

Financial Incentives for Historic Buildings

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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)



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- Constituent Services Division
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- 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”



Financial Incentives for Existing Buildings

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



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

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
- 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 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



Financial Incentives for Historic Buildings

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

Must meet four criteria:

- Significance, Use, Budget, & 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 DeKalb)



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 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 may conduct a site visit
- Complete the rehab per approved Part 2 and submit Part 3 with 'after' photos
- Upon approval, IHPA 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

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



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*

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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

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”



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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The Secretary of the Interior's Standards for the Treatment of Historic Properties

www.nps.gov/tps/standards/four-treatments/standguide/index.htm



The Secretary of the Interior's Standards for Rehabilitation

- Retain and repair the materials, features, finishes, spaces, and spatial relationships that give a property its historic character.
- Rehab Standards do not seek to freeze a property in time.
- Identify what's historic and significant.
- Keep that and everything else can be sensitively changed.







Review Standards
are the same
regardless of
program and
resource.

Regulatory



Tax Credit



Tax Freeze



When does IHPA 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).

Standard 1

A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.

New use, which requires minimal change to historic fabric

New use, which requires minimal change to historic fabric



Standard 2

The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.

Retain historic character

Retain historic character



Retain historic character



Retain historic character



Standard 3

Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.

Avoid false sense of history

Avoid false sense of history



Standard 4

Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.

Respect change over time

Respect change over time



Standard 5

Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.

Preserve distinctive features, finishes, construction techniques and craftsmanship

Preserve distinctive features, finishes, construction techniques and craftsmanship



Preserve distinctive features, finishes, construction techniques and craftsmanship



Standard 6

Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.

Repair rather than replace
Replacement based on evidence

Repair rather than replace
Replacement based on evidence



Repair rather than replace
Replacement based on evidence



Standard 7

Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.

Do not damage historic materials

Do not damage historic materials



Do not damage historic materials



Standard 8

Significant archeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.

Don't disturb below ground historic resources

Don't disturb below ground historic resources



Standard 9

New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.

New construction differentiated from old, but still compatible with the historic property

New construction differentiated from old, but still compatible with the historic property



Compatible new construction

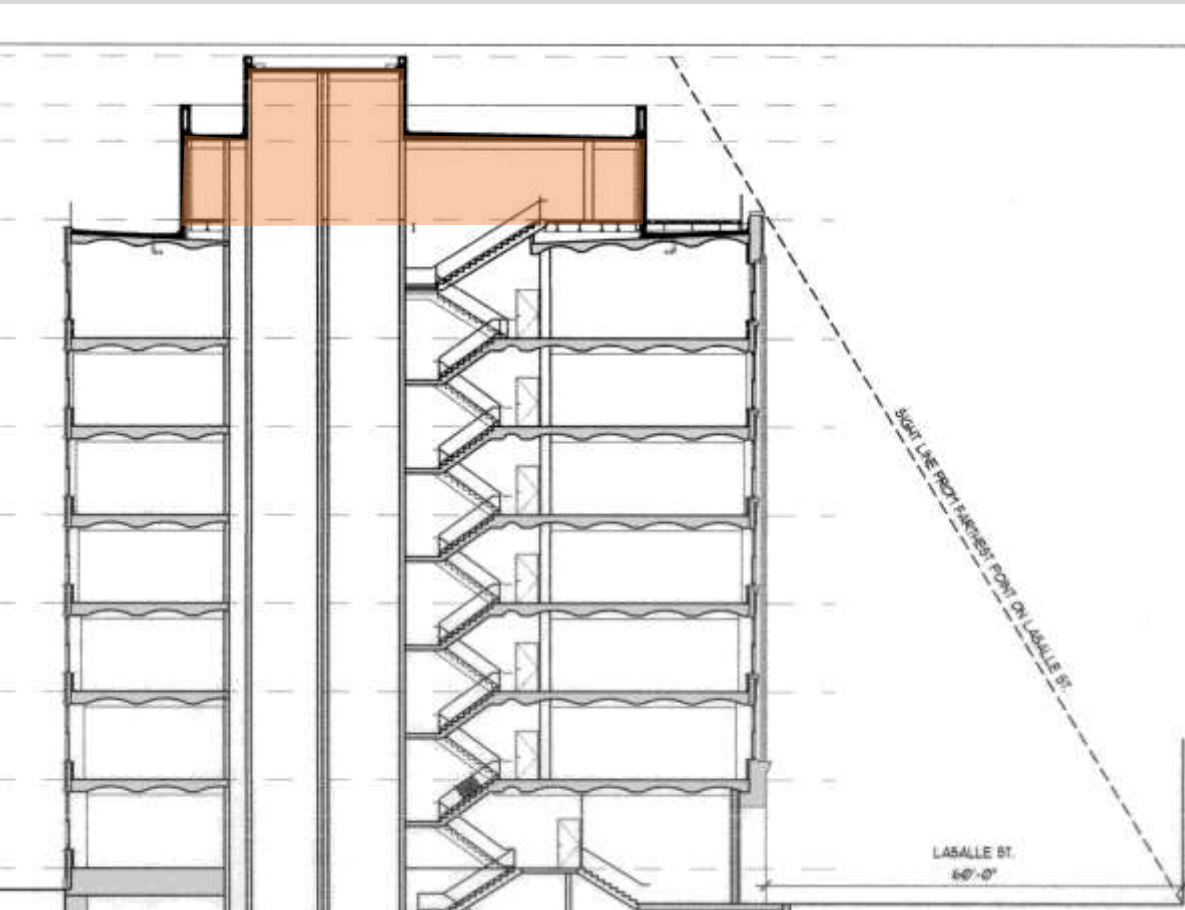
Incompatible



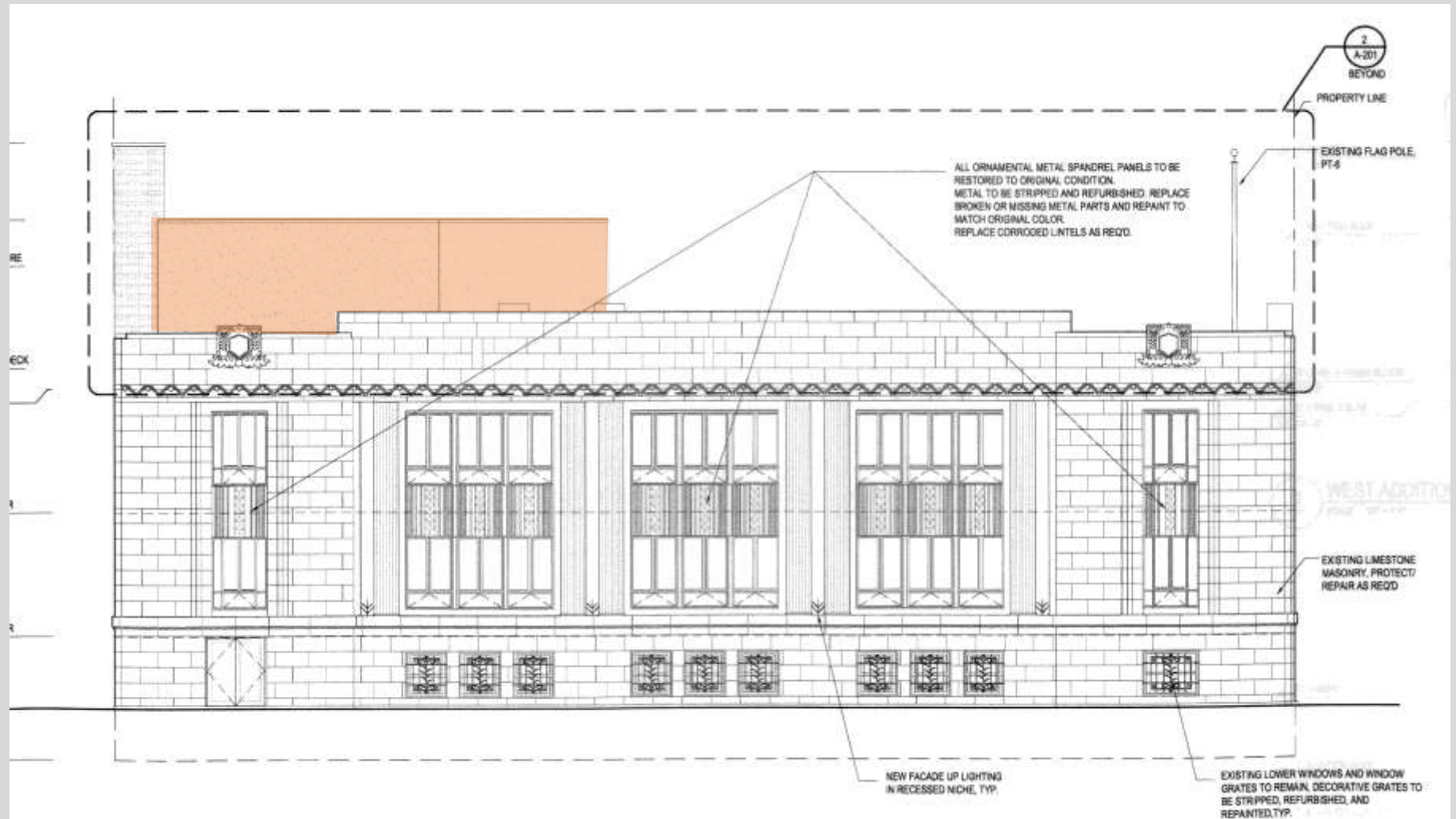
Compatible



Compatible new construction



Incompatible new construction



Standard 10

New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

Compatible and reversible additions

Compatible and reversible additions



Compatible and reversible additions



Case Study: Buck's Building, Springfield



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Case Study: Metropolitan Hall, Rockford



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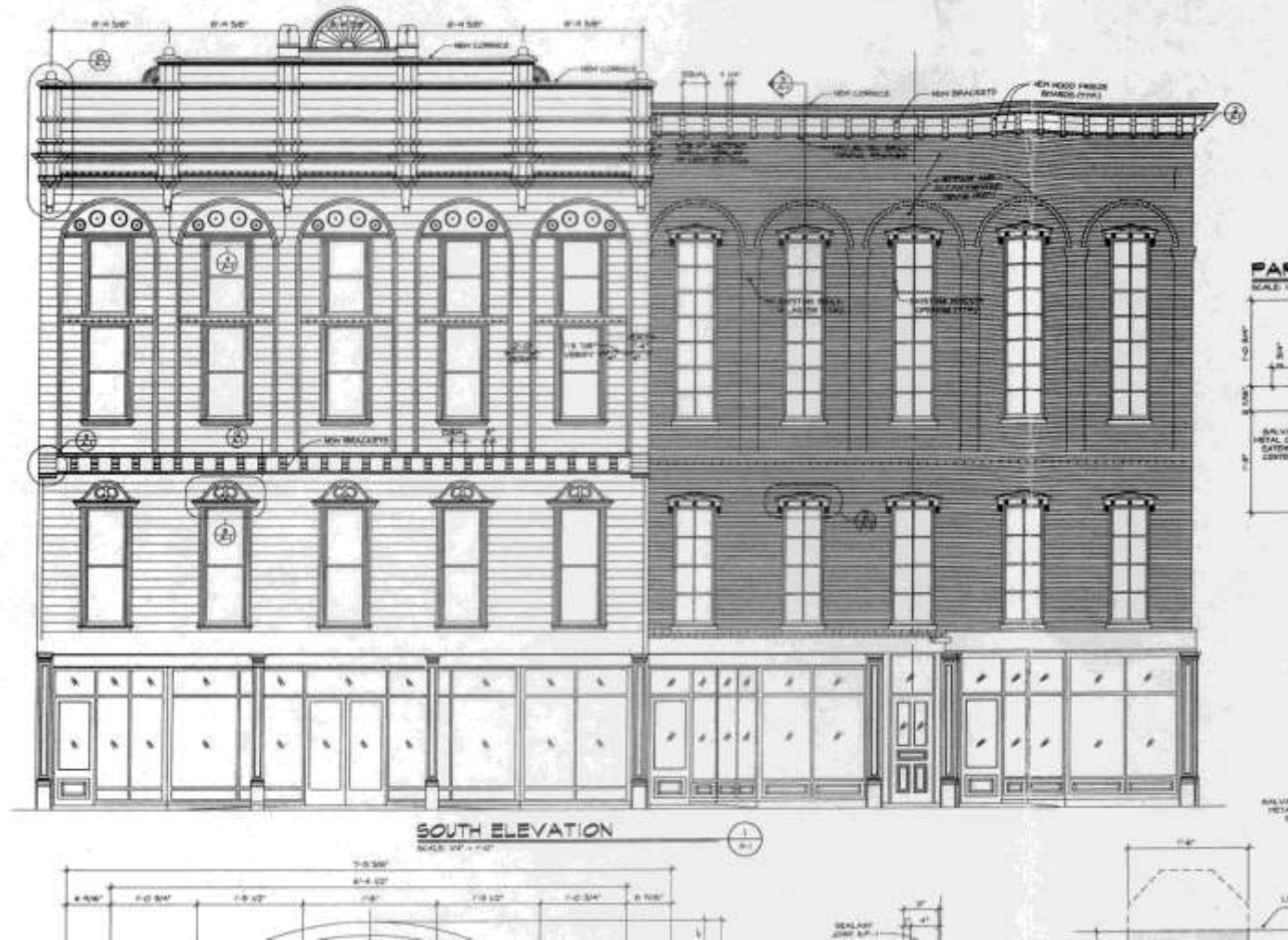


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