

Financial Incentives for Historic Buildings

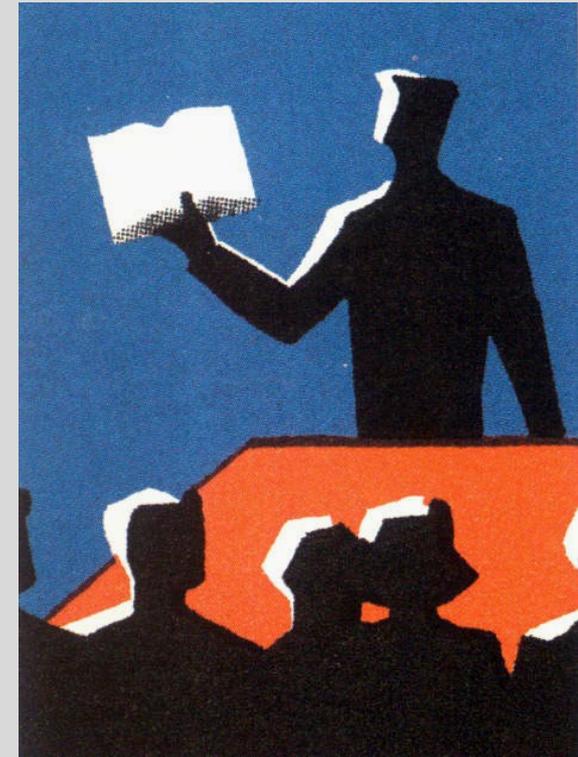
Rockton
January 16, 2019

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Illinois State Historic Preservation Office
Illinois Department of Natural Resources



Agenda

- What's the "SHPO"?
- Incentives for existing buildings
 - 50% federal tax credit
- Incentives for historic buildings
 - Property Tax Assessment Freeze Program
 - 20% federal historic tax credit
 - State historic tax credits
 - Applications
 - Tips



Illinois Department of Natural Resources

“To manage, conserve and protect Illinois’ natural, recreational and cultural resources, further the public's understanding and appreciation of those resources, and promote the education, science and public safety of Illinois' natural resources for present and future generations.”

- Office of Realty and Capital Planning
 - State Historic Preservation Office



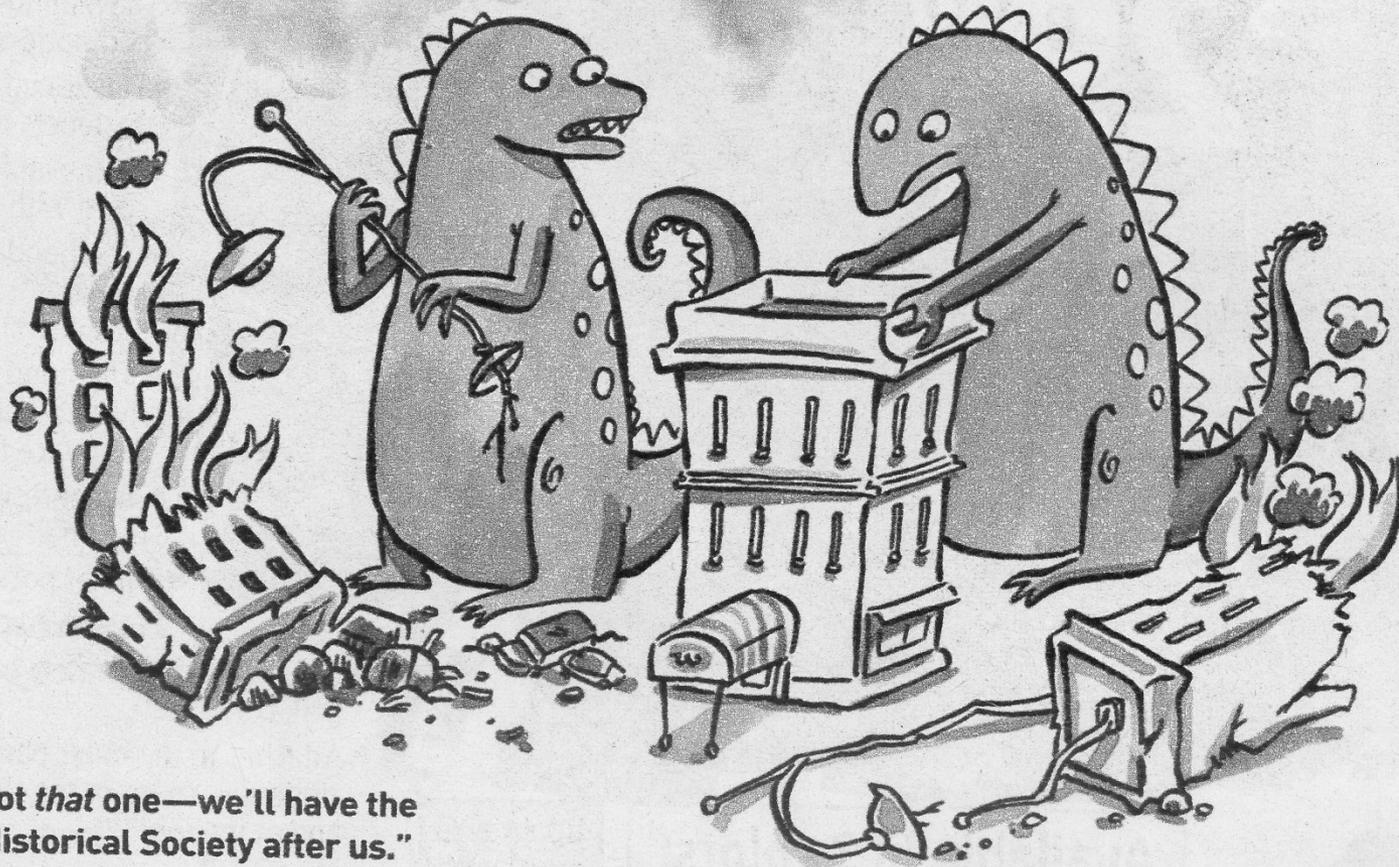
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- Office of Realty and Capital Planning
 - **State Historic Preservation Office**
 - National Register of Historic Places
 - Financial Incentives
 - Certified Local Government
 - Cultural Resource Protection
 - Archaeology



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



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

Audience Poll

Rockton Historic District—listed on the National Register in 1978—consists of 208 buildings. 166 are ‘contributing’ and 42 are ‘non-contributing’. During rehabilitation, how many buildings in the district must follow the Secretary of the Interior’s Standards for Rehabilitation?

- A. 208 (all)*
- B. 166 (contributing)*
- C. 42 (non-contributing)*
- D. None*

Audience Poll

*Rockton Historic District—listed on the National Register in 1978—consists of 208 buildings. 166 are ‘contributing’ and 42 are ‘non-contributing’. During rehabilitation, how many buildings in the district **must** follow the Secretary of the Interior’s Standards for Rehabilitation?*

- A. 208 (all)
- B. 166 (contributing)
- C. 42 (non-contributing)
- D. None**

When does SHPO review occur?

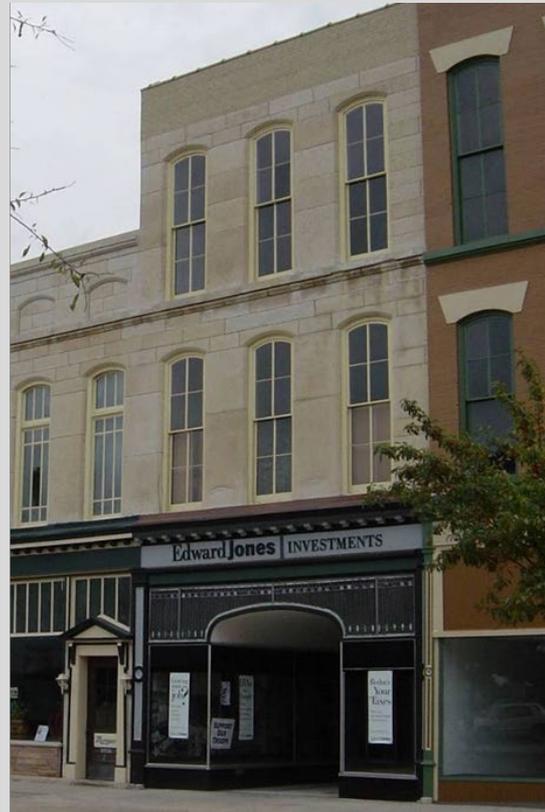
Only projects that receive federal or state funds (such as income tax credits), licenses or permits (such as a highway, sewage plant, or bank construction), must be reviewed to determine whether they will negatively affect any historic resources (i.e, whether they meet the Secretary of the Interior's Standards for Rehabilitation).

Income Tax Credits

- Applied to the owner's federal or state income taxes owed or to future tax liabilities
- Eligible owners may be individuals or businesses and must pay 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

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



50% Disabled Access Tax Credit (IRS form 8826)

- For small businesses in 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

- Property Tax Assessment Freeze
- 20% Federal Rehabilitation Tax Credit (F-HTC)
- 25% River Edge Historic Tax Credit (RE-HTC)
- 25% Illinois Historic Preservation Tax Credit (IL-HTC)



Financial Incentives for Historic Buildings

- Property Tax Assessment Freeze
- 20% Federal Rehabilitation Tax Credit (F-HTC)
- 25% River Edge Historic Tax Credit (RE-HTC)
- 25% Illinois Historic Preservation Tax Credit (IL-HTC)

Must meet four criteria:

1. Significance
2. Use
3. Budget
4. Work

Property Tax Assessment Freeze

- Freezes the assessed value for a period of 8 years
- The following 4 years, the property's assessed value steps up to an amount based upon its current market value (25% increase per year).

Example: Assessed value before the freeze is \$400K, current market value is \$500K

- Years 1-8: \$400K
- Year 9: \$425K
- Year 10: \$450K
- Year 11: \$475K
- Year 12: \$500K



Property Tax Assessment Freeze

Four criteria:

1. Significance: Certified historic building
2. Use: Owner-occupied housing
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 National Register historic district, or
- Individual landmark in certain municipalities, or
- Contributing building within a local landmark district in certain municipalities (including Rockton)



Rockton's Certified Historic Buildings (for tax freeze)

- 2 National Register of Historic Places districts
 - Macktown Historic District
(2 contributing properties)
 - Rockton Historic District
(166 contributing properties)
- 1 individually-listed National Register property
 - H.D. Jameson House
- 2 locally-designated landmarks (as of January 2018)
 - 203 West Franklin St.
 - 529 Green St.

2. Use: Owner-Occupied Housing

- Current or proposed use, not historic use:
 - Single family house
 - Building with up to 6 units, if owner lives in one
 - Condominiums
 - Co-ops



3. Budget: “Substantial Rehabilitation”

- Owner must spend $> 25\%$ of the Assessor’s “fair cash value” of the building during a 24-month period
 - Can push 24 months into the past for a start date of 48 months ago
- 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, on both the exterior and interior
- 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 are not eligible for the credit

3-Part Application Process

- Contact SHPO
- Complete Parts 1 and 2 of the application and submit with 'before' photos and architectural drawings
- SHPO will review the application and if necessary request additional information
- Complete the rehab per approved Part 2 and submit Part 3 with 'after' photos
- Upon approval, SHPO will issue a Certificate of Rehabilitation to owner and county assessor

Property Tax Assessment Freeze

Can you flip? **YES.**

- Developer fills out Parts 1 & 2
- After rehab, developers can sell with the freeze
- Buyer (first “owner-occupant”) submits Part 3



20% Federal Rehabilitation Tax Credit (F-HTC)

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



Rockton's Certified Historic Buildings (for tax credit)

- 2 National Register of Historic Places districts
 - Macktown Historic District
(2 contributing properties)
 - Rockton Historic District
(166 contributing properties)
- 1 individually-listed National Register property
 - H.D. Jameson House



2. Use: Income Producing Property

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



3. Budget: “Substantial Rehabilitation”

- **Same term as the tax freeze but different definition**
- 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, on both the exterior and interior
- 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 are not eligible for the credit

3-Part Application Process

- Contact SHPO
- Complete Parts 1 and 2 of the application and submit with 'before' photos and architectural drawings
- SHPO will review the application and if necessary request additional information
- SHPO will conduct a site visit
- SHPO 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

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
- Claiming of credits must be spread out over 5 years
- 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”



25% River Edge Historic Tax Credit (RE-HTC)

- Pilot program from 2012—Dec. 31, 2021
- Available in five cities: Aurora, East St. Louis, Elgin, Peoria, and Rockford
- Same rules and review as the 20% federal rehabilitation tax credit, except:
 - the building must also be located in a “River Edge Redevelopment Zone”
 - no credit recapture
 - credit can be carried forward 5 years
- SHPO administration with simple 2-part application

25% Illinois Historic Preservation Tax Credit (IL-HTC)

- Pilot program from Jan. 1, 2019—Dec. 31, 2023
- Available statewide, but limited to:
 - \$15,000,000 in annual credit allocations
 - \$3,000,000 per project
- Same rules and review as the 20% federal rehabilitation tax credit, except:
 - competitive allocation process
 - 5-year credit recapture
 - credit can be carried forward 10 years

25% Illinois Historic Preservation Tax Credit (IL-HTC)

- Allocated by SHPO twice per year based on:
 - Date and time of application receipt
 - Number of priorities met (up to 5)
 1. Border county
 2. Government ownership
 3. Census tract
 4. Not-for-profit
 5. Disaster declaration

25% Illinois Historic Preservation Tax Credit (IL-HTC)

- Each application round consists of 3 parts:
 - **S-1**—application workshop in Springfield
 - **S-2**—online application (to determine date and time of application receipt)
 - **S-3**—hard copy application (to determine number of priorities met per project)
- All 3 parts must be completed in order to be placed in queue for allocation
- Projects must have a Part 2 of F-HTC approved by NPS before applying (prior to S-1 meeting)

2019 IL-HTC Application Dates:

- Round 1 (up to \$9.75 million in available allocations)
 - **S-1** meeting:
 - Wednesday, June 5, 2019, 1:30 pm
Old State Capitol, Springfield
 - **S-2** online application:
 - Starts on Wednesday, July 10, 2019, 10:00 am
 - Ends on Friday, July 12, 2019, 5:00 pm
 - **S-3** hard copy application:
 - Due by Friday, August 9, 2019, 5:00 pm

2019 IL-HTC Application Dates:

- Round 2 (\$5.25 million in available allocations plus any unassigned allocations from Round 1)
 - **S-1** meeting:
 - Wednesday, September 25, 2019, 1:30 pm
Old State Capitol, Springfield
 - **S-2** online application:
 - Starts on Wed., October 9, 2019, 10:00 am
 - Ends on Friday, October 11, 2019, 5:00 pm
 - **S-3** hard copy application:
 - Due by Friday, November 8, 5:00 pm

Additional provisions (both RE-HTC and IL-HTC)

- Required cost certification by independent CPA
- Issuance fee of 2% of credit amount



Additional provisions (both RE-HTC and IL-HTC)

- Must apply for F-HTC



UNITED STATES DEPARTMENT OF THE INTERIOR
NATIONAL PARK SERVICE

HISTORIC PRESERVATION CERTIFICATION APPLICATION
PART 1 – EVALUATION OF SIGNIFICANCE

OMB Approved
No. 1024-0009
Form 10-168
Rev. 2014

Instructions: This page must bear the applicant's original signature and must application form. In the event of any discrepancy between the application form specifications), the application form takes precedence. A copy of this form will

1. Property Name _____
Street _____ County _____
City _____
Name of Historic District _____
National Register district certified state or local district

UNITED STATES DEPARTMENT OF THE INTERIOR
NATIONAL PARK SERVICE

HISTORIC PRESERVATION CERTIFICATION APPLICATION
PART 2 – DESCRIPTION OF REHABILITATION

OMB Approved
No. 1024-0009
Form 10-168
Rev. 2014

Instructions: This page must bear the applicant's original signature and must application form. In the event of any discrepancy between the application form specifications), the application form takes precedence. A copy of this form will b

1. Property Name _____
Street _____ County _____

UNITED STATES DEPARTMENT OF THE INTERIOR
NATIONAL PARK SERVICE

HISTORIC PRESERVATION CERTIFICATION APPLICATION
PART 3 – REQUEST FOR CERTIFICATION OF COMPLETED WORK

OMB Approved
No. 1024-0009
Form 10-168
Rev. 2014

Instructions: This page must bear the applicant's original signature and must be dated.

1. Property Name _____
Street _____ County _____ State _____ Zip _____
NPS Project Number _____
OR date of National Register listing _____

Layering of Tax Credits

- 20% Federal Credit + 25% State Credit
- Federal/State HTC + New Market Tax Credits
 - 39% Tax Credit
 - Location in a low income census tract
- Federal/State HTC + 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

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?

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www2.illinois.gov/dnrhistoric/Preserve/Pages/Funding.aspx