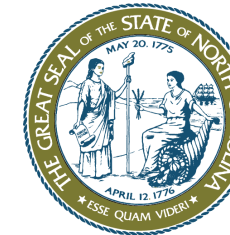


Navigating the Historic Rehabilitation Tax Credits: A Flow Chart & Guide from the North Carolina Main Street & Rural Planning Center



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The N.C. Main Street & Rural Planning Center (MS&RP) is part of the Rural Economic Development Division within the N.C. Department of Commerce. MS&RP works in regions, counties, cities, towns, downtown districts, and in designated North Carolina Main Street communities, to inspire placemaking through building asset-based economic development strategies that achieve measurable results such as investment, business growth, and jobs.

MS&RP is committed to strengthening communities through preservation-based economic development. Within this capacity, we are pleased to provide this document as a resource to community leaders, property owners, and developers who may be interested in pursuing historic rehabilitation tax credits to reactivate North Carolina's historic buildings.

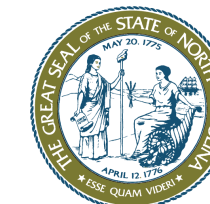
Document Outline:

- ⇒ An Overview of the Historic Tax Credit Program (Federal & State): Page 2
- ⇒ A Guide for the Community Leader: Page 3
- ⇒ A Guide for the Developer/Property Owner: Page 4—5

We would like to extend a special thanks to those who helped produce this resource alongside MS&RP staff: Gene Rees of REF Properties, The North Carolina State Historic Preservation Office, and Preservation North Carolina.

Neither the State of North Carolina, the North Carolina Judicial Branch or any of its employees, shall be held liable for any improper or incorrect use of the information described and/or contained herein and assumes no responsibility for anyone's use of the information. Please consult a qualified tax advisor to determine eligibility and use of the Historic Tax Credit program.

Navigating Historic Rehabilitation Tax Credits: An Overview of the Historic Tax Credit Program



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What are the Historic Rehabilitation Tax Credits?

The Historic Rehabilitation Tax Credit affords the owner of certified historic structures the ability to capitalize upon a 20% federal tax credit and varied state tax credit when they rehabilitate a building (1) that is depreciated; (2) where the rehabilitation meets the [Secretary of the Interior's Standards for Rehabilitation](#), and (3) where the investment exceeds the adjusted basis of the building(s). The [National Park Service](#), through its [Technical Preservation Services](#) division, and the [Internal Revenue Service](#) administer the program in partnership with the [State Historic Preservation Office \(SHPO\)](#).

**Are You
Eligible to
use Tax
Credits?**

CONSULT A QUALIFIED TAX ADVISOR TO DETERMINE ELIGIBILITY:

For a list of experienced accountants, visit the [Professional Associates Network - Preservation NC \(presnc.org\)](#). The rehabilitation credit is an investment credit and part of the general business credit that a taxpayer can claim against the income tax. Taxpayers that own an interest in the building are eligible to claim the rehabilitation credit and generally include: individuals, corporations, partners, shareholders, and beneficiaries of a passthrough entity, estates, and trusts.

If a developer/property owner is not in a position to use the tax credits, banks or other third parties may invest in the credits to raise equity funding for the HTC project, reducing the amount of debt financing developers need for the property's rehab.

Visit : [National Parks Service: Historic Tax Credit Eligibility Information](#)

**Federal
20%
Credit**

FEDERAL TAX CREDIT INCOME PRODUCING PROPERTIES:

A 20% federal income tax credit is available for qualified rehabilitation expenditures (QRE's) of historic buildings that are determined to be "certified historic structures" by the National Park Service. The buildings must be considered depreciable under the Internal Revenue Code, such as in a business, commercial, or other income-producing use. Learn more from the [National Parks Service](#).

Visit: [National Parks Service: Historic Tax Credit Frequently Asked Questions](#)

**NC
State
Varied
Credit**

NC INCOME-PRODUCING PROPERTIES:

A 15% state tax credit for rehabilitation of income-producing certified historic structures is awarded to rehabilitations that qualify for the federal tax credit and spend up to \$10 million. A 10% state tax credit for rehabilitation of income-producing certified historic structures is awarded to rehabilitations that qualify for the federal tax credit and are for expenses from \$10 million to \$20 million.

There is also a 5% bonus if the development is within a Tier 1 or Tier 2 county or is located in an eligible targeted investment site. This bonus may be applied for expenses up to \$20 million. To find your county's tier designation, visit the [County Development Tier Designations page from EDPNC](#). Read more from the [State Historic Preservation Office \(SHPO\)](#).

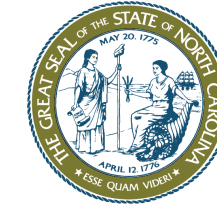
READ MORE: INCOME-PRODUCING REHABILITATED MILLS

NC NON-INCOME PRODUCING/HOMEOWNER PROPERTIES:

Homeowners may receive a 15% state tax credit for qualified rehabilitation of owner-occupied residential properties that contribute to a National Register Historic District or are listed individually on the National Register of Historic Places. The rehabilitation of the historic structure must exceed \$10,000 within a 24-month period. Eligible rehabilitation expenses are limited to \$150,000, with a maximum state credit of \$22,500. There is no federal credit for non-income producing projects. All rehabilitation work must meet [The Secretary of the Interior's Standards for Rehabilitation](#).

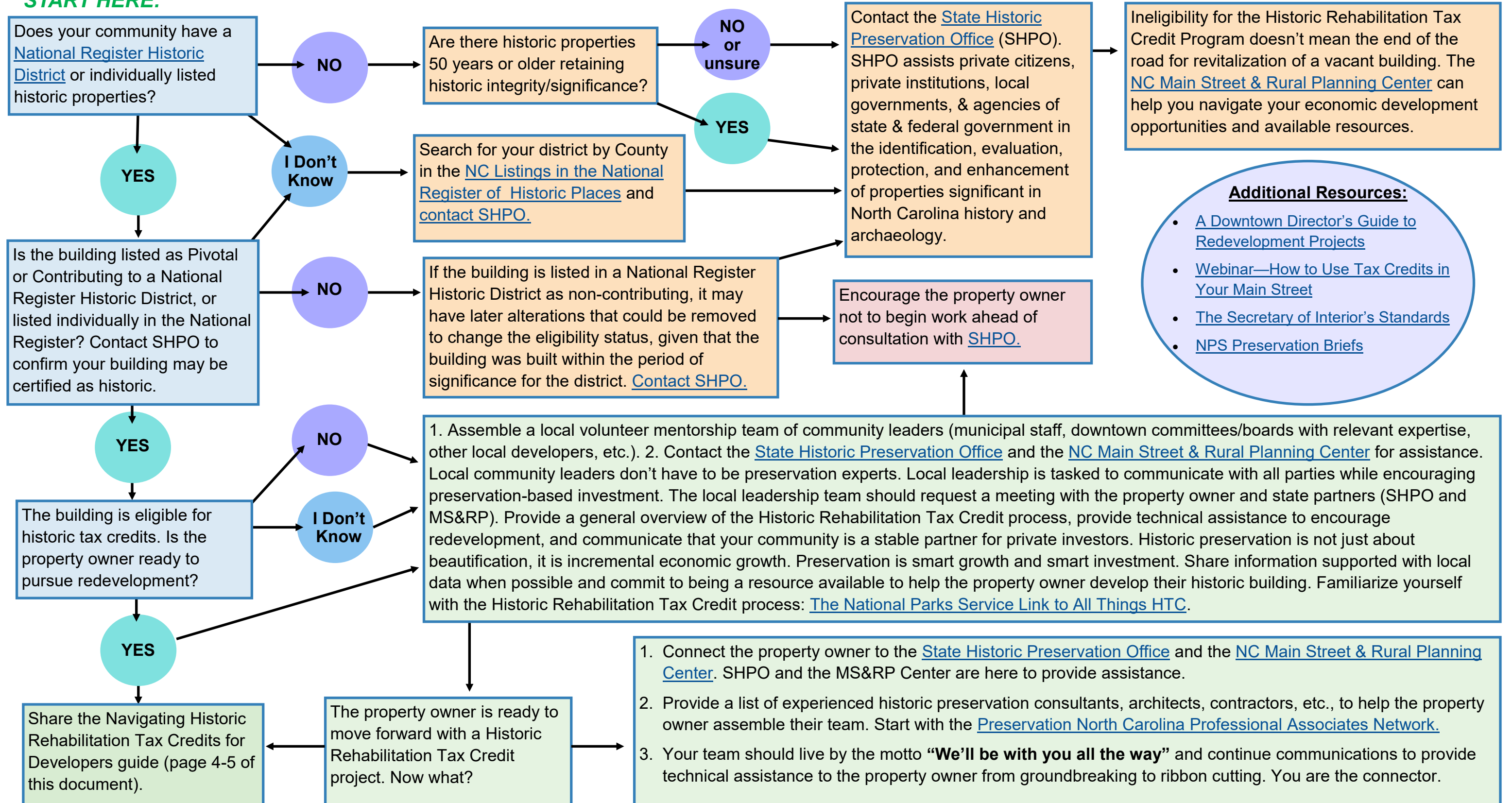
Contact the SHPO's Homeowner Tax Credit Coordinator, Meghan Sullivan, for more information at meghan_sullivan@dncr.nc.gov.

Navigating Historic Rehabilitation Tax Credits: A Guide for the Community Leader

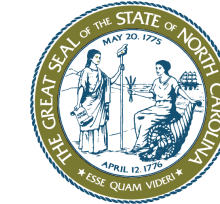


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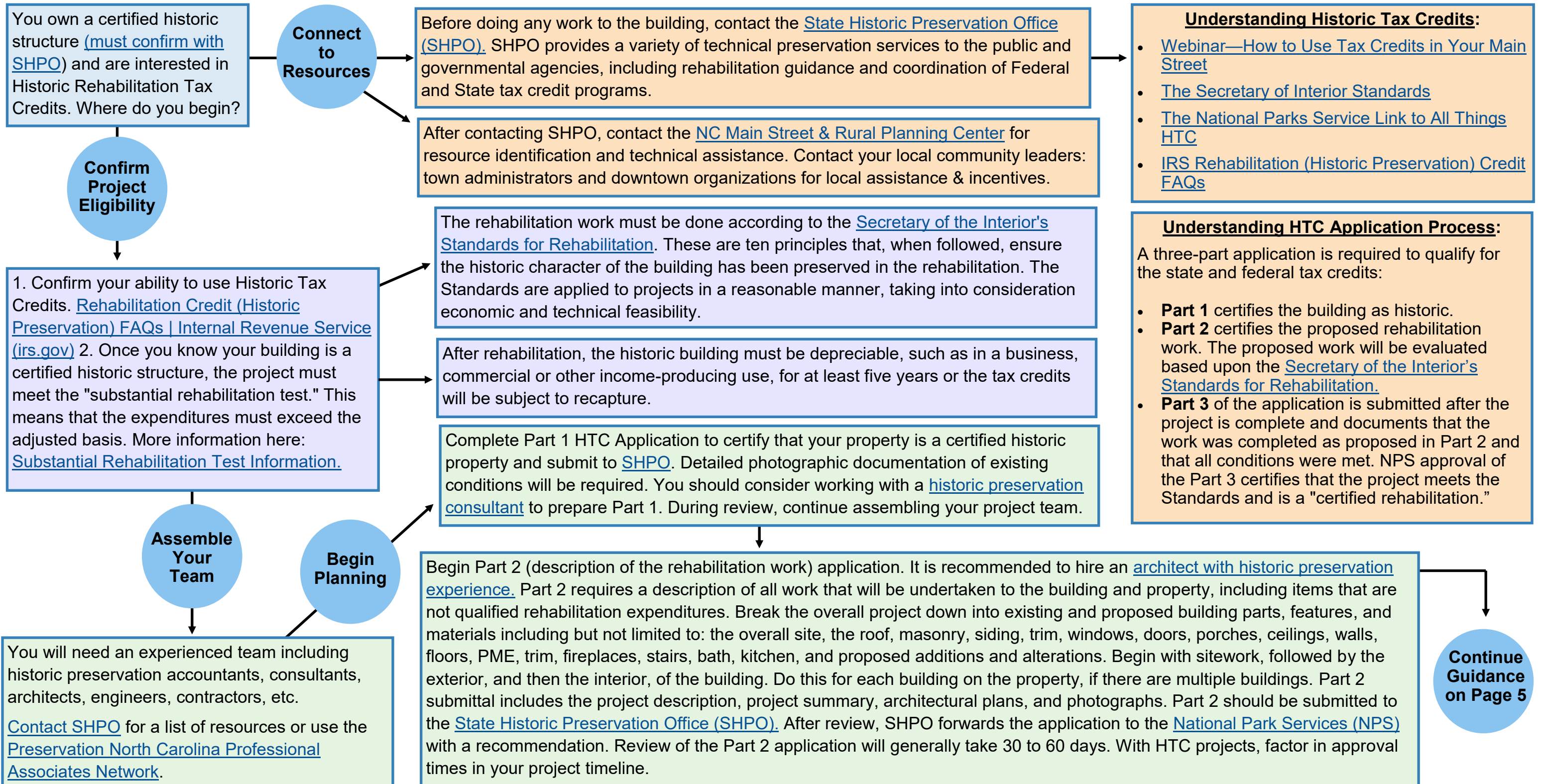


Navigating Historic Rehabilitation Tax Credits: A Guide for the Developer/Property Owner

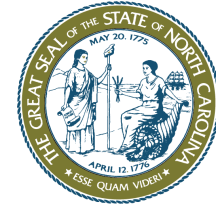


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START HERE (The starting point on page four assumes the property is a confirmed certified historic structure. (See page two for establishing eligibility):



Navigating Historic Rehabilitation Tax Credits: A Guide for the Developer/Property Owner



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CONTINUE HERE:

You've just submitted your Part 2 Historic Rehabilitation Tax Credit application to [The State Historic Preservation Office \(SHPO\)](#). Do you have all parties of your development team (historic preservation consultant, architect, landscape architect, general contractor, engineers, accountant, etc.) in place?

NO

While the Part 2 HTC application is under review, use this time to complete your development team. Consider [contacting SHPO](#) for resources or the [Preservation North Carolina Professional Associates Network](#).

Let's Talk About The Timeline:
Property owners may begin claiming the tax credits in the taxable year the "qualified rehabilitated building" is placed in service provided that all requirements are met. The rehabilitation credit is an investment credit that is part of the general business credit that a taxpayer can claim against the income tax. A taxpayer is generally allowed to carryback one year and carryforward 20 years unused portions of the general business credit. [More information from the IRS here.](#) The state historic tax credits may be claimed entirely the year the structure is placed into service, or carried forward up to nine years. The property owner must retain ownership for five years.

YES

It is not recommended to begin construction prior to review being completed. Those who elect to begin prior to the review being completed may jeopardize their tax credits.

1. Hire a [qualified tax advisor](#) to calculate Historic Tax Credit eligible basis and qualified rehabilitation expenditures. A qualified tax advisor may provide in-depth transaction analysis, develop transaction structures, and evaluate deal terms from prospective tax equity partners.
2. Determine that [Qualified Rehab Expenditures \(QRE\)](#) meet the [Substantial Rehabilitation Test \(SRT\)](#): the qualified rehabilitation expenditures must exceed the adjusted basis within a 24-month window or a 60-month window for phased projects. Phased projects must be phased from the outset and cannot change from non-phased to phased.
3. [Be sure you have confirmed eligibility.](#)

If [SHPO](#) or [NPS](#) feels that any element of the scope of work does not meet the [Standards](#), either SHPO or NPS may place a condition(s) on the project. As long as the completed rehabilitation addresses this condition, the Part 3 application will be approved at the end of the project. Applicants can file an amendment to officially revise the scope of work to address any conditions.

Complete Construction

Upon completion of construction, have your preservation consultant and experienced accountant review the Part 3 HTC application (request for certification of completed work) before submittal to [SHPO](#). Part 3 certifies that the completed rehabilitation meets the [Secretary of the Interior's Standards for Rehabilitation](#). The submittal includes "after" photos documenting the exterior and interior of the completed rehabilitation, estimated QRE and non-QRE costs, and ownership information (for assignment of credits). The date of Part 3 approval must be attached your annual tax return (corporate or individual) in order to claim the tax credits. Equity partners in the project must be on the deed on the placed in service date.

- A fee simple property owner of the property may be an individual, partnership or corporation.
- A limited partnership can distribute the benefit to its members. In this scenario, an equity partner can invest in the project in exchange for rights to the credit. The investment helps finance rehabilitation.
- Under certain circumstances, the lessee of a newly rehabilitated building can claim the credit. [Read more about it on the IRS Rehabilitation Credit FAQs website.](#)

Remember: lean into the [State Historic Preservation Office](#) and the [NC Main Street & Rural Planning Center](#) for technical assistance with your Historic Rehabilitation Tax Credit project.

The applicant (owner, partner, long-term lessee) may claim the historic tax credit after rehabilitation is complete and certified with a Part 3 approval. Claiming the credit is straightforward. The taxpayer submits [IRS Form 3648](#) along with the NPS project number with your annual tax documents.

The owner of the building must be a for-profit taxpaying entity, but that can take several forms: