

Financial Incentives for Historic Buildings

Morrison, April 21, 2015

Darius Bryjka

Illinois Historic Preservation Agency



ILLINOIS HISTORIC
Preservation
AGENCY

Illinois Historic Preservation Agency

- Constituent Services Division
- Abraham Lincoln Presidential Library and Museum
- Historic Sites Division
- Preservation Services Division (SHPO)

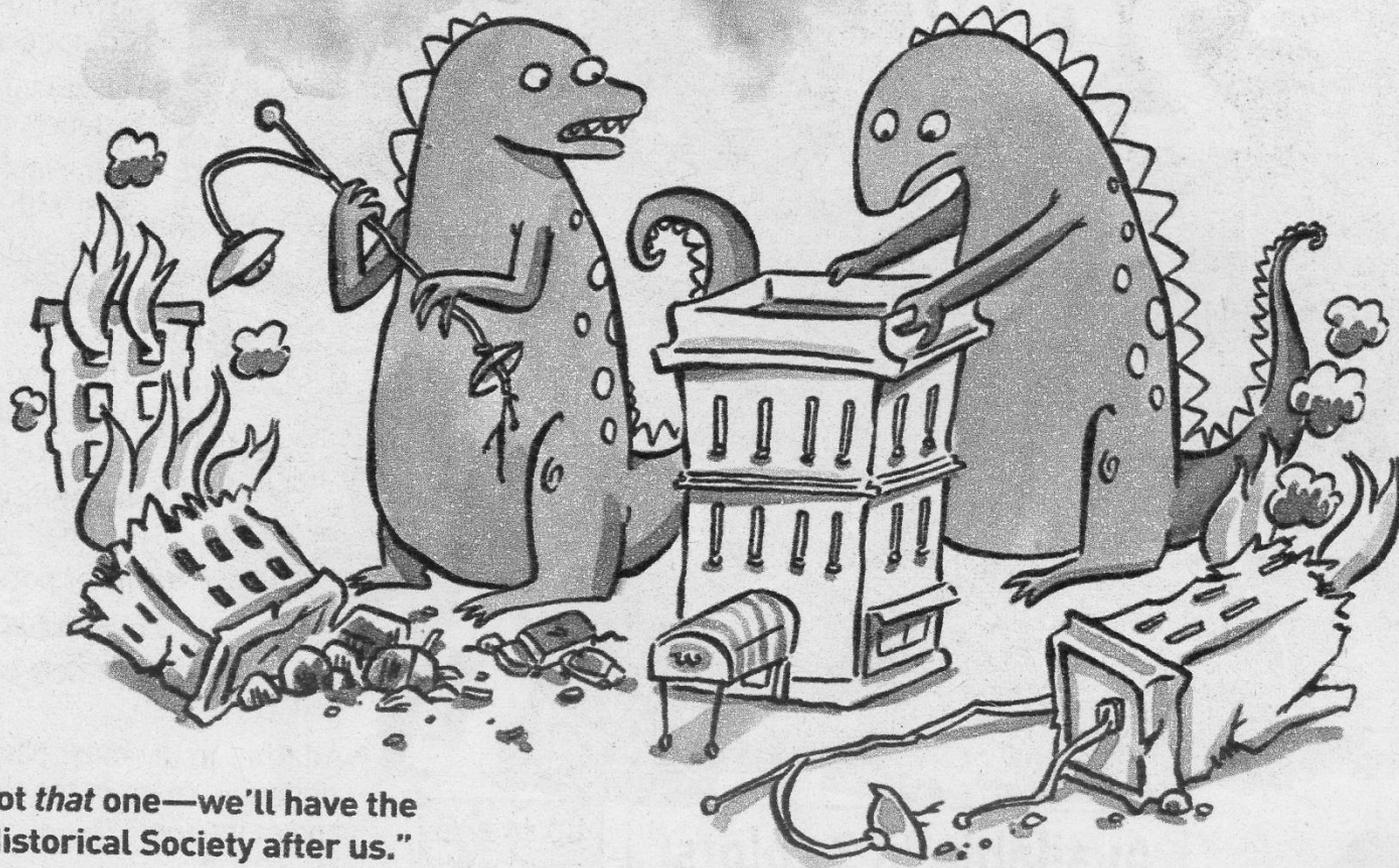


Illinois Historic Preservation Agency

- Constituent Services Division
- Abraham Lincoln Presidential Library and Museum
- Historic Sites Division
- **Preservation Services Division (SHPO)**
 - National Register of Historic Places
 - Financial incentives
 - Certified Local Government
 - Regulatory review
 - Archaeology
 - Illinois Main Street design



“Not *that* one—we’ll have the Historical Society after us”



“Not *that* one—we’ll have the Historical Society after us.”

National Register of Historic Places

“The National Register of Historic Places is the official list of the Nation's historic places worthy of preservation. Authorized by the National Historic Preservation Act of 1966, the National Park Service's National Register of Historic Places is part of a national program to coordinate and support public and private efforts to identify, evaluate, and protect America's historic and archeological resources.”

Benefits of the National Register of Historic Places

- Prestige
- Heritage tourism
- Protection
- Economic benefits



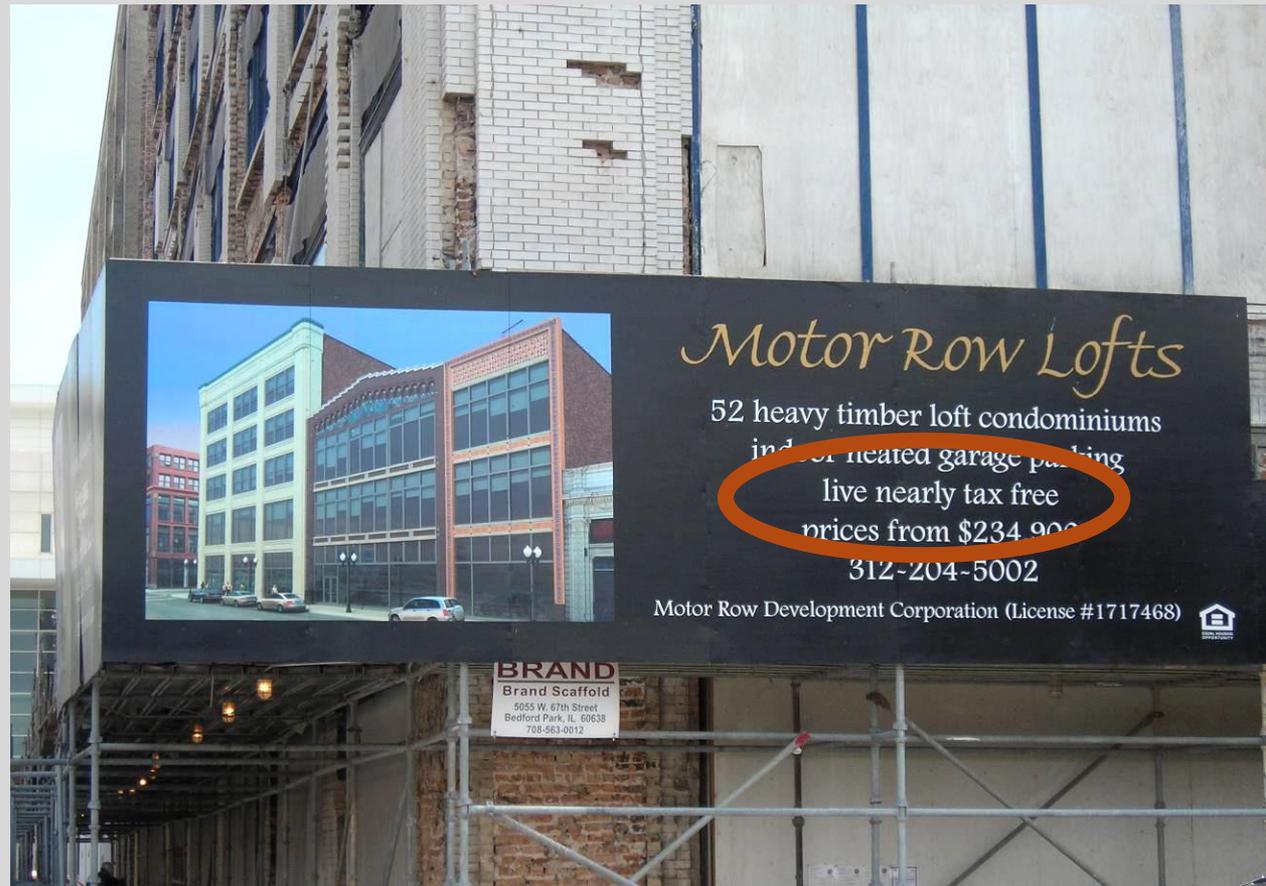
Financial Incentives for Historic Buildings

- Benefits owners by removing perceived disincentive to reinvestment (i.e., a higher reassessment)



Financial Incentives for Historic Buildings

- Rewards private owners for sensitively reinvesting in their buildings



Financial Incentives for Historic Buildings

- Benefits communities by strengthening neighborhoods and building stock



Financial Incentives for Historic Buildings

- Benefits communities by sustainably reusing the built environment



Financial Incentives for Historic Buildings

- Benefits communities by encouraging longer tenure for residents



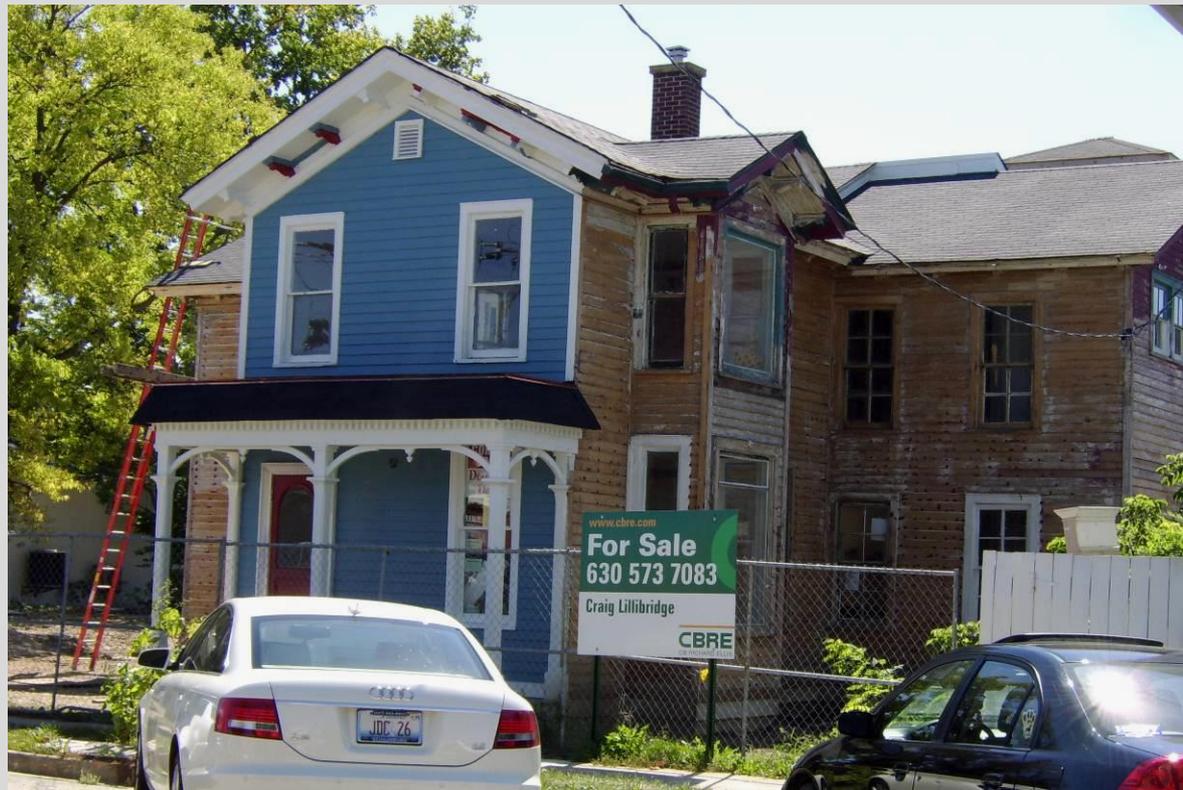
Financial Incentives for Historic Buildings

- Benefits communities by encouraging protection of historic structures through promotion, recognition, & designation



Financial Incentives for Historic Buildings

- Benefits communities by encouraging substantial rehabs, which increase property values and/or sales tax



Financial Incentives for Historic Buildings

- Benefits communities by encouraging district-wide reinvestment



Federal Rehabilitation Tax Credits

- Applied to the owner's federal income taxes owed or to future tax liabilities
- Eligible owners may be individuals or businesses and must pay federal income taxes
- Worth a percentage of the renovation cost
 - For example, under the 20% tax credit a \$100K project will result in \$20K of credit
- Denial of double benefit
 - Either a deduction or credit, not both

Financial Incentives for Existing Buildings

- 10% Federal Rehabilitation Tax Credit
- 50% Disabled Access Tax Credit



10% Rehabilitation Tax Credit (IRS form 3468)

- For non-historic buildings built before 1936
 - not on the National Register or
 - non-contributing in an NR district
 - **12 buildings in the Morrison Main St. HD**
- Work must pass a physical retention test
- Commercial use only (residential use not eligible)
- Must be “substantial rehab” (same as 20%)
- Eligible work same as the 20%
- No application fee
- Administered only by IRS
- No review by IHPA or NPS

50% Disabled Access Tax Credit (IRS form 8826)

- For small businesses in all existing buildings
- For handicap accessibility improvements
 - Ramps, restrooms, elevators, sidewalks or walkways, and the redesign of entries and interior circulation
- Work must meet current ADA Standards
- Eligible expenditures between \$250 and \$10,250
- Maximum credit of \$5,000 per year
- Can be taken annually
- Administered entirely by the IRS

Financial Incentives for Historic Buildings

- 20% Federal Rehabilitation Tax Credit
- Property Tax Assessment Freeze



Financial Incentives for Historic Buildings

- 20% Federal Rehabilitation Tax Credit
- Property Tax Assessment Freeze

Must meet four criteria:

- Significance, Use, Budget, & Work



20% Federal Rehabilitation Tax Credit

Four criteria:

1. Significance: Certified historic building
2. Use: Income-producing property
3. Budget: “Substantial rehabilitation” (expenditure)
4. Work: Must meet the Standards



1. Significance: Certified Historic Building

- Individually listed on the National Register, or
- Contributing building within a historic district that has been listed on the National Register, or a local district certified by the National Park Service



Morrison Main Street Historic District

- Listed on the National Register of Historic Places in 2014
- 65 buildings
 - 53 contributing (eligible for the 20% tax credit)
 - 12 non-contributing





2. Use: Income Producing Property

- Current or proposed use, not historic use:
 - commercial
 - hotel
 - office
 - industrial
 - agricultural
 - rental residential



3. Budget: “Substantial Rehabilitation”

- Owner must spend \$5,000 or the Adjusted Basis, whichever is larger, within:
 - 24-month period
 - 60-month period for pre-approved phased projects
- **Adjusted Basis** = purchase price – land value – annual depreciation + capital improvements
- Qualified rehabilitation expenditures (QREs):
 - Architectural and construction costs
 - Depreciable soft costs
 - Not purchase price, new additions or site work

4. Work: Must meet the *Secretary of the Interior's Standards for Rehabilitation*

- Preserve existing significant historic features and materials
- Does not require restoring a building or its features to their original appearance
- Non-historic features may be removed or retained, if desired
- New, compatible alterations or additions may be added
 - New additions outside the existing building envelope cannot be claimed for the credit

3-Part Application Process

- Contact IHPA
- Complete Parts 1 and 2 of the application and submit with 'before' photos and architectural drawings
- IHPA will review the application and if necessary request additional information
- IHPA will conduct a site visit
- IHPA will forward the completed Parts 1 and 2 to the National Park Service
- Complete the rehab per approved Part 2 and submit Part 3 with 'after' photos

The Application:

Part 1 – Evaluation of Significance

- Briefly describe the physical appearance of the exterior and interior
- Provide a brief narrative on history and significance to the historic district
- Submit photos
- Part 1 must be submitted prior to placing the building in service!

**HISTORIC PRESERVATION
CERTIFICATION APPLICATION –
PART 1**

SAMPLE

Property Name

316 Main Street

Property Address

5. Description of physical appearance: The Houseal Buliding is a symmetrical two-story painted brick commercial building. The display windows are large plate-glass windows set in aluminum frames and have a metal-sided bulkhead. Each storefront has a recessed entry, with a pair of glass and aluminum doors.

The segmented arched window openings on the second floor have had their sash removed some time ago and have been boarded up with plywood. There is a simple three brick course cornice with a tall parapet wall. Above the cornice, "HOUSEAL BUILDING" is applied in painted wood letters.

The first floor interior consists of one large open space with structural posts running down the middle of the room, and an enclosed bathroom in the back right corner. It has wood floors and plaster walls. A dropped ceiling system obscures the original pressed metal still in place. A staircase along the left wall provides access to the second floor. The second floor interior has deteriorated due to water damage and has warped wood floors and plaster falling off the brick walls. Two rows of structural posts run from the front of the building to the rear and evidence indicates that there were historically two residential or office spaces separated by a central hallway.

Date of Construction: c. 1890

Source of Date: City Directories, Sanborn Fire Insurance Maps

Date(s) of Alteration(s): Late 1940's, 1960's

Has building been moved? yes no

If so, when? _____

6. Statement of significance: The Houseal Building, a contributing building to the Downtown Historic District, is representative of the town's late 19th century commercial development and is within the district's period of significance, which ends in 1942. The building retains both its integrity of materials and historic form. The addition of aluminum doors and display windows occurred outside the period of significance of the district.

7. Photographs and maps.

Attach photographs and maps to application

*From Introduction to Federal Tax Credits
for Rehabilitating Historic Buildings:
Main Street Commercial Buildings*

www.nps.gov/tps/tax-incentives/before-you-apply.htm

www.nps.gov/tps/tax-incentives/application.htm



The Application:

Part 2 – Description of Rehabilitation

- Describes the condition of the building prior to rehabilitation
- Describes the proposed work
- Ample photographs of exterior, interior, and site (the more the better!)
- Architectural plans or drawings (if available), including existing floor plans and proposed changes
 - Must provide photographs of all features, not just those qualifying for the tax credit, including features not being altered at all

**HISTORIC PRESERVATION
CERTIFICATION APPLICATION –
PART 2**

SAMPLE

Property Name

316 Main Street

Property Address

5. DETAILED DESCRIPTION OF REHABILITATION / PRESERVATION WORK – Includes site work, new construction, alterations, etc. Complete blocks below.

Number 1	Architectural feature <u>Brick Facade</u> Approximate Date of feature <u>c. 1890</u>	Describe work and impact on existing feature: The paint will be removed from the brick following the guidance found in Preservation Briefs 1: <i>Assessing, Cleaning, and Water-Repellent Treatments for Historic Masonry Buildings</i> , using the gentlest means possible. The mortar joints will be repaired using a mortar that matches the composition and appearance of the historic. All work will be done in accordance with the guidance found in Preservation Briefs 2: <i>Repointing Mortar Joints in Historic Masonry Buildings</i> . Any replacement bricks required for repairs will match the historic appearance. The Portland cement and top course of brick will be removed; a new brick course and copper parapet cap will be installed.
Describe existing feature and its condition: The building is constructed of red brick. It has been painted white sometime after the period of significance for the district. There is some brick spawling and a number of degraded mortar joints. The parapet cap was covered in Portland cement in a prior rehabilitation; there is some brick damage.		
Photo no. <u>1-4</u> Drawing no. <u>A-1</u>		
Number 2	Architectural feature <u>Storefront</u> Approximate Date of feature <u>c. 1960</u>	Describe work and impact on existing feature: This current storefront system will be replaced with a more historically compatible storefront. The brick bulkhead will be restored and a wooden storefront system that includes a transom will be installed. The two recessed entries will be retained in form. The paired doors will be replaced with a single wide glass door set in a wood frame. A new smaller retractable awning will be installed in a manner to reveal the decorative belt course above.
Describe existing feature and its condition: The storefront system is a replacement consisting of two symmetrical recessed entrances with large plate glass display windows set in aluminum frames. Metal siding encases the bulkhead and columns. The entrances are paired aluminum and glass doors. There is a canvas awning across the width of the building.		
Photo no. <u>1-4, 7, 8</u> Drawing no. <u>A-1, A-1.2</u>		

*From Introduction to Federal Tax Credits
for Rehabilitating Historic Buildings:
Main Street Commercial Buildings*

www.nps.gov/tps/tax-incentives/before-you-apply.htm
www.nps.gov/tps/tax-incentives/application.htm



The Application:

Part 3 – Request for Certification of Completed Work

- Final project cost (QREs)
- Photographs of completed work
 - Views corresponding to those from Part 2
 - Labeled, numbered, and dated



The Application:

Amendment/Advisory Determination Form

- Used to update or provide new information
 - Changes in work scope
 - Provide info previously unavailable but requested by IHPA or NPS, such as window shop drawings
- In phased projects, submitted after completion of each phase
 - Allows applicant to claim credit for that phase

Photographic documentation

- Good quality photos
- Can be digital but must be printed
- Labeled and numbered, corresponding to Parts 2 and 3, and if needed keyed to a floor plan
- Burden of proof lies with the applicant
 - Document the property extensively before beginning any work!

Additional Provisions

- Sliding review fee based on budget, charged by NPS
 - No fee for projects with costs up to \$80,000
 - Fee of \$845 to \$6,500 for larger projects
- Owner must retain the building for 5 years or return a pro-rated portion of the credits



20% Federal Rehabilitation Tax Credit

Can you flip? **NO.**

- Must retain building for 5 years or return a pro-rated portion of credits
- Credits can be “syndicated”



Layering of Tax Credits

- 20% Federal Credit + 50% Disabled Access Tax Credit
- Federal HTCs + New Market Tax Credits
 - 39% Tax Credit
 - Location in a low income census tract
- Federal HTCs + Low-Income Housing Tax Credits
 - Credit based on dollars spent to construct or rehab qualified low-income housing
 - Credit received in exchange for long-term commitment to maintain rents at “affordable” level
 - LIHTC equity typically supports 50-70% of total development costs

Useful links

National Park Service (NPS)

www.nps.gov/tps/tax-incentives.htm

HPCA application

www.nps.gov/tps/tax-incentives/application.htm

IHPA's federal tax credit webpage

www.illinois.gov/ihipa/Preserve/Pages/taxcredits.aspx

Internal Revenue Service (IRS)

www.irs.gov

Tip #1:

Don't replace your windows before you talk to us.



Tip #2:

Don't gut the building
before you talk to us.



Tip #3:

Work with your building's own history. Non-original alterations may be significant.



Tip #4:

Fill out Parts 1 and 2 and submit plans before work begins.



Tip #5:

CONSULT YOUR ACCOUNTANT

if you want the credit!



Questions?

Darius Bryjka

Project Reviewer

Illinois Historic Preservation Agency

217-558-8918

darius.bryjka@illinois.gov

www.IllinoisHistory.gov