

Tax Benefits for Historic Properties:

The Federal and State Historic Preservation Tax Credit Programs

Presented to the Town of Bethel
May 18, 2017

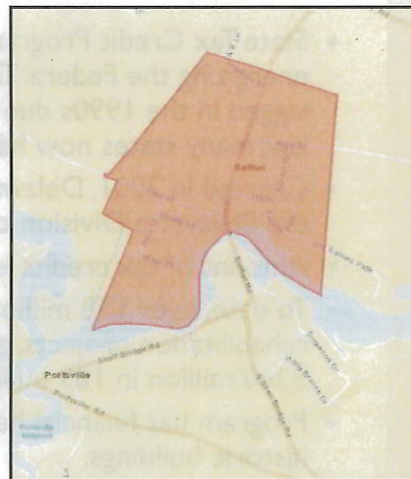


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National Register Historic District in Bethel

When listed in 1978, Bethel's National Register Historic District encompassed the town boundaries at that time. A list of contributing buildings was not included in the nomination and so we do not know the exact number of contributing resources, but many, if not most, of the extant buildings would be eligible for the Program.



The Federal Historic Preservation Tax Credit Program

- Created in 1976, ten years after the passage of the National Historic Preservation Act of 1966
- Before its passage, tearing down old building was financially beneficial
- Incentives were geared to depreciable property & tied to the IRS code
- Over the last 40 years, these incentives have been instrumental in encouraging private investment in older buildings

Delaware's Historic Preservation Tax Credit Program

- State Tax Credit Programs were instrumental in re-energizing the Federal Tax Incentive Program which had lagged in the 1990s due to changes in the federal tax law; many states now have such programs.
- Created in 2001, Delaware's Program is administered by the Delaware Division of Historical and Cultural Affairs.
- Amount of tax credits is capped at \$5 million per year.
- To date, over \$58 million has been assigned to rehabilitation projects, generating an investment of over \$260 million in 189 buildings.
- Program has financial benefits for owners of all qualified historic buildings.

Financial Benefits For Owners of Historic Properties



- Programs provide tax credits to be applied against federal income tax and state income or franchise tax.
- The Federal Program requires that the owner who takes the tax credits hold the property for 5 years.
- Delaware's Program allows for transfer or sale of the tax credits. The transferability makes Delaware's Program of benefit to non-profits.

Program Benefits for Communities

- Stimulates the economy by encouraging private investment
- Encourages the re-use of vacant buildings and generally re-vitalizes the economy
- Encourages the retention of community character by preserving the distinctive characteristics of each building



Which Buildings Qualify for this Program ?



Cannon Hall, Woodland Ferry



Bethel Historic District

- All properties in Delaware which are listed individually on the National Register of Historic Places
- All buildings which are contributing to National Register-listed historic districts

For Depreciable Property Owners, the Historic Tax Credit Program ...

- Allows the project to be economically viable
- Allows for incentives through both the federal and state tax credit program
- Delaware's Program allows for an immediate return on investment



Program Guidance for Depreciable Property Owners

- 20% return on investment through both the federal and the state programs
- Qualified costs must exceed the adjusted basis
- Qualified costs = rehabilitation costs + other capitalized costs (IRS rules)
- Review time = 60 - 90 days
- Applications fees apply



For Resident Owners, the Historic Tax Credit Program ...

- Encourages rehabilitation that will maintain their home's distinctive characteristics
- Provides a financial incentive to assist in the rehabilitation of their home
- Allows for the sale of the tax credits when the property owner pays little or no state income tax



Program Guidance for Resident Owners Under Delaware's Program

- Up to 30% return on investment
- Qualified costs = at least \$5,000 (Not applicable to personal property)
- Maximum award = \$20,000
- Not refundable but may carry forward unused tax credits for up to 10 years
- May re-apply every 24 months
- 30-day review period
- Application fees (pending)

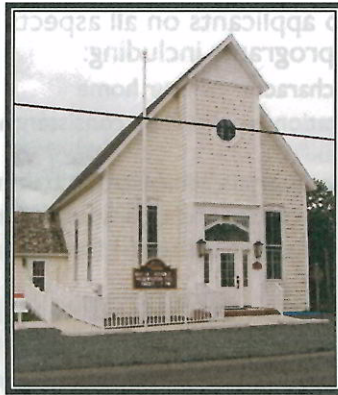


For Non-Profit Property Owners, the Historic Tax Credit Program ...

- Provides a financial incentive to encourage the appropriate rehabilitation of landmark buildings within a community
- Encourages these property owners to address deferred maintenance



Program Guidance for Non-Profits



- 30% return on investment
- Qualified costs of at least \$5,000
- No maximum award
- May re-apply every 24 months
- 30 day review
- Application fees (pending)
- There are companies which will broker the sale of HTCs

National Park Service (NPS) Role



- Provides guidance on Federal Rehabilitation Tax Credit Program
- Promulgates national standards for the review of rehabilitation work (Secretary of the Interior's Standards and Guidelines for Rehabilitation)
- Creates series of technical briefs and other web-based guidance on rehabilitation

Delaware Division of Historical and Cultural Affairs' (HCA) Role



- Technical assistance to applicants on all aspects of both the Federal and state programs including:
 - How to determine the character of your home
 - Determining of rehabilitation work will be consistent with Program guidance
 - Providing guidance on appropriate rehabilitation treatments
 - Providing guidance on completing the application forms
 - Providing general information related to the financial aspects of the Program
- Initial review & comment on the Federal Rehabilitation Tax Credit Application; coordinate review with the NPS
- Review and approval of Delaware's Preservation Tax Credit Application; coordination with the Delaware Division of Revenue

Program Guidance for Review of Rehabilitation Work



- *The Secretary of the Interior's Standards and Guidelines for Rehabilitation*
 - Promote consistent preservation practices
 - Maintain and preserve the historic character of the building
 - Repair rather than replace historic features
 - Carry out rehabilitation work in a manner that will not damage the building's historic features
 - Allow for repair for contemporary use
 - New uses should be consistent with the defining characteristics of the building
 - Additions should be compatible with the massing of the historic property and be removable without causing damage to the historic building

Defining a Building's Distinctive Characteristics



- The visual and physical features of a building including materials, craftsmanship, and decorative details, both exterior and interior as well as site and environment

Retaining Historic Character During the Rehabilitation



Historic Character Lost

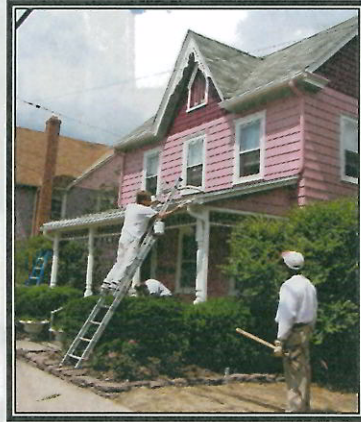


Historic Character Retained

Wherever possible, repair rather than replace and keep new additions hidden from public view



What Rehabilitation Work Qualifies for the Program?



- Repairs to the exterior
- Repairs to the interior
- Structural repairs
- Replacement of deteriorated historic features
- System installation and upgrades
- Energy efficiency improvements
- With certain restrictions:
 - Site work/Landscaping
 - New construction

Application Part I: Certifying Buildings in Historic Districts

- Required for buildings within historic districts, but not for individually listed buildings
- Description of building
- Significance in the National Register district
- Exterior and interior photographs
- Location map

Note: The IRS requires submission before the building is placed in service



Application Part 2: Describing the Rehabilitation Project



- Describe the current condition
- Describe proposed work
- Submission within a year of project initiation will soon be required
- Must have photographs of before conditions
- Drawings required for new construction
- NPS/HCA determine if proposed work is consistent with the Standards

Application Part 3: Certification of Completion

- Submit photos of work after completion
- NPS/DHCA reviews and determines if completed work retains the building's historic character, and is consistent with *The Secretary of the Interior's Standards and Guidelines for Rehabilitation*



Application to Request a Credit Award

- Must have certified estimate to receive an assignment of tax credits in advance of project completion
- At project completion, submit actual invoices/receipts, or a certified accounting
- HCA verifies costs and makes a tax credit award



Delaware Division of Revenue's Role: Claiming the Tax Credits

- Computation Schedules for Claiming the Tax Credits
 - Identify who will claim the tax credit
 - Indicate if the tax credits will be transferred
- Tax Filing
 - 12-month rule
 - Business Tax Form 700



Program Guidance on the Web



- Federal Program
<http://www.nps.gov/tps/tax-incentives.htm>
- Delaware Program
<http://history.delaware.gov/preservation/taxcredit.shtml>
- Information on Rehabilitation Tax Credit Programs in Other States
<http://www.preservationnation.org/take-action/advocacy-center/additional-resources/historic-tax-credit-maps/State-Tax-Credit-Chart-Final-February-2014.pdf>

Web-based Rehabilitation Guidance



- A Checklist for Rehabilitating Historic Buildings
<http://www.nps.gov/hps/tps/checklist.htm>
- Illustrated Guidelines for Rehabilitating Historic Buildings
<http://www.nps.gov/hps/tps/tax/rhb/index.htm>
- Rehab Yes/No Learning Program
<http://www.nps.gov/hps/rehabyes-no/index.htm>
- Electronic Rehab: An Interactive Web Class
<http://www.nps.gov/hps/tps/e-rehab/index.htm>
- From the Roof Down and Skin Deep
<http://www.nps.gov/hps/tps/roofdown/index.htm>
- Preservation Briefs
<http://www.nps.gov/hps/tps/briefs/presbhom.htm>

Historic Tax Credit Program Contact Information and Forms



- State Tax Credit Program Manager:
Joan N. Larrivee (302-736-7406; joan.larrivee@state.de.us)
- Historic Preservation Tax Credit Program Guidance and Forms:
<http://history.delaware.gov/preservation/taxcredit.shtml>
- Delaware Division of Revenue Contact:
Stephen Seidel (302-577-8455; stephen.seidel@state.de.us)
- Division of Revenue Business Tax Credit Forms:
http://revenue.delaware.gov/services/bt_number.shtml

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