentives offered by both federal and state governments to foster growth in a particular industry or serve as a stimulus to promote a particular social or environmental purpose. Tax credits are also generated by companies who have qualified for credits but decide to "monetize" or sell them to other taxpayers. When purchased, tax credits offer dollar-for-dollar reductions in an individual's or business' tax liability. However, tax credits are not a tax shelter or a line-item deduction. PREF LLC, in conjunction with its subsidiary, State Tax Credit Exchange, focuses primarily on state government tax credits.

Q: What types of tax credits are available in Georgia, and which ones are most commonly used?

A. Several transferable tax credits are available in Georgia, including low-income housing, film and entertainment, renewable energy, conservation easement, new market and historic.

Q: How can they be of use in an individual's overall wealth management plan?

A. Each tax credit is as unique as each individual's wealth management plan. The parameters of each tax credit determines if and how a taxpayer benefits. For instance, some tax credits are retroactive and can be applied to tax liability from a previous year while others are distributed over multiple years. Other factors, such as the Alternative Minimum Tax and an individual's expected future financial situation, impact the viability of tax credits. PREF works directly with financial advisers to determine the most beneficial tax credit strategy.

Q: For what types of individuals are tax credits a viable option?

A. Tax credits are available for any individual or corporation with tax liability. However, low-income housing, film and entertainment, renewable energy and historic tax credits are viable wealth man-

agement tools for those entities, including corporations and insurance companies, with one or more of the following:

- Annual salary of \$500,000 or more,
- Significant dividend income,
- Premium tax, and/or
- Proceeds from a liquidity event (i.e. sale of a company, assets, etc.).

Q: Why have tax credits been gaining in popularity over the past decade?

A. Tax credits offer an avenue for taxpayers to fund initiatives or emerging industries otherwise not funded by state or federal governments.

Q: In your opinion, is this likely to be an ongoing trend? Why or why not?

A. Federal and state tax credit programs are an efficient vehicle to establish integral public-private partnerships. Individuals and businesses mitigate their tax liability by purchasing tax credits to support essential industry and programs that ultimately stimulate economic and job growth without a budgetary impact on state and federal government. It's undeniably a win-win.

Q: How can tax credits help to offset a business' tax liability?

A. State tax credits are available for businesses and individuals alike. Entities with tax liability buy tax credits at a discount for a dollar-for-dollar offset. For instance, a company or individual with a \$100,000 tax liability can purchase

\$100,000 of tax credits at a 10 percent to 25 percent discount, depending on the tax credit, to mitigate their liability.

Q: Are tax credits more helpful for larger companies or small businesses?

A. The benefits of tax credits is directly dependent on the amount of tax liability — not necessarily the size of the company. Some smaller companies have as large or larger state tax obligations as big companies.

Q: The Georgia legislature recently created a commission to examine the state's tax code and recommend changes. How might this impact tax credits?

A. It is unclear how changes in the state's tax code will impact tax credits. However, PREF is confident that tax credits play a vital role in the growth of public-private partnerships that work to nurture certain industries, which ultimately supports job growth and the economy and develops needed infrastructure.

Q: How does Georgia compare to other states in terms of tax credits offerings?

A. Tax credit programs differ from state to state depending on several factors — geography, industry and economy. And some states don't offer them at all. The state of Georgia's tax credit program effectively addresses industry pertinent and beneficial to the state as a whole.



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