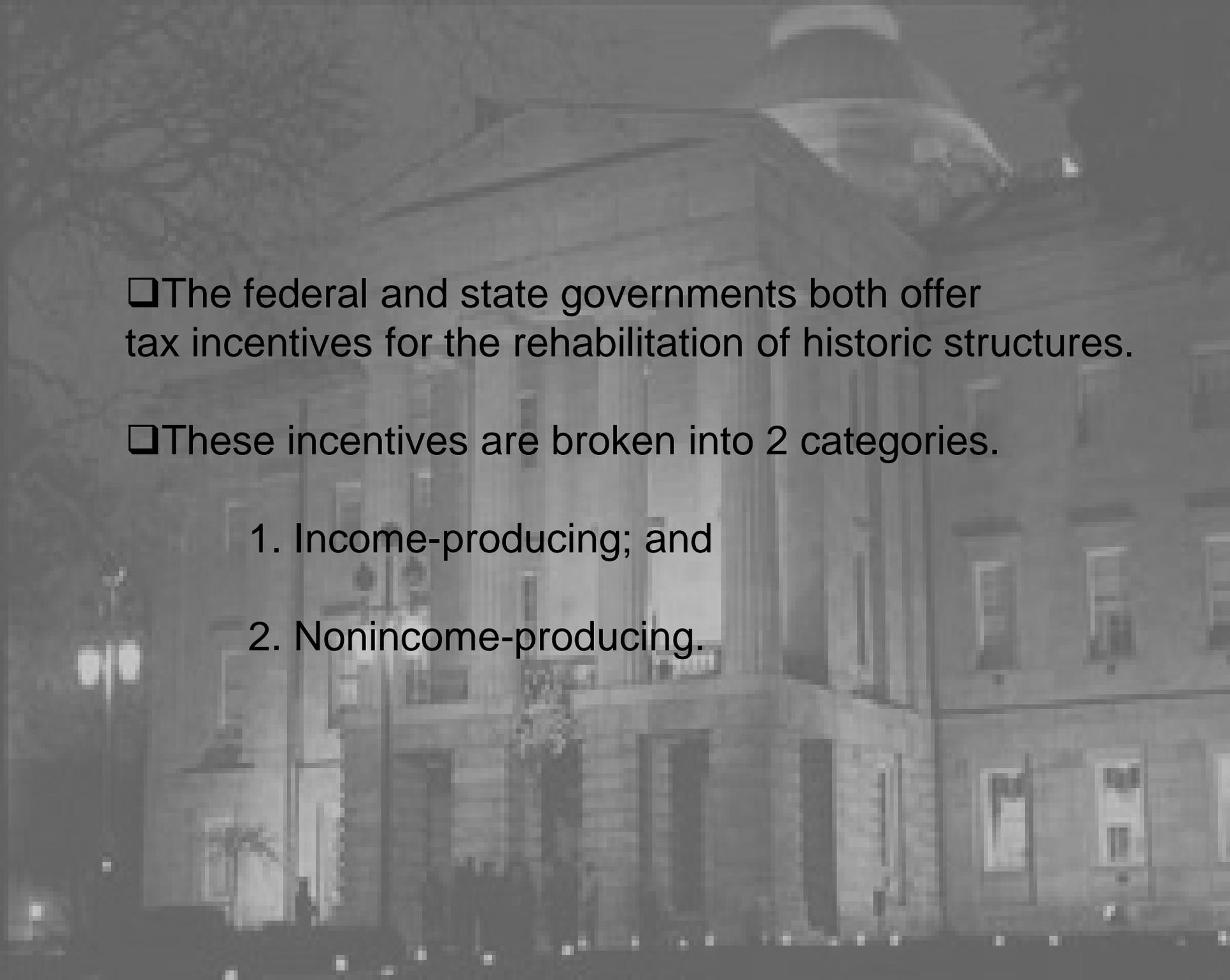
The background of the slide is a grayscale photograph of the North Carolina State Capitol building. The building is a large, classical-style structure with a prominent dome on the right side. The image is slightly blurred and has a dark, muted color palette, serving as a backdrop for the text.

Historic Preservation Tax Incentives

A Presentation of the
Restoration Branch of the
North Carolina State Historic Preservation Office

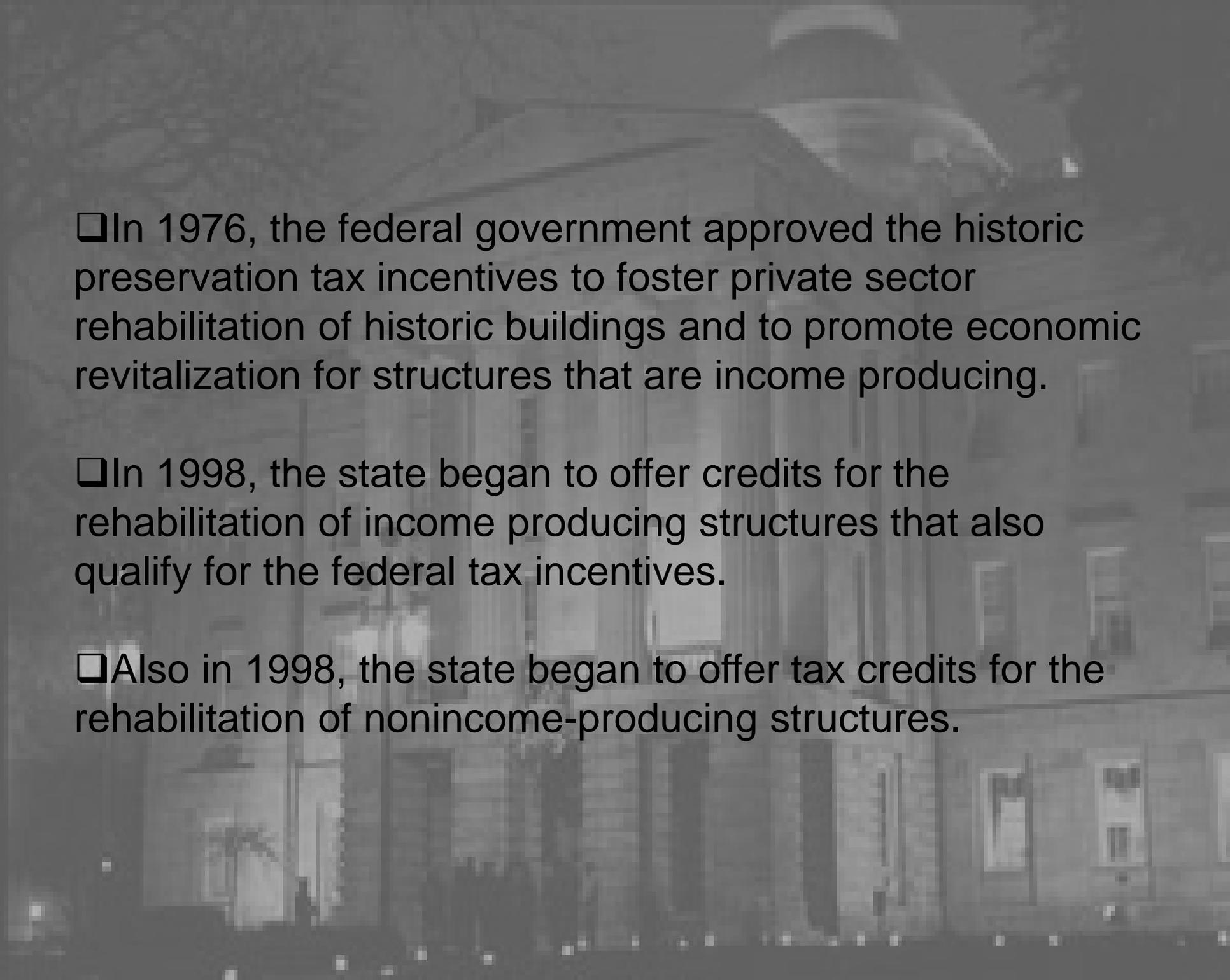
Background: The North Carolina State Capitol

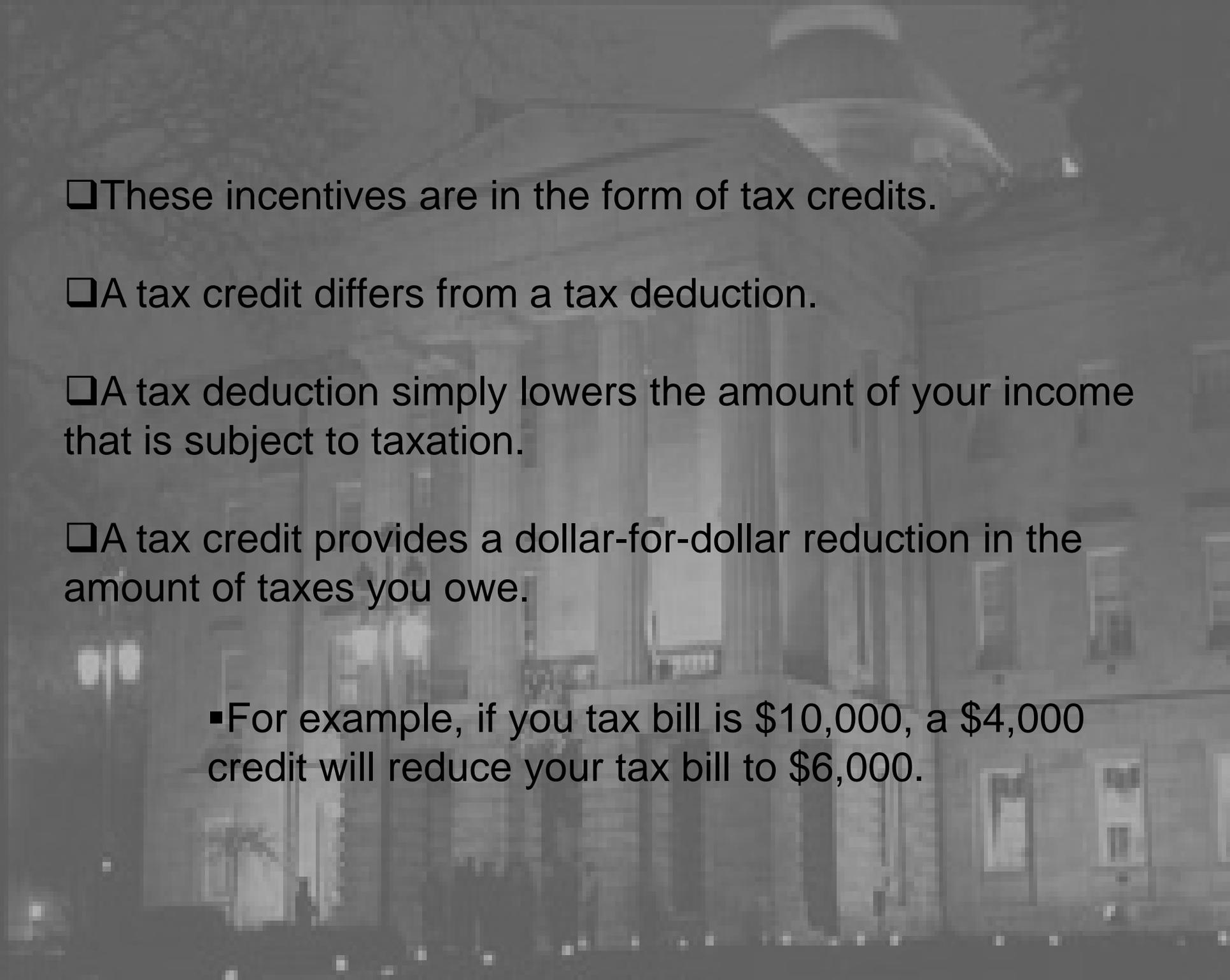


❑ The federal and state governments both offer tax incentives for the rehabilitation of historic structures.

❑ These incentives are broken into 2 categories.

1. Income-producing; and
2. Nonincome-producing.

- 
- ❑ In 1976, the federal government approved the historic preservation tax incentives to foster private sector rehabilitation of historic buildings and to promote economic revitalization for structures that are income producing.
 - ❑ In 1998, the state began to offer credits for the rehabilitation of income producing structures that also qualify for the federal tax incentives.
 - ❑ Also in 1998, the state began to offer tax credits for the rehabilitation of nonincome-producing structures.

- 
- ❑ These incentives are in the form of tax credits.
 - ❑ A tax credit differs from a tax deduction.
 - ❑ A tax deduction simply lowers the amount of your income that 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

□ The tax incentives are available for structures, such as: commercial buildings, mills, industrial buildings, apartments, and single-family houses that are placed into service to generate income.

Income-producing Continued....

❑ 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 Continued....

□ 10% federal tax credit for rehabilitations of income-producing structures that are not historic, built before 1936, and used for nonresidential purposes.

Income-producing Continued....

- ❑ The program is jointly managed by the National Park Service (NPS) and the Internal Revenue Service (IRS) in partnership with the State Historic Preservation Offices (SHPO).
- ❑ The IRS administers the tax and finance aspects of the program.
- ❑ The NPS and SHPO administer the historic preservation certification process with final authority resting with NPS.

Income-producing Continued....

□ The Historic Preservation Certification Application is a three part application.

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

Income-producing Continued....

Part 1 - Evaluation of Significance.

Determines if a 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 Continued....

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.

Income-producing Continued....

□ Description of exterior work should include the following if applicable:

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

Income-producing Continued....

□ Description of interior work should include the following if applicable:

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

Income-producing Continued....

□ Two sets of photographs are required to properly review the application. The reviewer should feel as though they are familiar with the setting, site, and building. Needed photographs include:

- Overall exterior views of the site or streetscape, showing the building in context with its surroundings.
- Exterior views of each exterior side of all buildings.
- Overall views of all major interior rooms or spaces on each floor of all buildings. Photos should be taken from opposing corners showing the ceiling, walls, and floor.

Income-producing Continued....

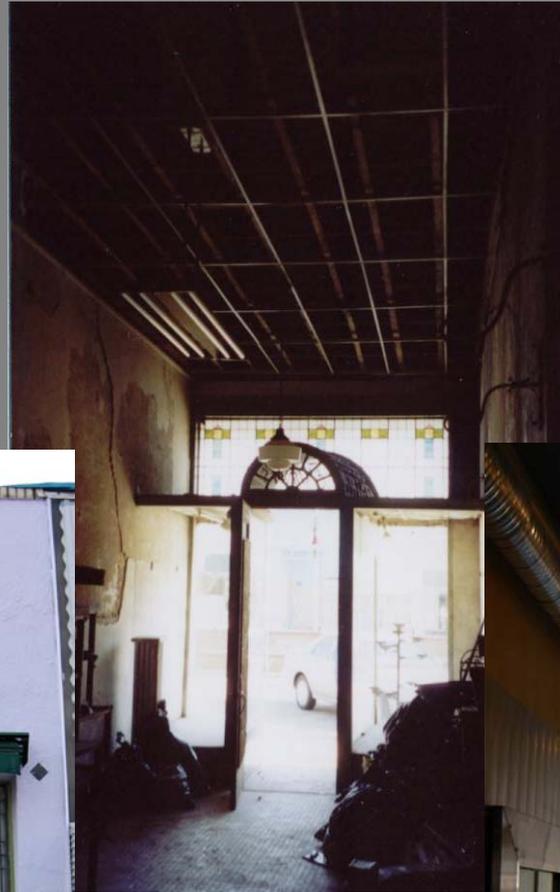
□ Two sets of architectural drawings may be required to properly review the application. The reviewer should feel as though they are familiar with the site and building. Typical drawings include:

- Existing, proposed, and if applicable demolition site plan, floor plan(s), and possibly elevation(s).
- Other drawings such as plumbing, mechanical, section(s), and reflected ceiling plan may be required.

Income-producing Continued....

- ❑ *Part 3/Part B - Request for Certification of Completed Work.* Determines if completed rehabilitation work conforms to the *Secretary's of the Interior's Standards for Rehabilitation* 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 Structure Example



Income-producing Structure Example

Rehabilitation Cost*
20% Federal Credit
20% State Credit
Total Credits

\$31,000
6,200
6,200
\$12,400

*Must exceed adjusted basis within a 24 or 60-month period.

Income-producing Structure Example

Purchase Price*

Land Value*

Adjusted basis*

* Hypothetical Costs

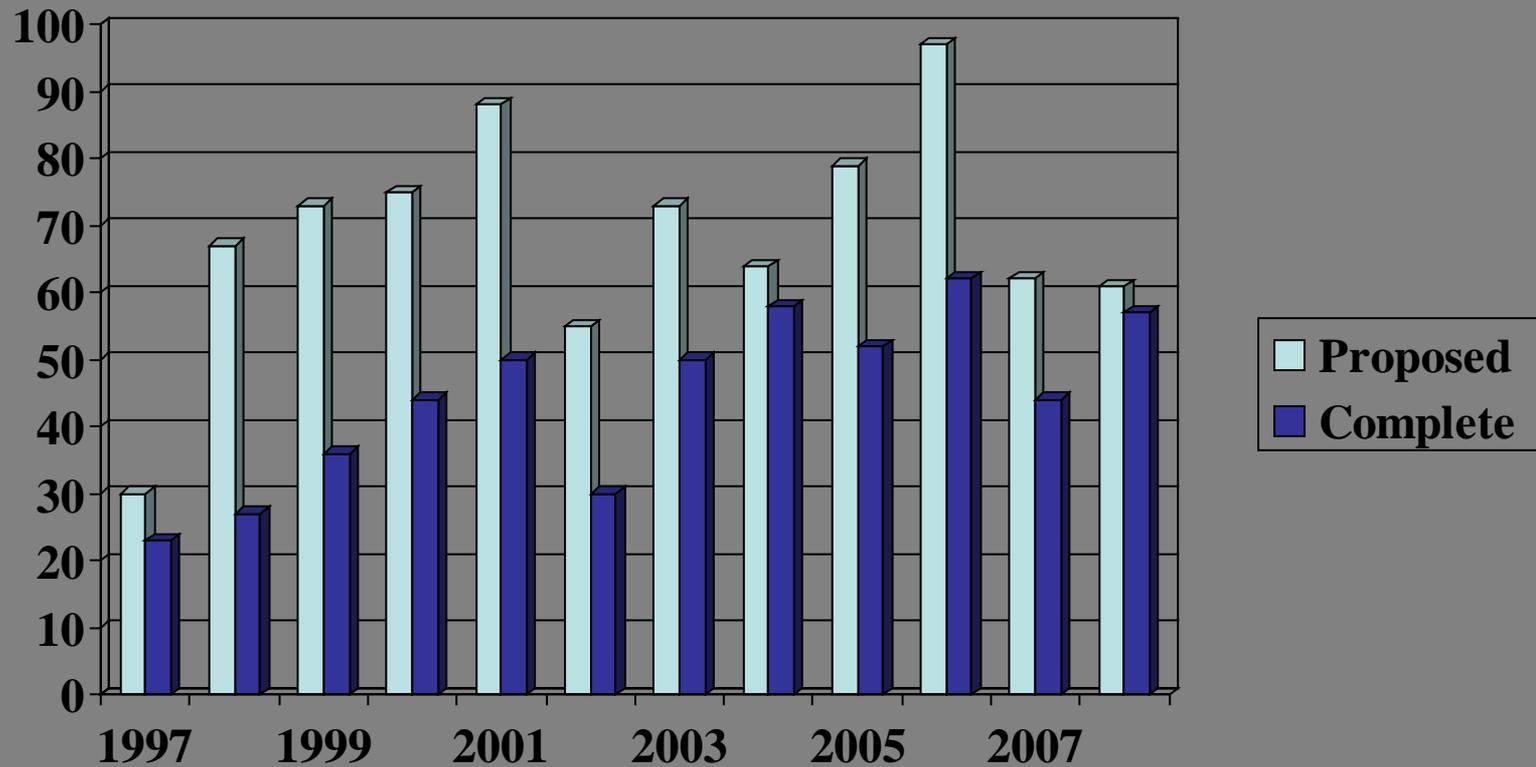
\$42,000

23,000

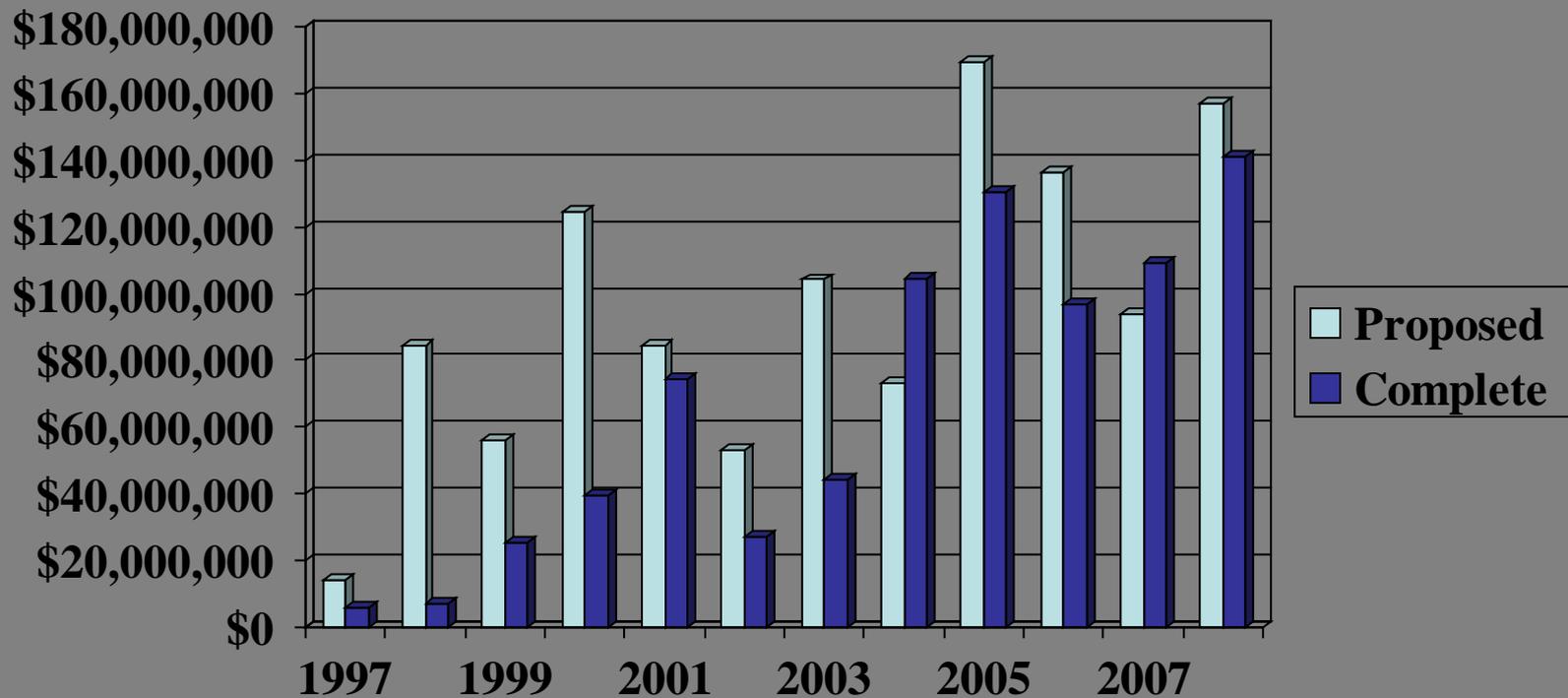
19,000



Income-producing Projects



Income-producing Costs



Income-producing Continued....

□ Keys to a successful rehabilitation project

- 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.

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.

Nonincome-producing Continued....

- ❑ The North Carolina Department of Revenue administers the tax and finance aspects of the program.
- ❑ The North Carolina State Historic Preservation Office (SHPO) administers the historic preservation certification process
- ❑ Nonincome-producing projects are reviewed solely by the SHPO.

Nonincome-producing Continued....

□ The Historic Preservation Certification Application is a two part application

- Part A—Description of Rehabilitation and

- Part B—Request for Certification of Completed Work.

This application also includes Attachment 1 for nonincome-producing properties within historic districts.

Nonincome-producing Continued....

❑ 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 Continued....

□ Description of exterior work should include the following if applicable:

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

Nonincome-producing Continued....

□ Description of interior work should include the following if applicable:

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

Nonincome-producing Continued....

□ Two sets of photographs are required to properly review the application. The reviewer should feel as though they are familiar with the setting, site, and building. Needed photographs include:

- Overall exterior views of the site or streetscape, showing the building in context with its surroundings.
- Exterior views of each exterior side of all buildings.
- Overall views of all major interior rooms or spaces on each floor of all buildings. Photos should be taken from opposing corners showing the ceiling, walls, and floor.

Nonincome-producing Continued....

□ Two sets of architectural drawings may be required to properly review the application. The reviewer should feel as though they are familiar with the site and building. Typical drawings include:

- Existing, proposed, and if applicable demolition site plan, floor plan(s), and possibly elevation(s).
- Other drawings may be needed.

Nonincome-producing Continued....

Part B - Request for Certification of Completed Work.

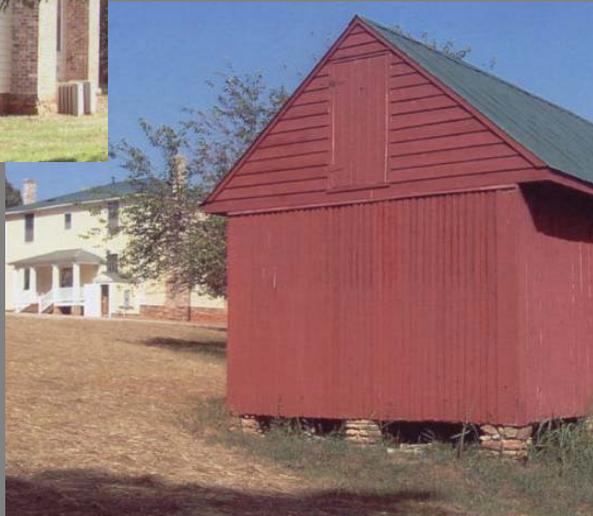
Determines if completed rehabilitation work conforms to the *Secretary of the Interior's Standards for Rehabilitation* and is therefore designated a *certified rehabilitation*.

Attachment 1.

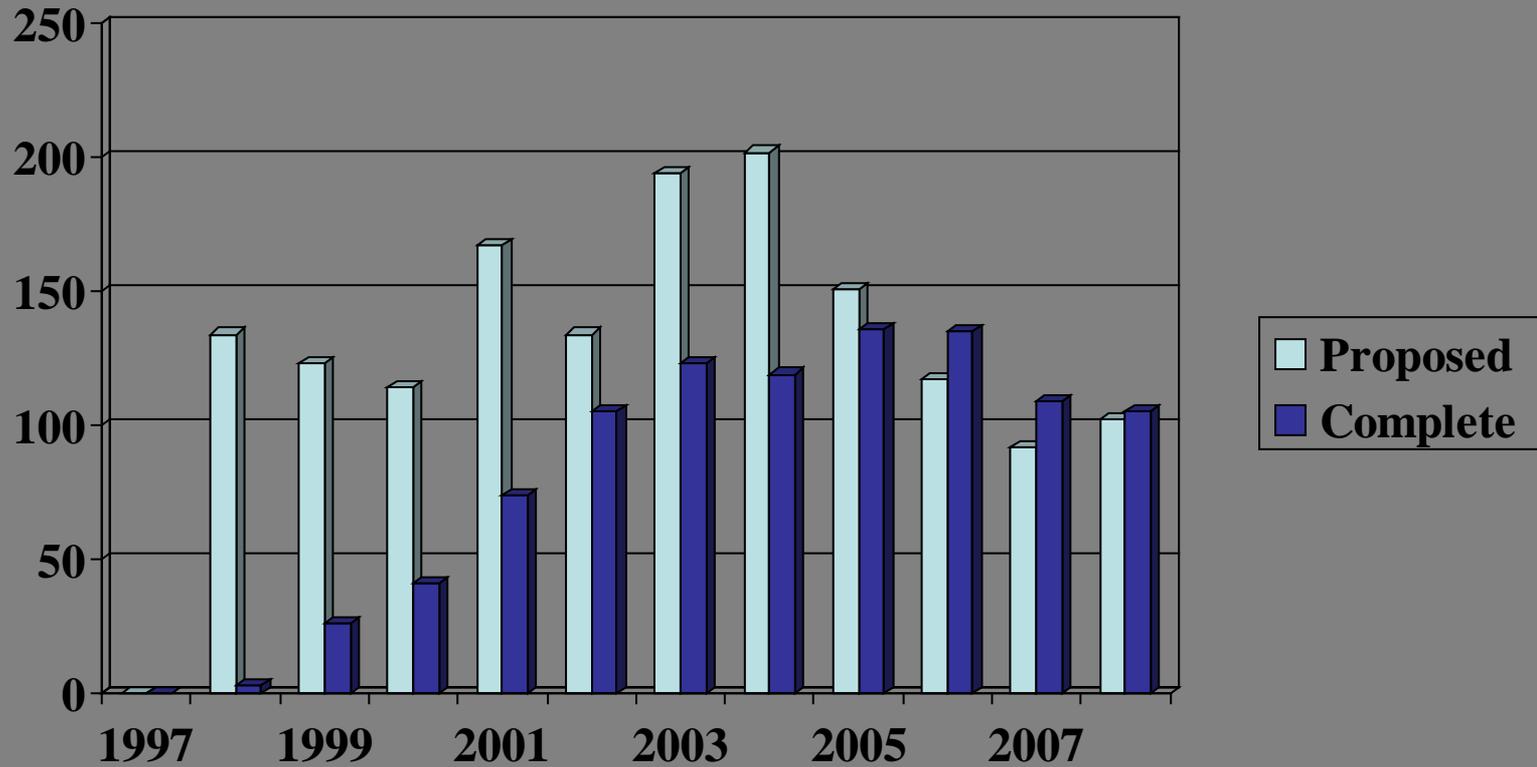
Determines if a nonincome-producing property is a *certified historic structure* within a National Register or Certified Historic District.

- 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.

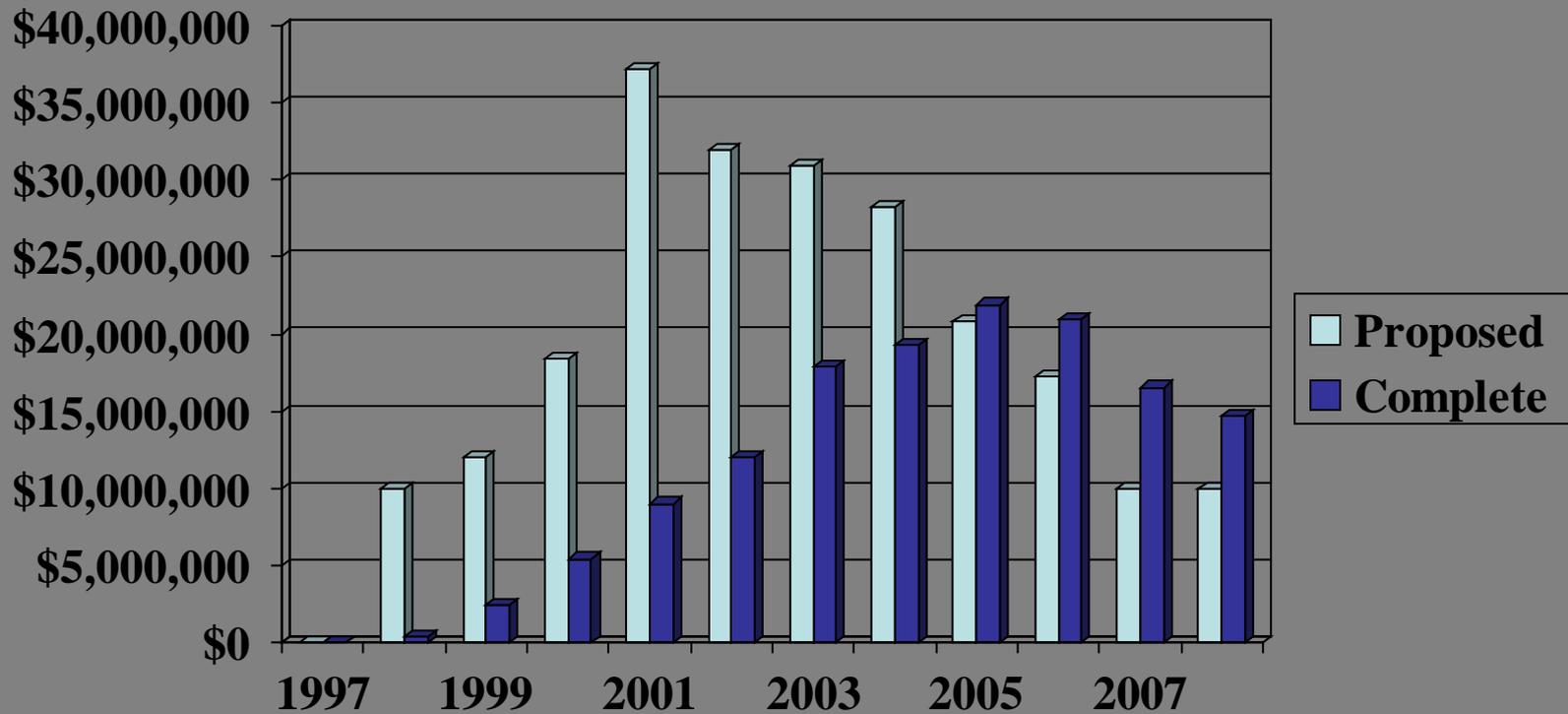
Nonincome-producing Structure Example



Nonincome-producing Projects



Nonincome-producing Costs



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.

Certified Historic Structure

- ❑ Listed individually as a single building in the *National Register of Historic Places*. If this is the case, a Part 1 or Attachment 1 do not need to be completed.
- ❑ A structure that is certified as contributing to a *National Register Historic District or Property* (a farmstead or industrial site, such as a mill).

Certified Historic Structure Continued....

- ❑ Income-producing projects must be designated a *certified historic structure* via the federal process (SHPO and NPS review with final authority resting with NPS).
- ❑ Nonincome-producing projects must be designated a *certified historic structure* as defined by the State.

National Register Listing

- ❑ Income-producing structures must be listed in the *National Register of Historic Places* within 30 months from the date the federal and state tax credit is first taken.
- ❑ Nonincome-producing structures must be listed in the *National Register of Historic Places* at the time the state credit is first taken. Owners are urged to secure a National Register listing prior to work.

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 Continued....

- ❑ 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.

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 Continued....

- Federal tax credit may be carried back one 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.
- Must be a *certified rehabilitation* as determined by the SHPO and NPS for income-producing structures or SHPO for nonincome-producing structures.

The Economic Impact of the Preservation Tax Credits in North Carolina

□ In the 22 years between 1976 and 1997, there have been 671 completed income-producing projects with a total cost of \$284 million.

□ In the eleven years since the state's piggyback tax for income-producing projects went into effect (1998-2008), 510 additional projects with a total cost of \$799 million have been completed.

□ Thus, the total number of projects since 1976 is 1,181 with a total cost of \$1.1 billion.

The Economic Impact in North Carolina Continued....

- ❑ In the eleven years of the nonincome-producing program (1998-2008) there have been 976 projects with a total cost of \$140 million.
- ❑ Thus, the total number of projects for both income-producing and nonincome-producing projects since 1976 is 2,157 with a total cost of \$1.25 billion.

The Economic Impact in North Carolina Continued....

□ According to an economic model developed by the Bureau of Economic Analysis of the U.S. Department of Commerce, the sum total of North Carolina's historic preservation projects equates to the creation of:

- 50,600 new full-time jobs;
- the addition of \$2.69 billion to the state's economy; and
- an increase of \$980 million to the households incomes of North Carolinians.

In Conclusion and Disclaimer

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

Contact Information

Visit the
North Carolina State Historic Preservation Office website at:

<http://www.hpo.ncdcr.gov>