

## TAX CREDITS FOR HISTORIC BUILDINGS

(from 19 Feb 2004 workshop in Concord)

Income-producing properties can take a 20% federal tax credit, also a 20% state tax credit. There is a special 10% tax credit for buildings built before 1936 but not "historic." North Carolina also offers a 30% tax credit for non-income-producing properties such as homes; there is no federal tax credit for these properties at this time.

In order to be eligible for the tax credits, the property has to be listed on the National Register of Historic Places. For income-producing buildings, this listing must be in place within 30 months of the application. With non-income-producing buildings, the listing must be in place at the time of application. Either way it includes buildings listed individually or contributing members of a National Register historic district.

Approval of restoration plans by the Preservation office in Raleigh is needed **before** starting the work. The plans must conform to the Secretary of Interior Standards and are subject to approval by the National Park Service; they charge a fee, and, as of July 1, 2004, the NC Preservation office will also charge. There are guidelines for the minimum cost and the time involved.

Before starting on the application and project, the owner should get the forms from: Preservation Tax Credit Coordinator, Restoration Branch, NC State Preservation Office, NC Division of Archives and History, 4617 Mail Service Center, Raleigh, NC 27699-4617; 919-733-6547.

Also it is important to consult your accountant to see how the tax credits will affect your situation and to consult an attorney about how the ownership of the property is set up, especially if there is a partnership agreement in place. If a change in the use of the property is anticipated, you should consult the local planning department about zoning restrictions.

In Union County the Historic Preservation Commission has jurisdiction over designating and maintaining historic properties. It gives the landowner guidance in gathering the information needed for consideration of a designation report. It also has a list of professionals equipped to do National Register nominations; the cost varies.

NORTH CAROLINA DEPARTMENT OF CULTURAL RESOURCES  
DIVISION OF ARCHIVES AND HISTORY  
STATE HISTORIC PRESERVATION OFFICE  
4617 Mail Service Center, Raleigh, NC 27699-4617

## ASSISTANCE TO OWNERS OF HISTORIC BUILDINGS

### I. TECHNICAL ADVICE FOR RESTORATIONS, REHABILITATIONS, AND HISTORIC BUILDING MAINTENANCE:

All owners of historic buildings in North Carolina, including private individuals and organizations as well as governmental agencies, may request technical advice from the Restoration Branch of the State Historic Preservation Office (HPO). Technical consultation incurs no cost or obligation. A building does not need to be listed in the National Register of Historic Places or have any other special historic designation to be eligible for this service. Consultations are offered on a time-available basis and may include telephone consultations, mailings of technical articles and sample specifications, on-site building inspections and evaluations, and referrals to specialty architects, contractors, and consultants. Staff cannot prepare in-depth plans and specifications for restoration projects but can provide printed technical information materials without charge and recommend additional books and periodicals that are available for purchase from other sources.

CONTACT: Restoration Branch, 919/733-6547. Field offices are located in Asheville (828/274-6789) for the mountain region and Greenville (252/830-6580) for the northeastern region.

### II. FINANCIAL ASSISTANCE FOR RESTORATIONS AND REHABILITATIONS:

#### A. FEDERAL GRANTS (Private, private nonprofit, and public owners of National Register properties)

The National Historic Preservation Act of 1966 authorizes a grant program for properties listed in the National Register of Historic Places, but federal grant funds have generally not been available for restoration projects since 1980. Limited federal funding (approximately \$130,000 annually for the entire state) is available through the State Historic Preservation Office for assistance to communities and private nonprofit organizations engaged in historic preservation projects. These funds are limited mostly to non-construction activities such as comprehensive county surveys. Occasionally grants are awarded for nominations of individual properties to the National Register of Historic Places. Grants to assist the restoration of National Register properties are sometimes awarded in communities whose local governments have preservation programs that have been accredited as Certified Local Governments (CLGs) by the National Park Service.

*Additional funds are sometimes earmarked for special categories of projects such as lighthouses and Native American properties, and restoration funding is currently allowed for National Historic Landmarks regardless of local CLG status. Even when federal restoration funds have been available, historic properties used for religious purposes have been eligible for funding only in special circumstances. The application period for the annual grant cycle begins every November and ends January 31.*

CONTACT: Grants Administrator, 919/733-4763

#### B. STATE GRANTS AND PRIVATE FOUNDATION GRANTS (Private nonprofit and public owners of historic properties)

*State Grants:* In the past, state monies for local preservation projects were available to local governments and nonprofit groups from discretionary funds appropriated by the North Carolina General Assembly. In recent years there were no such appropriations until 1993, when a one-time appropriation was made for grants to local projects. Such appropriations may or may not be repeated in coming years. State appropriations have never been made to privately owned historic properties. A Regional History Sites program established by the Division of Archives and History in 1988 provided some funding for locally owned museum sites but has not been funded by the General Assembly in recent sessions.

*Private Foundation Grants:* Some private foundations include historic preservation projects among the activities eligible for funding, and project sponsors may find it useful to make inquiries to local and regional foundations. Foundation directories may be found at public libraries.

CONTACT: Grants Administrator, 919/733-4763

more - - -

### C. REHABILITATION TAX CREDITS (Private individuals and businesses)

The federal tax code provides an attractive 20% investment tax credit for the rehabilitation of privately-owned, income-producing historic buildings, including residential rental buildings, that are listed in the National Register of Historic Places or are contributing historic buildings within National Register Historic Districts. Effective January 1, 1998, an additional 20% state investment tax credit is available for projects certified under the federal program. The credits apply only to substantial rehabilitations (not minor fix-up projects) and the work must meet federal rehabilitation standards. **Owners who seek federal investment tax credits are urged to contact the Restoration Branch before beginning rehabilitation work.**

Also effective January 1, 1998, a building that is listed in the National Register or is a contributing building in a National Register historic district may be eligible for a 30% state income investment tax credit claimed against the costs of a qualified rehabilitation of the building. This credit applies only to nonincome-producing properties, **including owner-occupied residential properties.** The cost of the rehabilitation must exceed \$25,000 within a 24-month period. Plans for the rehabilitation are reviewed by the North Carolina Historic Preservation Office, and work on the building must meet the Secretary of the Interior's *Standards for Rehabilitation*. **Rehabilitation work must be approved by the North Carolina Historic Preservation Office prior to commencement of work.**

CONTACT: Preservation Tax Credit Coordinator, Restoration Branch, 919/733-6547

### III. ASSISTANCE PROGRAMS OF OTHER AGENCIES AND ORGANIZATIONS:

A. **PRESERVATION/NORTH CAROLINA:** Preservation/North Carolina (P/NC) is a statewide nonprofit preservation membership organization. Membership in P/NC supports a wide range of preservation advocacy, education, and restoration programs. Members receive a quarterly newsletter and periodic updates on historic preservation news and events in North Carolina.

**Buying or selling historic property:** Among its programs and activities, P/NC operates a revolving fund to market historic properties for sale to new owners who are able and willing to preserve them. Several local revolving funds also work cooperatively with P/NC. Protective covenants are appended to the deeds of properties revolved through P/NC, and P/NC retains the right of first refusal in future sales of the properties. P/NC also accepts easement donations from owners who desire that their properties be preserved in perpetuity.

CONTACT: Preservation/North Carolina, P.O. Box 27644, Raleigh, NC 27611-7644, 919/832-3652

B. **LOCAL HISTORIC PRESERVATION COMMISSIONS:** Over 80 preservation commissions have been established by local governments in North Carolina. These commissions represent over 120 counties and municipalities and operate preservation programs at the local level. Local preservation commissions recommend historic districts or landmarks for designation by the local governing board and review alterations and additions to landmarks and properties within designated historic districts. Some commissions provide rehabilitation design assistance, operate local revolving funds, and offer other services and activities.

CONTACT: Your local preservation commission. If you are uncertain if one exists in your community, or if you seek information about establishing or operating a commission in your community, contact the preservation planner at the State Historic Preservation Office, 919/733-6545.

C. **THE NATIONAL TRUST FOR HISTORIC PRESERVATION:** The National Trust is a national, private nonprofit preservation advocacy organization. The Trust publishes a monthly newspaper and bimonthly magazine, publishes a variety of books on historic preservation topics, owns and operates museum properties, and operates a program of incentive grants to local preservation organizations for non-construction activities.

CONTACT: National Trust for Historic Preservation, 1785 Massachusetts Avenue N.W., Washington D.C. 20036, 202/673-4000. Southern Regional Office, 456 King Street, Charleston, S.C. 29403, 843/722-8552.

D. **THE MAIN STREET PROGRAM:** The North Carolina Main Street Center (NCMSC) is an outgrowth of a pilot project begun by the National Trust in 1977. North Carolina was among the six states that originally participated and is now one of thirty-two states with active programs. Thirty North Carolina towns and cities with populations under 50,000 participate with locally staffed program managers. NCMSC provides technical assistance to participating communities to encourage economic development within a historic preservation context. NCMSC is part of the Division of Community Assistance of the North Carolina Department of Commerce.

CONTACT: North Carolina Main Street Center, Division of Community Assistance, P.O. Box 12600, Raleigh NC 27605-2600, 919/733-2850

3/31/00

State Historic Preservation Office  
Division of Archives and History  
North Carolina Department of Cultural Resources

## State and Federal Historic Rehabilitation Tax Credits

New state tax credits are now available for the rehabilitation of non-income-producing historic properties in addition to the previously available federal and state tax credits for income-producing historic properties. These tax credits make rehabilitations of historic buildings in North Carolina more attractive than ever before. The present historic preservation tax credit measures provide:

- A **20% state tax credit** for rehabilitations of *income-producing historic properties* that also qualify for the **20% federal investment tax credit**. In effect, the combined federal-state credits reduce the cost of a certified rehabilitation of an income-producing historic structure by 40%.
- A **30% state tax credit** for qualifying rehabilitation of *non-income-producing historic structures*, including owner-occupied personal residences. There is no equivalent federal credit for such rehabilitations.

### Non-income-producing properties

- The new credits will apply only to qualified expenditures made on or after January 1, 1998.
- Only certified historic structures will qualify for the credits. A "certified historic structure" is defined as a building that is listed in the **National Register of Historic Places**, either individually or as a contributing building in a National Register historic district, or as a contributing building within a local historic district that has been certified by the U. S. Department of the Interior. (There are only three of the latter in North Carolina. These are the Blount Street Historic District in Raleigh, the Goldsboro Historic District, and the Decatur-Hunter Historic District in Madison.)
- A non-income-producing building must be a "certified historic structure" at the time the state credit is taken—that is, it must be actually listed in the National Register or it will not qualify for the state credit. The property owner must begin taking the credit in the year the rehabilitation project is completed.
- An owner may begin a rehabilitation project on a non-income-producing property following approval of rehabilitation plans by the State Historic Preservation Office but prior to the listing of the property in the National Register, with the intention of having it listed in the Register by the time the project is completed. However, because listing of a property by a desired deadline cannot be guaranteed, owners are **strongly urged to secure National Register listing of their non-income-producing property prior to beginning a certified rehabilitation.**
- The rehabilitation of the historic structure must be substantial. For non-income-producing properties, the rehabilitation expenses must exceed \$25,000 within a 24-month period.
- The State Historic Preservation Office reviews rehabilitation work on non-income-producing historic structures. All rehabilitation work must meet the Secretary of the Interior's *Standards for Rehabilitation*. ***The applications must be approved prior to the commencement of work.***
- The credits cannot be claimed against the cost of acquisition, new additions, site work, or personal property. Only costs incurred in work upon or within a historic structure will qualify. Interior work such as HVAC work and kitchen and bathroom remodeling will qualify if the work meets the Secretary of the Interior's *Standards for Rehabilitation*.
- ***The application submitted by the owner describing the rehabilitation work on a non-income-producing historic structure must be approved by the State Historic Preservation Office prior to the commencement of work!!***

**Income-producing properties**

- Only certified historic structures will qualify for the credits. A "certified historic structure" is defined as a building that is listed in the **National Register of Historic Places**, either individually or as a contributing building in a National Register historic district, or as a contributing building within a local historic district that has been certified by the Department of the Interior. (There are only three of the latter in North Carolina. These are the Blount Street Historic District in Raleigh, the Goldsboro Historic District, and the Decatur-Hunter Historic District in Madison.)
- The federal tax credit for income-producing buildings provides for "preliminary certification" that enables an owner to take the credit for a qualifying rehabilitation even before the structure is actually listed in the National Register of Historic Places.
- The rehabilitation of the historic structure must be substantial. For income-producing properties, the rehabilitation expenses must exceed the greater of the "adjusted basis" of the building or \$5,000 within a 24-month period or a 60-month period for phased projects.
- All rehabilitation work must meet the Secretary of the Interior's *Standards for Rehabilitation*. Applications for income-producing structures are subject to a joint review by the State Historic Preservation Office and the National Park Service, with final authority resting with the National Park Service.
- The credits cannot be claimed against the cost of acquisition, new additions, site work, or personal property. Only costs incurred in work upon or within a historic structure will qualify. Interior work such as the installation of new HVAC, electrical, or plumbing systems, finishes, and other alterations will qualify if the work meets the Secretary of the Interior's *Standards for Rehabilitation*.
- Property owners of income-producing historic structures are **strongly advised** to consult with the State Historic Preservation Office **before beginning a rehabilitation** to resolve potential design and rehabilitation problems that could result in denial of the credits.

A property is listed in the **National Register of Historic Places** by a nomination, which is a research report prepared according to detailed state and federal guidelines. The final authority on National Register listing is the federal Keeper of the National Register in Washington, DC. In its role as administrator of the National Register program in North Carolina, the N. C. State Historic Preservation Office is charged with ensuring that nominations forwarded by the State Historic Preservation Officer to the Keeper are complete and correct. The State Historic Preservation Office provides direction to preparers but does not write nominations. Most nominations are prepared by private consultants hired by property owners, local governments, or private non-profit organizations. The nomination process may take six months to two years or longer.

This information describes the federal and state historic preservation tax credit programs in very general terms only. Taxpayers should consult a professional tax advisor, the North Carolina Department of Revenue, or the Internal Revenue Service for help in determining the tax and other financial implications of any matter discussed here. For further information regarding the procedures for obtaining historic preservation certifications, contact:

Tim Simmons or David Christenbury, Preservation Architects/Tax Act Coordinators  
 Restoration Branch, N.C. State Historic Preservation Office  
 N.C. Division of Archives and History  
 4617 Mail Service Center  
 Raleigh, NC 27699-4617 Telephone: 919/733-6547 Fax: 919/715-4801

For information about the National Register of Historic Places and the requirements and procedures for listing, contact:

Ann Swallow, National Register Coordinator  
 Survey and Planning Branch, N.C. State Historic Preservation Office  
 N.C. Division of Archives and History  
 4617 Mail Service Center  
 Raleigh, NC 27699-4617 Telephone: 919/733-6545 Fax: 919/715-4801

August, 2003

North Carolina Division of Archives and History  
State Historic Preservation Office

**Federal Preservation Tax Credits for Income-Producing Historic Buildings**

*What is the Federal Historic Preservation Tax Credit?*

An incentive to taxpayers who contribute to the preservation of historic buildings by rehabilitating them.

Provides a dollar-for-dollar reduction of federal income tax owed equal to 20 percent of the cost of rehabilitating “certified historic structures.”

Project must go through the three-part “Historic Preservation Certification Application” process at the state and federal levels—the State Historic Preservation Office and the National Park Service.

*Who may apply for the tax credit?*

Owners of potential “certified historic structures.”

Lessees of potential “certified historic structures” with a lease term of 27.5 years for residential property and 39 years for nonresidential property.

*What buildings are eligible?*

Buildings listed individually in the National Register of Historic Places or potentially eligible to be listed. Buildings not listed are required to be listed as part of the final certification.

Buildings located in a “registered historic district” or a potentially eligible district that contribute to the significance of the district. Districts not listed are required to be listed as part of the final certification.

Must be a “certified historic structure” as determined by the National Park Service through the “Historic Preservation Certification Application Part 1—Evaluation of Significance.”

Must be used in a trade or business or held for the production of income for either rental residential or nonresidential purposes.

*What rehabilitations qualify?*

Must be substantially rehabilitated—expenditures must exceed the greater of the “adjusted basis” of the building or \$5,000 within 24 months or 60 months for phased projects.

Rehabilitation must be consistent with the historic character of the building and, where applicable, with the district in which the building is located, as determined by the National Park Service through the “Historic Preservation Certification Application Part 2—Description of Rehabilitation.”

Must meet the Secretary of the Interior’s “Standards for Rehabilitation.”

*(See other side.)*

*What rehabilitation expenditures qualify?*

Expenditures incurred in connection with the rehabilitation of a "certified historic structure" that are properly chargeable to a capital account.

Includes: rehabilitation costs, construction interest and taxes, architectural and engineering fees, legal and professional fees, developer's fees, and general and administrative costs.

Does not include: acquisition costs, enlargement costs, acquisition interest and taxes, realtor's fees, paving and landscaping costs, sales and marketing costs, or new building construction costs.

*When can a taxpayer claim the tax credit?*

Generally, for the taxable year in which the rehabilitated building is placed in service. If all of the credit cannot be used, the excess can be carried back one year and then forward 20 years.

For phased projects, before completion of the entire project on the basis of "qualified progress expenditures" if construction is planned for two or more years.

Must be a "certified rehabilitation" as determined by the National Park Service through the "Historic Preservation Certification Application—Request for Certification of Completed Work." A copy of this certified application must be filed with the tax return claiming the tax credit.

*When are the tax credits subject to recapture?*

None if a qualified rehabilitated building is held by the taxpayer for longer than five years after the building is placed in service.

One hundred percent is recaptured if the owner disposes of the property within one year and the amount of such recapture is reduced by 20 percent for each full year that elapses thereafter.

*What are the fees for processing rehabilitation certification requests?*

The National Park Service's fee for review of rehabilitation projects ranges from \$500 to \$2,500 for projects with rehabilitation construction costs ranging from \$20,000 to \$1,000,000 plus.

*What is the 10 percent federal rehabilitation tax credit?*

Available for non-historic buildings built before 1936 used for nonresidential purposes. No "Historic Preservation Certification Application" required.

*How does the State of North Carolina Historic Preservation Tax Credit work?*

Effective for taxable years beginning on or after January 1, 1998, taxpayers who receive the 20 percent Federal Historic Preservation Tax Credit will also qualify for an additional 20 percent tax credit from the state of North Carolina.

This information sheet describes the Federal Historic Preservation Tax Credit program in very general terms only. Taxpayers should consult an accountant, tax attorney, or other professional tax adviser, legal counsel, or the Internal Revenue Service for help in determining the tax and other financial implications of any matter discussed here. For further information regarding the National Park Service regulations governing the procedures for obtaining historic preservation certifications, contact Tom Simmons, AIA, Senior Preservation Architect/Tax Credit Coordinator, Restoration Branch, State Historic Preservation Office, North Carolina Division of Archives and History, 4617 Mail Service Center, Raleigh, North Carolina 27699-4617, 919-733-6547.

August, 2003

500 copies of this document were printed at a cost of \$20.00, or \$0.04 per copy.