

Historic Preservation Tax Credits: Incentive for Rehabilitating Sanford's Historic Buildings & Houses



What is a tax credit?

- A tax credit differs from a tax deduction. A tax deduction simply lowers the amount of your income which is subject to taxation.
- A tax credit provides a *dollar-for-dollar* reduction in the amount of taxes you owe. For example, if your tax bill is \$10,000, a \$4,000 credit will reduce your tax bill to \$6,000.

Income-Producing Structures

- ◆ Structures, such as commercial buildings, mills, industrial buildings and apartments, placed into service to generate income.



American Tobacco, Durham

- **A mixed-use project; combination of office, retail, and residential space**
- **Financed by income-producing rehabilitation tax credits**
- **The project has been important in in the revitalization of downtown Durham**

Commercial Projects



Weldon Commercial District

Weldon, Halifax County

Six Historic Tax Credit Projects

Income-Producing Structures

- ◆ **20%** federal tax credit for *certified rehabilitations* of income-producing *certified historic structures*.
- ◆ **20%** state tax credit for *certified rehabilitations* of income-producing *certified historic structures* that qualify for the 20% federal tax credit. The combined federal-state credits reduce rehabilitation costs by 40%.

INCOME-PRODUCING BUILDINGS ARE ELIGIBLE FOR:

- 20% STATE CREDIT AND 20% FEDERAL CREDIT

\$1M Rehab Expenses

20% Federal Tax Credit

x 20% State Tax Credit

\$400K Tax Credit

Income-Producing Structures

- ◆ 10% federal tax credit for rehabilitations of income-producing non-historic structures built before 1936 and used for nonresidential purposes.

Role of the IRS & N.C. Department of Revenue

- ◆ The IRS and N.C. Department of Revenue administer the tax and finance side of the income-producing program.
- ◆ Taxpayers should consult a professional tax advisor, the IRS or the N.C. Department of Revenue for help in determining the tax or other financial implications of any matter discussed here.

Role of NPS & the SHPO

- ◆ The National Park Service (NPS) administers the historic preservation certification of the income-producing program, in partnership with the State Historic Preservation Offices (SHPO).
- ◆ The SHPO administers the program at the state level, with final authority resting with NPS.

3-Part Application Process

- ◆ Part 1—Evaluation of Significance
- ◆ Part 2 (Federal)/Part A (State)—Description of Rehabilitation
- ◆ Part 3 (Federal)/Part B (State)—Request for Certification of Completed Work

Income-Producing Application

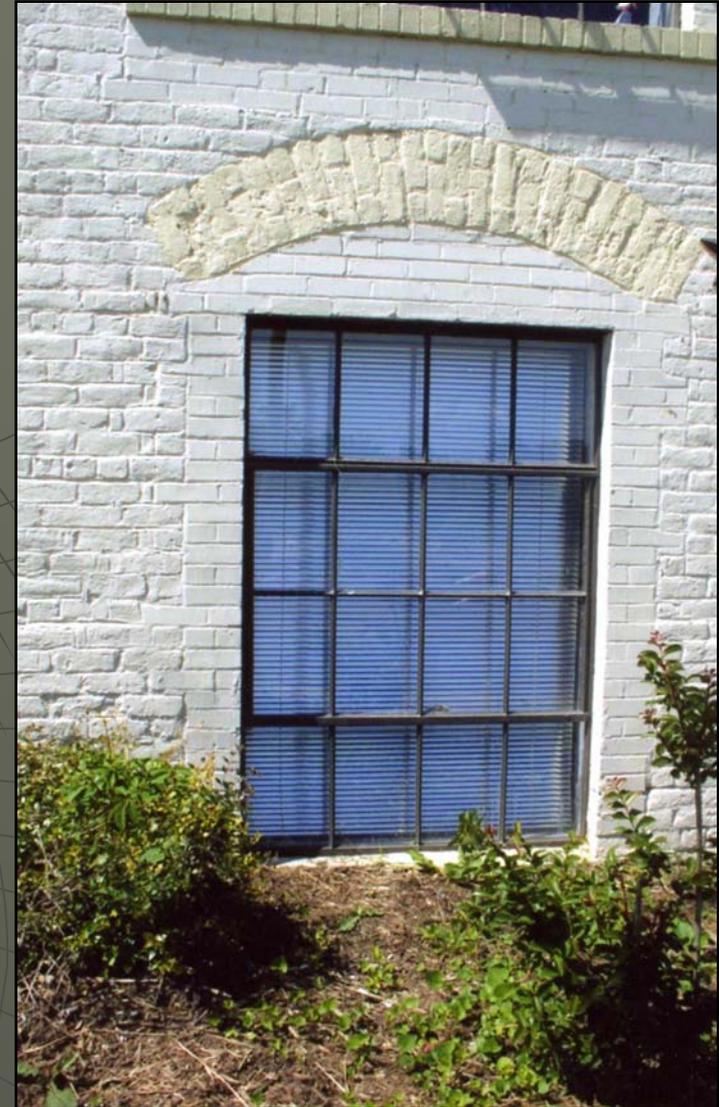
- ◆ *Part 1 - Evaluation of Significance.* Determines if property is a *certified historic structure*. *Part 1* is not required for single buildings listed individually in the *National Register of Historic Places*.
- ◆ The *Part 1* must be submitted to the SHPO prior to completing the project and placing it in service.

Income-Producing Application

- ◆ *Part 2/Part A - Description of Rehabilitation.*
Determines if proposed rehabilitation work conforms to the *Secretary of the Interior's Standards for Rehabilitation.*
- ◆ Owners who undertake rehabilitation work prior to *Part 2/Part A* approval from the SHPO and NPS do so strictly at their own risk.

Description of Exterior Work

- ◆ Roof
- ◆ Masonry
- ◆ Exterior Woodwork
- ◆ Porches/Loading Docks
- ◆ Windows
- ◆ Doors
- ◆ Site Work
- ◆ Outbuildings
- ◆ Alterations
- ◆ New Construction/Additions



Description of Interior Work

- ◆ Floors
- ◆ Walls
- ◆ Ceilings
- ◆ Structural System
- ◆ Interior Woodwork
- ◆ Doors
- ◆ Floor Plan Alterations
- ◆ Plumbing, HVAC and
- ◆ Electrical Systems



Two Sets of Photographs

- ◆ Overall exterior views of the site
- ◆ Exterior views of each exterior side of all buildings
- ◆ Overall views of all major interior rooms or spaces on each floor of all buildings that are keyed to the floor plan
- ◆ Other photographs as necessary to explain the rehabilitation project

Two Sets of Drawings

- ◆ Existing site plan, floor plans, and possibly elevation drawings
- ◆ Proposed site plan, floor plans, and elevation drawings
- ◆ Other drawings as necessary to explain the rehabilitation project, such as demolition, storefront details, and mechanicals

Income-Producing Application

- ◆ *Part 3/Part B - Request for Certification of Completed Work.* Determines if completed rehabilitation work conforms to the *Secretary's Standards* and is therefore designated a *certified rehabilitation*
- ◆ Submitted with two sets of after rehabilitation photographs
- ◆ The IRS and NC Department of Revenue will need copies of this certification.

INCOME-PRODUCING BUILDINGS ARE ELIGIBLE FOR:
• 20% STATE CREDIT AND 20% FEDERAL CREDIT

BEFORE



PROCTOR HOTEL,
GREENVILLE,
PITT COUNTY

AFTER

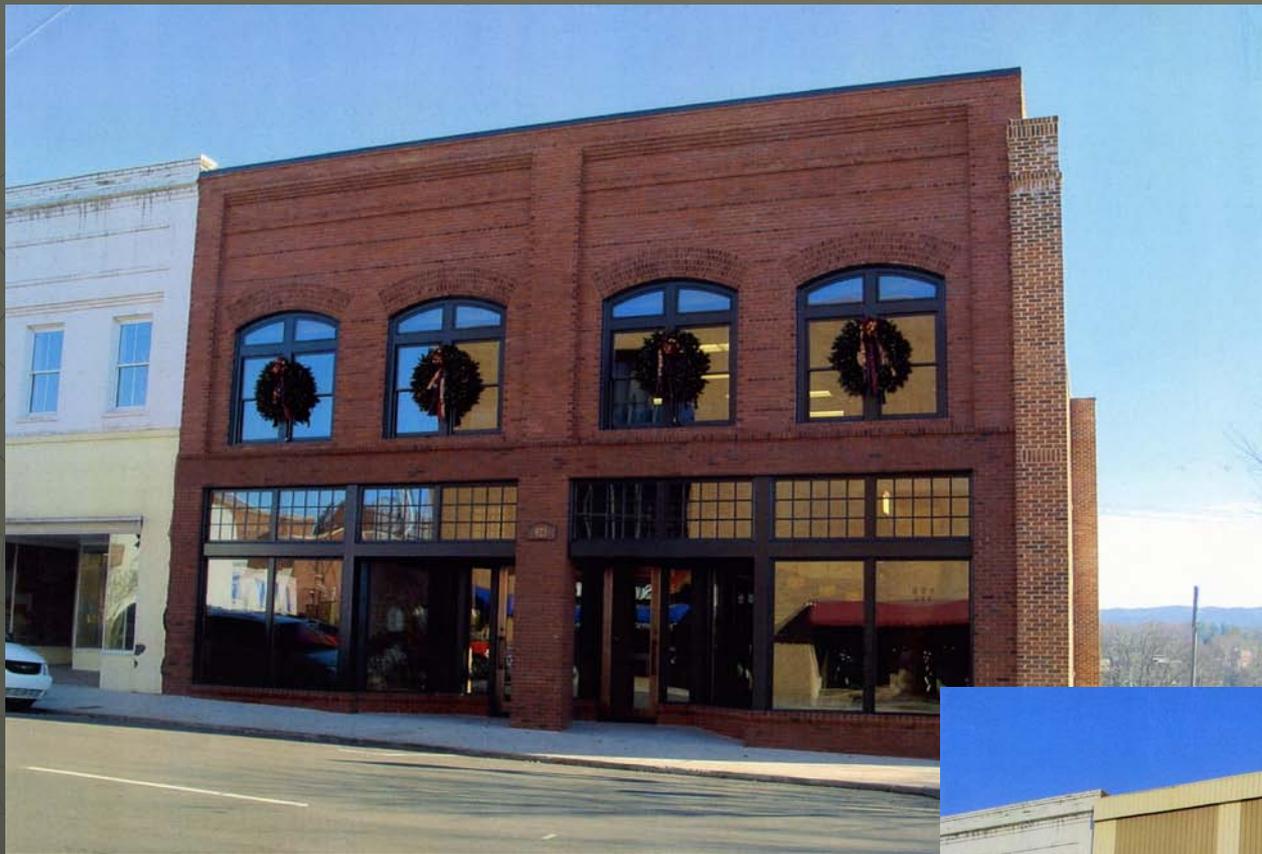
HISTORIC PHOTO



Lowder Building, Albemarle

Lowder Hardware
Building



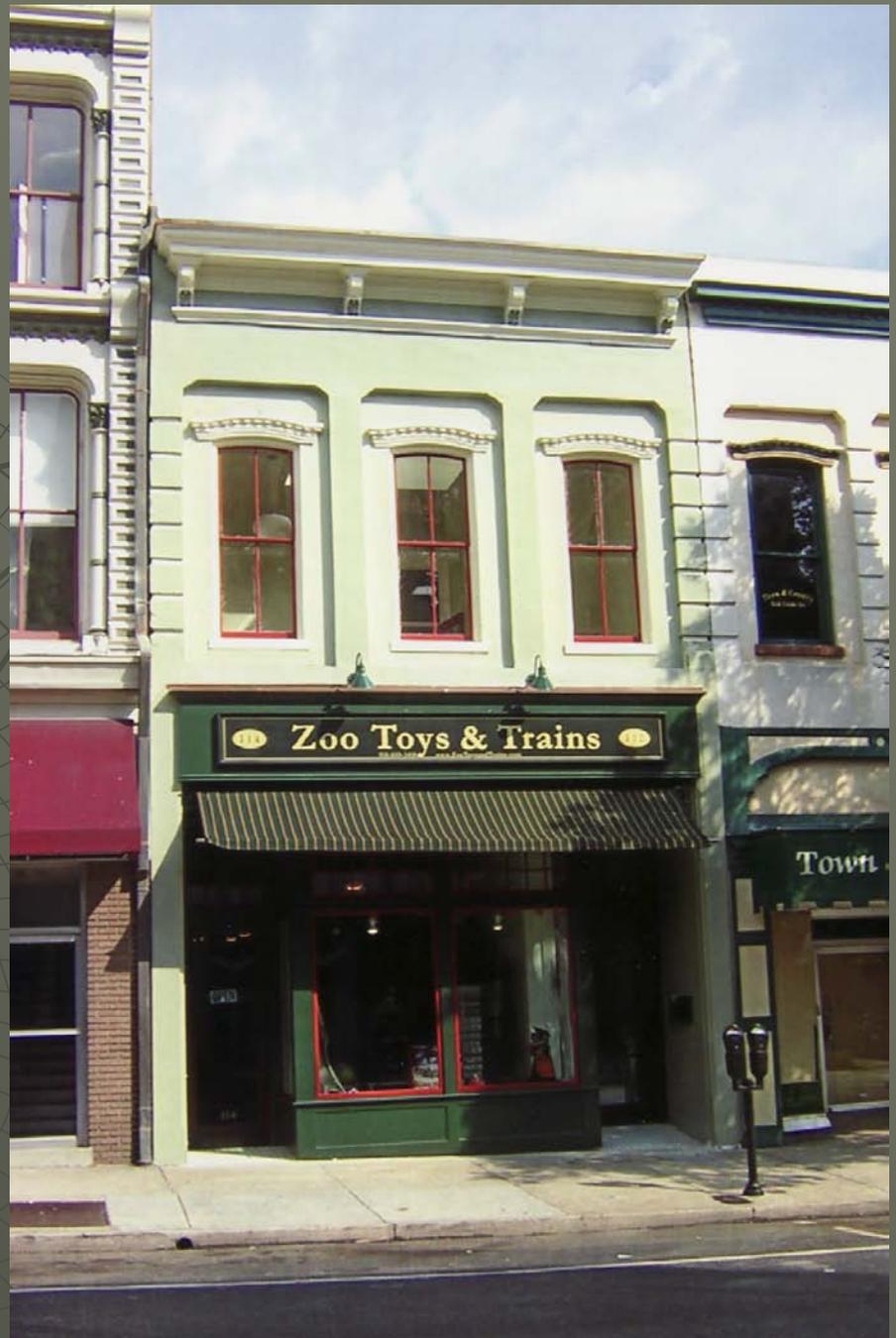


J.C. Penny Building
North Wilkesboro, Wilkes County
Historic Tax Credit Project





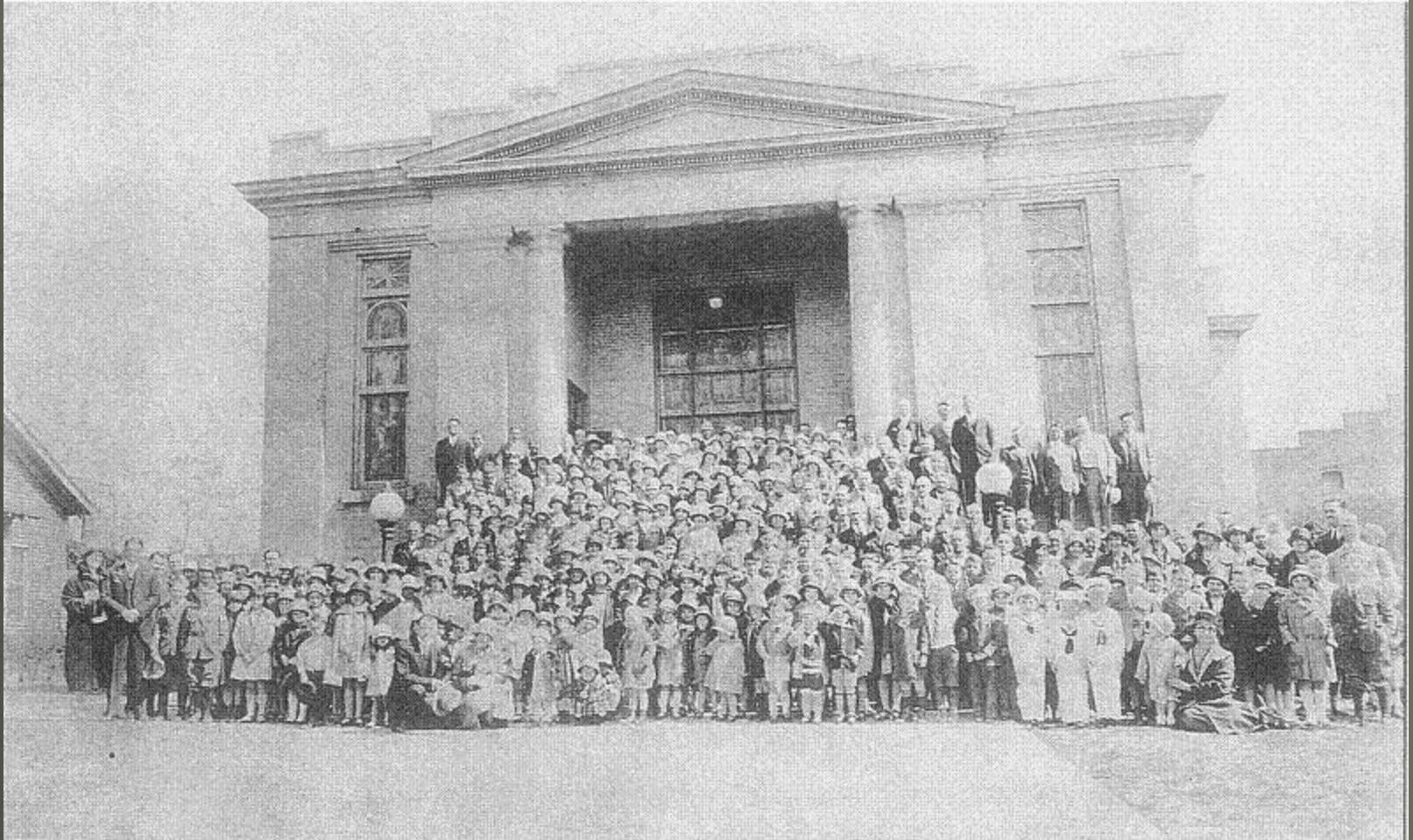
Bear-Munson Building
Wilmington, New Hanover County
Historic Tax Credit Project



Blount Harvey Building
Greenville, Pitt County
Historic Tax Credit Project







1st Christian Church – Documentary ca. 1916



After Restoration – Taff Office Equipment – Basement leased to United Way of Pitt Co.
Income-Producing Tax Credit Project



Interior of Taft Office Equipment Co. – 1st Christian Church

All Saints Chapel, Raleigh



Before



After

- ◆ Church was slated for demolition
- ◆ Moved to new location and rehabilitated using state and federal tax credits, totaling \$1,097,500 in tax credits
- ◆ Current use is a sanctuary and rental space for events
- ◆ Preserved a local landmark in downtown Raleigh



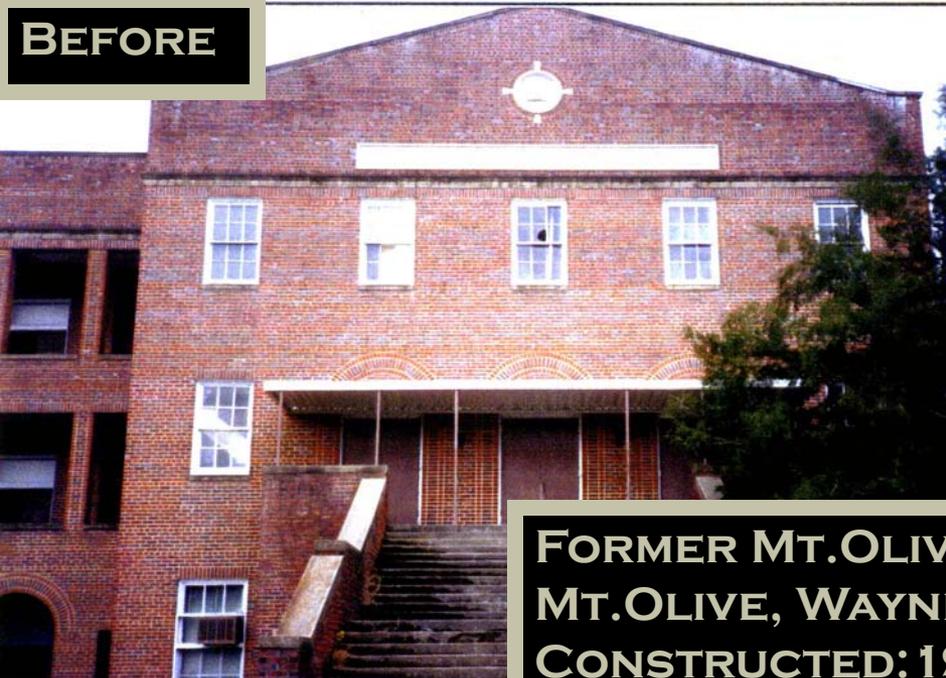
Masonic Temple

Smithfield, Johnston County, NC

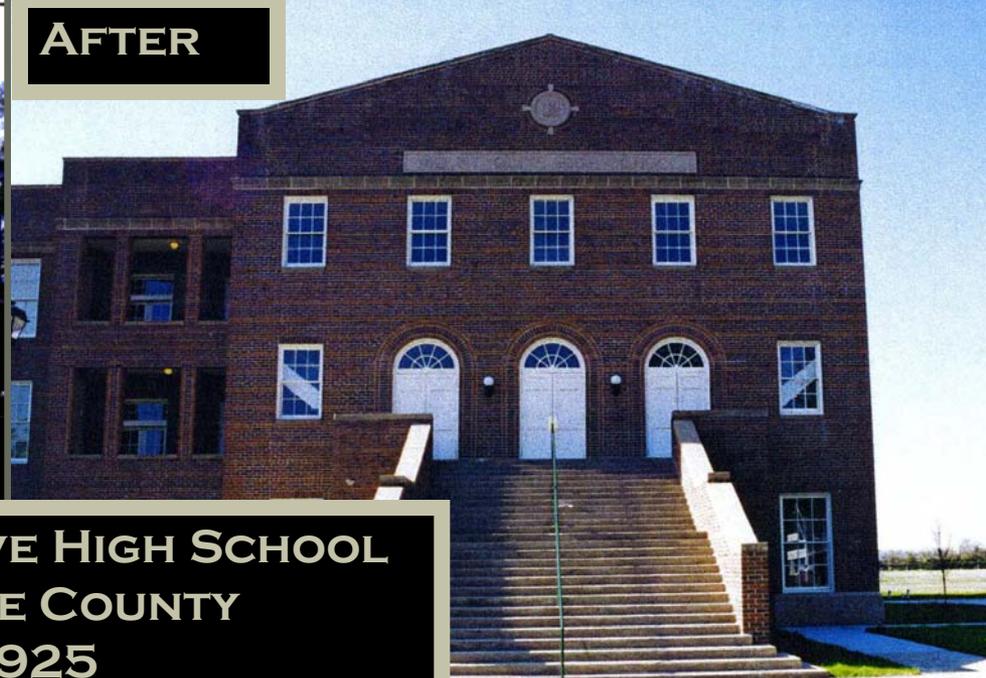
Historic Tax Credit Project



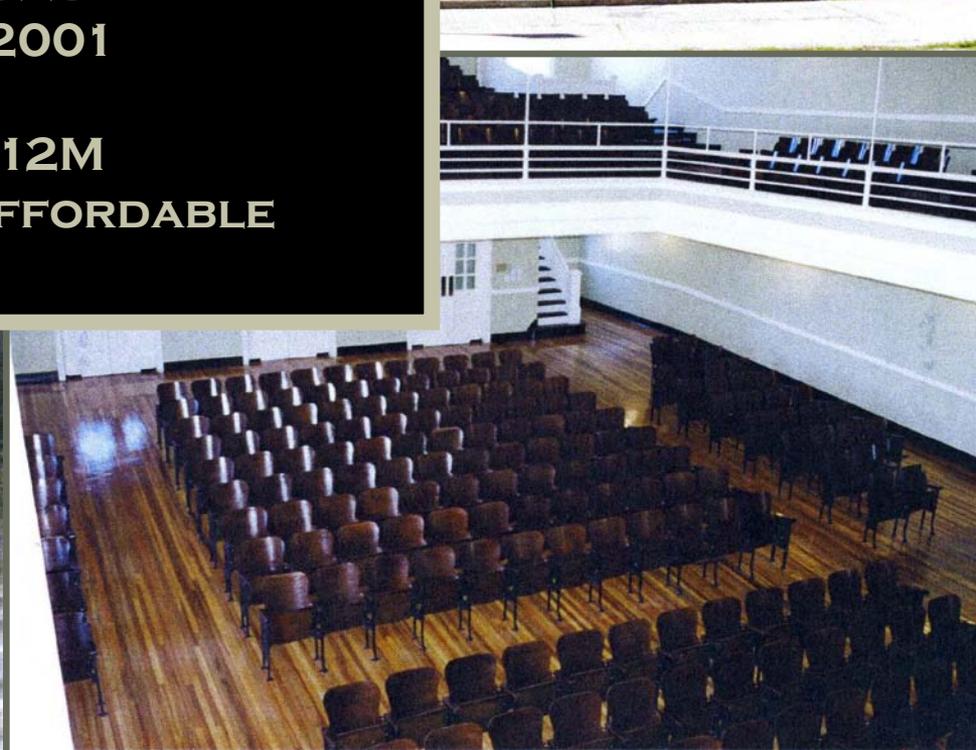
BEFORE



AFTER



**FORMER MT.OLIVE HIGH SCHOOL
MT.OLIVE, WAYNE COUNTY
CONSTRUCTED: 1925
REHABILITATED: 2001
COST: \$2.8M
TAX CREDITS: \$1.12M
CURRENT USE: AFFORDABLE
HOUSING**



Randleman School
Randleman, Randolph County
Historic Tax Credit Project





Cleveland School
Clayton, Johnston County
Historic Tax Credit Project





Albemarle Opera House
Albemarle, Stanly County
Historic Tax Credit Project

Elizabeth City Opera House

Elizabeth City, Pasquotank County

Historic Tax Credit Project





Turnage Theater

Washington, Beaufort County

Historic Tax Credit Project

First Colony Inn
Nags Head, Dare County
Historic Tax Credit Project



Balsam Mountain Inn

Balsam, Jackson County

Historic Tax Credit Project





Main Street Inn
Tarboro
Bed and Breakfast
Income-Producing Tax Credit Project



Barn at Shelton Plantation

Chowan County

Historic Tax Credit Project



Nonincome-Producing Structures

- ◆ Structures, such as private homes or multi-family residential condominiums, that do not generate income.
- ◆ **30%** state tax credit for *certified rehabilitations* of nonincome-producing *certified historic structures*. There is no equivalent federal credit for such rehabilitations.

Single-family Homes



Glencoe Mill Village
Historic Tax Credit Projects

HOMEOWNER TAX CREDITS
30% STATE CREDIT

\$100K Rehab Expenses

x

30% State Tax Credit

\$30K Tax Credit

Role of the Dept. of Revenue

- ◆ The North Carolina Department of Revenue administers the tax and finance side of the nonincome-producing program.
- ◆ Taxpayers should consult a professional tax advisor or the North Carolina Department of Revenue for help in determining the tax or other financial implications of any matter discussed here.

Role of the SHPO

- ◆ The North Carolina State Historic Preservation Office (SHPO) has administers the historic preservation certification of the nonincome-producing program in partnership with the North Carolina Department Revenue.
- ◆ Nonincome-producing projects are reviewed solely by the SHPO.

2-Part Application Process

- ◆ Part A—Description of Rehabilitation
- ◆ Part B—Request for Certification of Completed Work (includes Attachment 1 for non-income-producing properties within historic districts)

Nonincome-Producing Application

- ◆ *Part A - Description of Rehabilitation*
Determines if proposed rehabilitation work conforms to the *Secretary of the Interior's Standards for Rehabilitation*.
- ◆ Owners who undertake rehabilitation work prior to *Part A* approval from the SHPO do so strictly at their own risk.

Nonincome-Producing Application

- ◆ *Part B - Request for Certification of Completed Work.* Determines if completed rehabilitation work conforms to the *Secretary's Standards* and is therefore designated a *certified rehabilitation*.

Attachment 1 Document

- ◆ Determines if a nonincome-producing property is a *certified historic structure* within a National Register or Certified Historic District.
- ◆ If a nonincome-producing property is listed individually in the *National Register of Historic Places*, it is already a *certified historic structure*, and no Attachment 1 is required.

HOMEOWNER TAX CREDITS
30% STATE CREDIT



Lewis D. Isenhour House Sanford



Before



After



Residence in Louisburg



After



Before

Retained millwork,
staircase, door profile

Private Residence

Salisbury, Rowan County

Historic Tax Credit Project



Before...



...After



Private Residence
Salisbury, Rowan County
Historic Tax Credit Project



College View Historic District, Greenville
Non-Income Tax Credit Project



Red Hill Plantation
Granville County
Historic Tax Credit Project



Ocracoke National Register Historic District

Non-Income Tax Credit
Projects





Reuben Wallace McCollum House

Reidsville, Rockingham County

Historic Tax Credit Project



Mill Tax Rehabilitation

Globe Tobacco Warehouse, Mt. Airy c.1887
Proposed Use=Apartments
77,000 s.f. after rehabilitation
Surry County is a Tier 1 county, as determined
by the N.C. Department of Commerce

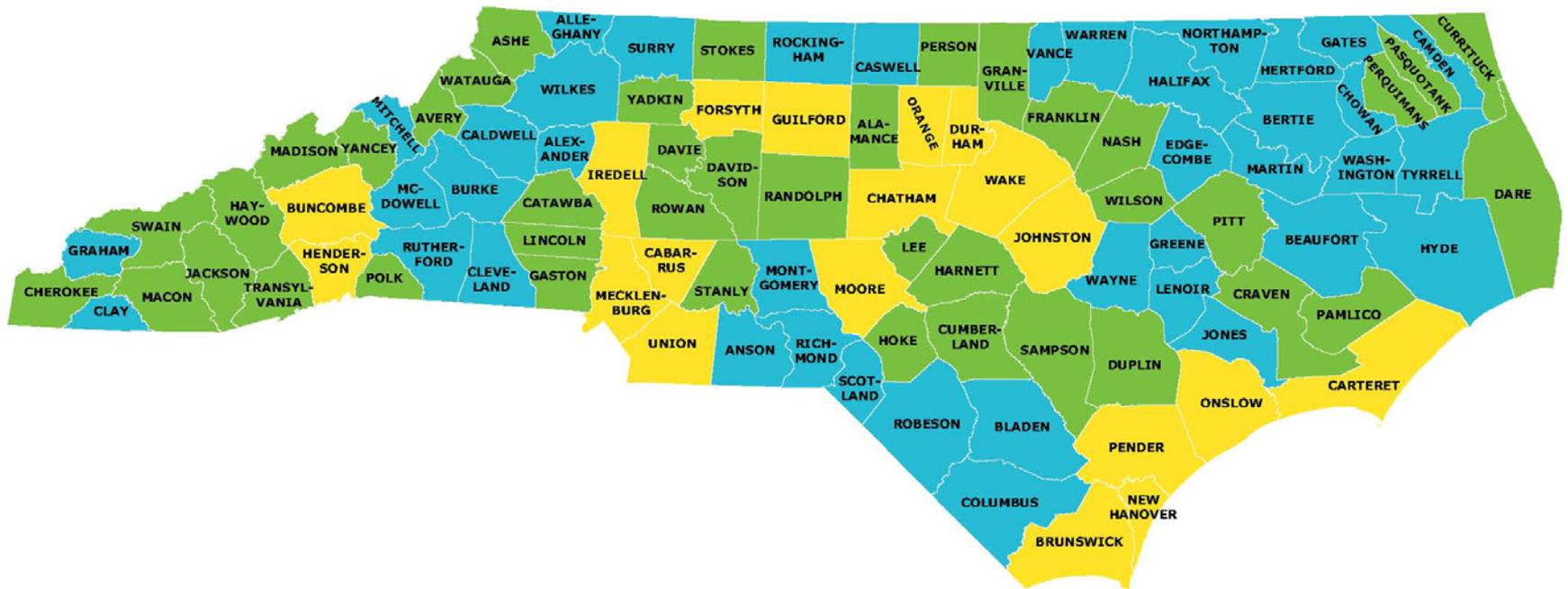
- QRE's=\$5,150,000
- QRE*40%(State RTC)=\$2,060,000
- QRE*20%(Federal RTC)=\$1,030,000
- Total RTC (State+Federal RTC)=\$3,090,000



State Mill Rehab Tax Credits

- ◆ Increases state credit to **40%** for *certified rehabilitations* of income-producing and nonincome-producing *certified historic structures* in Development Tier 1 or 2 counties.
- ◆ Increases state credit to **30%** for *certified rehabilitations* of income-producing *certified historic structures* in Development Tier 3 counties.

2010 Article 3J County Tier Designations



2010 Tier Designation

- Tier 1
- Tier 2
- Tier 3



**INCOME-PRODUCING MILL BUILDINGS ARE ELIGIBLE
FOR STATE AND FEDERAL TAX CREDITS**

\$1M Rehab Expenses

20% Federal Tax Credit

X

30% or 40% State Tax Credit**

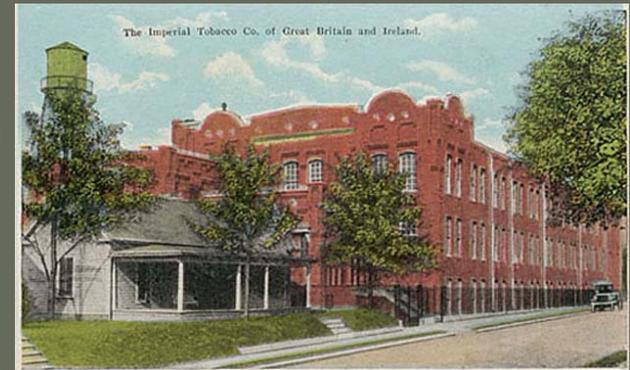
\$500K - \$600K Tax Credit

**Tier 1 & 2 counties are eligible for the 40% credit.

Tier 3 counties are eligible for the 30% credit.

**INCOME-PRODUCING MILL BUILDINGS ARE ELIGIBLE
FOR STATE AND FEDERAL TAX CREDITS**

**CONSTRUCTED: 1916
REHABILITATED: 2007
TOTAL COST: \$6.7M
TAX CREDITS USED: \$2.68M
CURRENT USE: OFFICE &
STORAGE**



**IMPERIAL TOBACCO
DURHAM, DURHAM COUNTY**



BEFORE

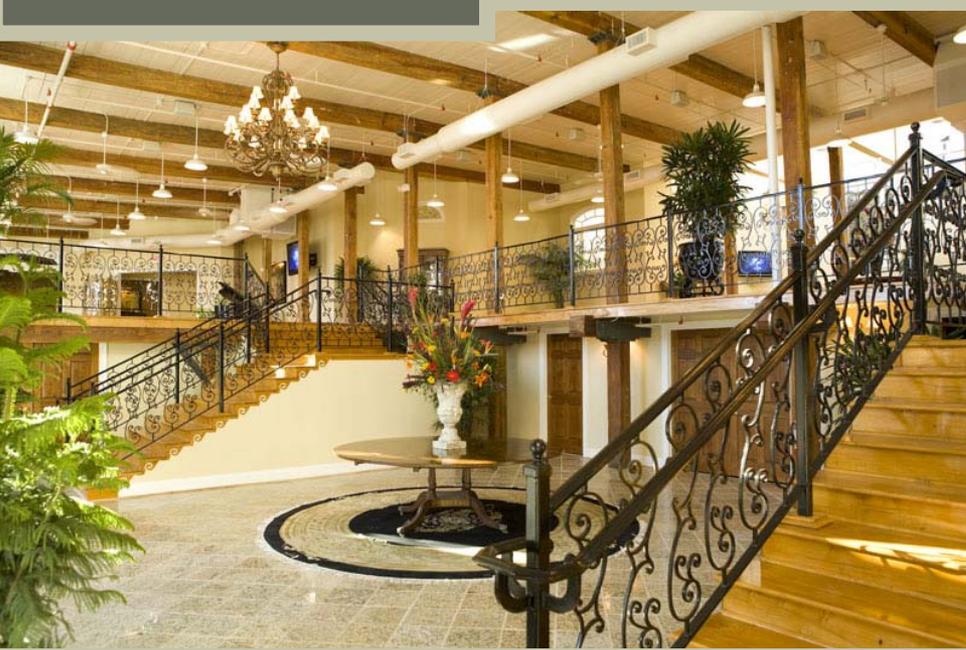
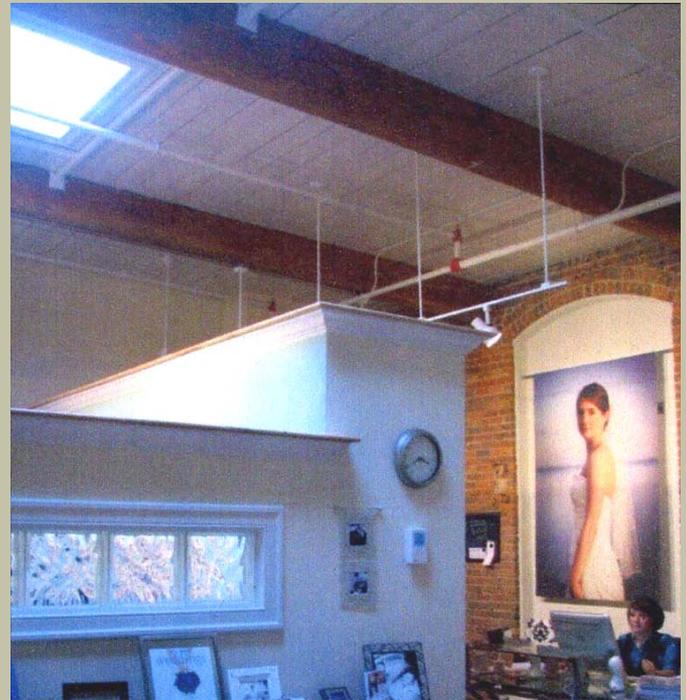


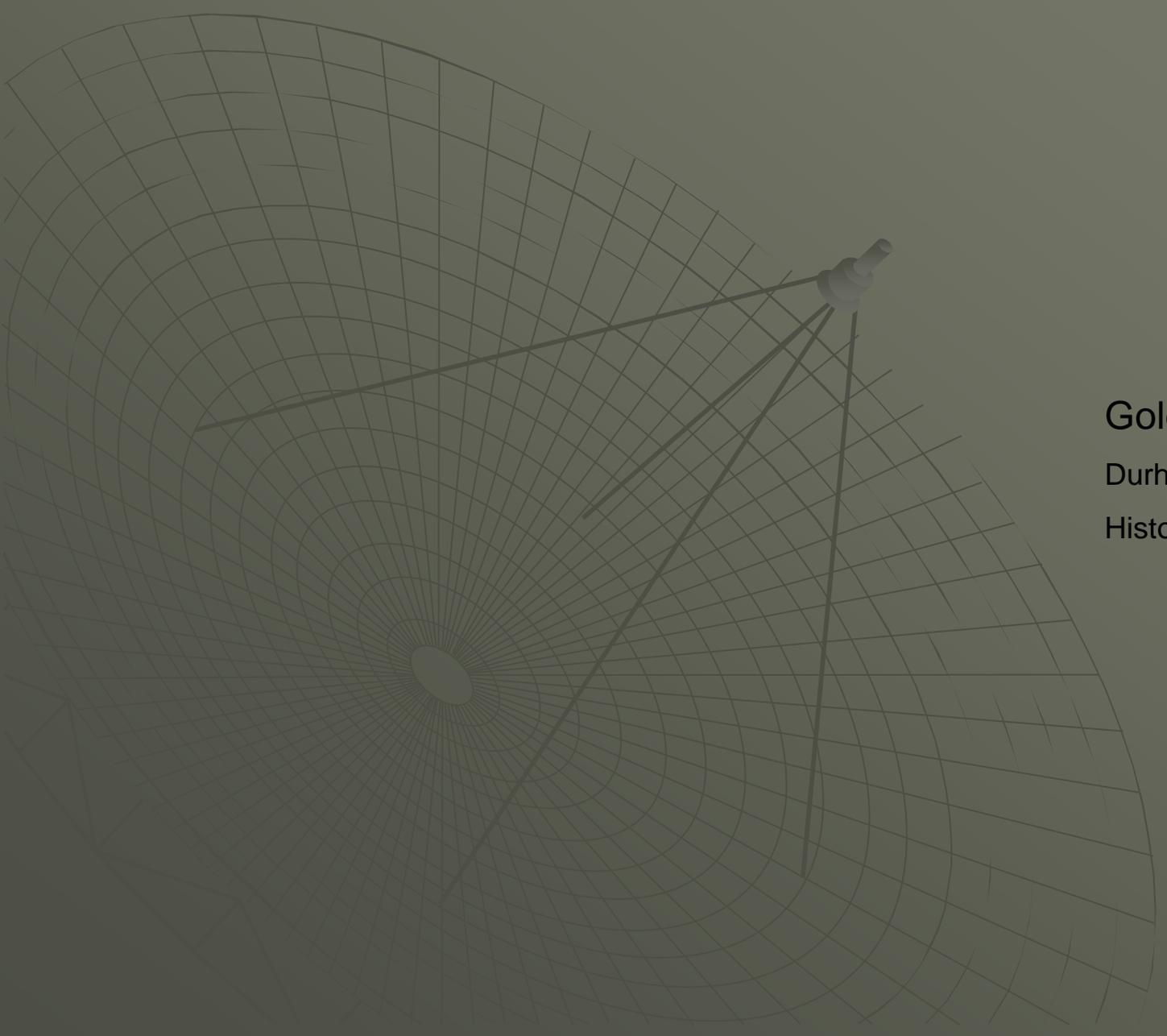
REVOLUTION MILL
GREENSBORO, GUILFORD CO.
CONSTRUCTED: 1899-1960
REHABILITATED: 2005-PRESENT
TOTAL COST: \$35 M
TAX CREDITS USED: \$17.5 M-TIER
3 COUNTY
CURRENT USE: OFFICE SPACE





REVOLUTION MILL
AFTER





Golden Belt Center
Durham, Durham County
Historic Tax Credit Project

Saxapahaw Mill

Historic Tax Credit Project



Glencoe Mill

Historic Tax Credit Project



Edenton Cotton Mill
Edenton, Chowan County
Historic Tax Credit Project



Certified Historic Structure

- ◆ Listed individually as a single building in the *National Register of Historic Places*. No further certification is required.
- ◆ Certified as contributing to a *National Register Historic District or Property*.

Certified Rehabilitation

- ◆ All work must meet the *Secretary of the Interior's Standards for Rehabilitation*.
- ◆ Income-producing projects are subject to a joint review by the SHPO and NPS, with final authority resting with NPS.
- ◆ Nonincome-producing projects are reviewed solely by the SHPO.

Qualified Expenditures

- ◆ Includes hard rehabilitation costs incurred in work upon or within existing structure and soft costs such as consultants fees.
- ◆ Does not include cost of acquisition, new additions, site work or personal property.

Qualified Expenditures

- ◆ Expenditures on income-producing projects must exceed “adjusted basis” of structure within a 24-month period or a 60-month period for phased projects.
- ◆ Expenditures on nonincome-producing projects must exceed \$25,000 within a 24-month period.
- ◆ State mill projects must exceed \$3 million.

Taking the Tax Credits

- ◆ Owner must begin taking tax credit(s) for the year the project is completed/placed in service.
- ◆ For phased income-producing projects, the tax credits may be taken before completion of entire project on the basis of “qualified progress expenditures” if construction is planned for two or more years.

Taking the Tax Credits

- ◆ Federal tax credit may be carried back 1 year and forward 20 years.
- ◆ State tax credits must be taken in five equal installments. Any unused portion of a state tax credit may be carried forward five years in equal installments. State mill credits may be taken in one year.
- ◆ Must be a *certified rehabilitation* as determined by the SHPO and NPS.

Disclaimer

- ◆ This information describes the federal and state historic preservation tax credit programs in very general terms.
- ◆ Taxpayers should consult a professional tax advisor, the NC Department of Revenue or the IRS for help in determining the tax or other financial implications of any matter discussed here.

ECONOMIC BENEFITS OF THE STATE CREDIT



RANGE OF YEARS	# PROJECTS COMPLETED	ESTIMATED REHABILITATION EXPENDITURES
1976-1997 (PREVIOUS TO STATE TAX CREDIT PROGRAM)	694	\$288 MILLION
1998-2010	1,873	\$1.1 BILLION*
TOTAL:	2,567	\$1.4 BILLION

***REHAB EXPENDITURES INCREASED FOUR FOLD AFTER 1997.**

JOBS CREATED

**39 JOBS CREATED FOR
EVERY \$1 M INVESTED IN
REPAIRS & RENOVATIONS***

YEAR	REHAB COSTS	ESTIMATED JOBS CREATED
1998- 2010	\$1.1 B	42,900

**MORE CONSTRUCTION JOBS ARE CREATED BY REHABILITATION
CONSTRUCTION THAN NEW CONSTRUCTION.
REVITALIZING HISTORIC COMMERCIAL AREAS PROVIDES DIVERSE
EMPLOYMENT OPPORTUNITIES.**

*NORTH CAROLINA STATE BUDGET DIRECTOR, NEWS & OBSERVER, 12/7/2010.

Keys to Success

- ◆ Consider buildings not obviously historic
- ◆ Fit the project to the building
- ◆ Plan to retain important features
- ◆ Plan to negotiate
- ◆ Allow enough time for review
- ◆ Pay attention to Part 2 conditions
- ◆ Choose an experienced team

IN CONCLUSION

THE REHABILITATION TAX CREDIT PROGRAM

SUPPORTS THE REHABILITATION OF HISTORIC:

- **SCHOOLS**
- **WAREHOUSES**
- **MILLS**
- **RESIDENTIAL HOUSES**
- **COMMERCIAL PROPERTIES**

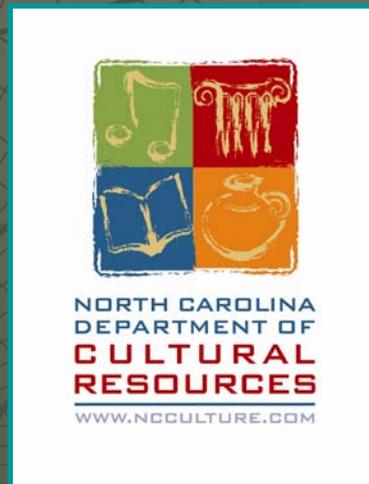
AND:

- ◆ **STIMULATES LOCAL ECONOMIC ACTIVITY**
- ◆ **INCREASES JOBS & HOUSING**
- ◆ **PROMOTES SMART GROWTH**
- ◆ **BOOSTS HERITAGE TOURISM**
- ◆ **STABILIZES AND INCREASES LOCAL PROPERTY TAX BASE**
- ◆ **GENERATES GREATER SALES, PROPERTY AND INCOME TAX REVENUES**

In Conclusion

- ◆ Owners are strongly advised to consult with the SHPO before beginning a rehabilitation project in order to avoid potential problems.

Please sign-up to receive an electronic application packet



www.hpo.ncdcr.gov