UPSTAIRS DOWNTOWN

HISTORIC PRESERVATION FINANCIAL INCENTIVES

Financial incentives fall into four major categories: *federal rehabilitation tax credits*, *local incentives*, *low-interest loans*, and *grants*. Of these categories, grants are generally only made to non-profit and government entities. Only at the local level are grants generally made to private, for-profit property owners.

FEDERAL REHABILITATION INVESTMENT TAX CREDITS

The federal tax credits reduce the amount of federal tax owed by owners whose buildings have been rehabilitated to meet certain criteria.

- Federal Rehabilitation Investment Tax Credits (ITC) are credits applied to an owner's federal taxes owed or to *future tax liabilities*.
- The credit typically is worth a percentage of the cost of the renovation.
- The Passive Activity Limitations, the Alternative Minimum Tax, and the At-Risk Rules all affect the amount of credit an individual can claim in one year.
- Eligible owners may be individuals or businesses and must pay federal income taxes.
- Approximately $9,000 is the maximum credit any one individual can claim in any one year. Larger credit amounts, however, can be divided up and carried to other years.

20% Rehabilitation Tax Credit for Historic Buildings

Administered by the Illinois Historic Preservation Agency (IHPA), National Park Service (NPS), and Internal Revenue Service (IRS). Contact the IHPA: 217-785-4512.

Federal Historic Preservation Tax Incentives
www.cr.nps.gov/hps/tps/tax/index.htm

Historic Preservation Certification Application
www.cr.nps.gov/hps/tps/tax/hpcappl.htm

Illinois Historic Preservation Agency
One Old State Capitol Plaza
Springfield, IL 62701
217-782-4836
www.illinois-history.gov

- Only for depreciable property:
    - Properties rehabilitated for commercial, agricultural, industrial, rental residential.
- Owner-occupied housing is not eligible.
- Building must be a certified historic structure:
    - Listed on the National Register (individually or as a contributing building within a National Register district); or
    - A contributing building within a local historic district that has been certified by the National Park Service.
    - Individually listed local landmarks are *not* eligible.
- Project must be certified by the NPS to meet the Secretary of the Interior's Standards for Rehabilitation.
    - Requires the preservation of as much of the existing significant historic features and materials as possible.
    - Does not require restoring a building or its features to their original appearance.
    - Non-historic features may be retained.
    - New, compatible alterations or additions may be added.
    - New additions outside the historic building envelope cannot be included in the amount submitted for credit.
- Owner must spend more than $5,000 or the Adjusted Basis (explained at the end of this document), whichever is larger, during a 24-month period. Owners may qualify for a 60-month phased project, but it requires more up-front planning.
- Eligible rehabilitation expenditures may include:
    - Architectural and construction costs on the historic building.
    - Soft costs that are depreciable rather than taken as a one-time expense: Architectural/ Engineering fees, survey, legal, development fees, construction-related costs.
- Ineligible expenditures include acquisition, furnishings, new additions, or landscape or site improvements.
- Apply Early: It is strongly recommended that applications be filed before work begins to avoid costly mistakes or possible certification denial. At a minimum, the Part 1 must be submitted prior to placing the project in service or the project will be denied.
- The building must be placed in service.
- The owner must retain the building for five years.
- The NPS charges a sliding fee for review, ranging from free (for projects with budgets of under $20,000) to $2,500 (for projects with budgets in excess of $1 million).
- Must fill out a three-part application that is reviewed by IHPA and the NPS.
    - Part I: Certifies that the building is indeed "historic."
    - Part II: Describes the work to be done to the building. Most proposals are described in written format, though architectural drawings and specifications may be included. Photos of the existing conditions of the building are also submitted. It is recommended that Part II be certified *before* construction begins.
    - Part III: Certifies that the work has been completed, has met the Standards, and lists the value of the renovation. The certified Part III is filed with the IRS for claiming the tax credit in the year the project is completed.
- Approval of proposed work typically takes from 3 to 6 months.

10% Rehabilitation Tax Credit for Non-Historic Commercial Buildings Built Before 1936

Administered by IRS; does not involve review by IHPA. Go to the IRS website to download Form 3468 and instructions: www.irs.gov/pub/irs-pdf/f3468.pdf Contact the IRS: 800-829-1040.

- Receive a credit of 10% of the amount spent to rehab a *'non-historic'* building built before 1936.
- Only building that are not listed on the National Register are eligible.
- Income-producing residential and owner-occupied housing are *not* eligible.
- Must be a substantial rehabilitation:
    - Spend more than $5,000 or the adjusted basis during a 24-month period.
- Eligible work includes architectural construction work (same as the 20%), such as masonry repair, exterior painting, interior remodeling, painting, mechanical and electrical work.
- Ineligible work includes building additions, appliances, furniture, and fixtures.
- Building must pass a physical retention test:
    - 50% of exterior walls must remain as exterior walls; and
    - 75% of exterior walls must remain as exterior or interior walls; and
    - 75% of building's internal structure must remain.
- No IHPA, NPS, formal design-review process. IRS reviews after submittal of application.
- No application fee.
- Applicant submits form to the IRS.
- Documentation of renovation expenditures must be retained.

50% Disabled Access Tax Credit

Administered by the IRS. Go to the IRS website to download Form 8826 (Disabled Access Credit) and instructions: www.irs.gov/pub/irs-pdf/f8826.pdf Contact the IRS: 800-829-1040.

This is a tax credit for an eligible small business that pays or incurs expenses to provide access to persons with disabilities. The expenses must be to enable the eligible small business to comply with the Americans with Disabilities Act of 1990.

- Designed for rehabilitation of buildings housing small businesses:
    - Less than $1 million in gross receipts in preceding year; or
    - Fewer than 30 full-time employees in preceding year.
- Work must meet current ADA Standards.
- Credit = 50% of the amount spent making a business accessible.
- Credit may be taken on work expenditures between $250 and $10,250.
- A maximum of $5,000 of credit may be taken each year.
- Documentation of the expenditures must be retained.
- Eligible expenses include installing ramps, restrooms, elevators, sidewalks or walkways, and the redesign of entries and interior circulation.
- Only work that is necessary for accessibility may be claimed as a tax credit.
- New buildings are not eligible.
- Credits may be claimed in more than one tax year provided that the expenses claimed were made in the current tax year.

New Markets Tax Credits

Contact the U.S. Treasury's Community Development Financial Institutions (CDFI) Fund (www.cdfifund.gov) or the National Trust for Historic Preservation (www.nationaltrust.org).

U.S. Treasury's Community Development Financial Institutions (CDFI) Fund allocates the New Markets Tax Credit (NMTC) Program, which permits taxpayers to receive a credit (typically 5% to 6%

of the amount invested in a distressed area) against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs).

- Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities.
- The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period.
- In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually.
- Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.
- The National Trust for Historic Preservation was the recipient of a $127 million allocation of the New Markets Tax Credit on March 14, which is then to be reallocated to projects.

OTHER TAX INCENTIVE PROGRAMS

Property Tax Assessment Freeze Program

Administered by IHPA. Contact Andrew Heckenkamp: 217-782-8168, fax: 217-524-7525
www.state.il.us/hpa/PS/taxfreeze.htm

- For non-commercial, residential-only buildings.
- Building must be a certified historic structure:
  - Listed on the National Register (individually or as a contributing building within a National Register district); or
  - A contributing building within a local historic district in a community whose ordinance has been approved by the IHPA for the Tax Freeze Program; or
  - An individually designated local landmark in a community whose ordinance has been approved by the IHPA for the Tax Freeze Program.
- Assessment level is frozen for 8 years at the pre-rehabilitation rate. Then it is raised in steps up to the current level over the next 4 years, until the assessment reaches its current rate.
- Only one level of design review by IHPA.
- Project must be certified by IHPA that it meets the Secretary of the Interior's Standards for Rehabilitation.
- Eligible properties include:
  - Single-family owner occupied
  - Six-flats if one unit is owner occupied
  - Co-ops and condos

Class L

Administered by Cook County Assessor's Office. Contact Brian Goeken (within Chicago city limits): 312-744-3201; or Len Motisi (if outside Chicago city limits, but still in Cook County): 312-603-7929. www.cookcountyassessor.com/forms/clslb.pdf

Class L is a property tax assessment reduction for locally designated industrial & commercial individual historic landmarks in Cook County.

- Requires approval of Certified Local Government
- Only for Cook County

Easements

Administered by various entities. In Illinois, the Landmarks Preservation Council of Illinois (LPCI) is an organization that has an easement program. Contact LPCI: 312-922-1742. www.landmarks.org

An easement is a voluntary legal agreement that protects part or all of a building (or other historic resource) in perpetuity. Under the terms of an easement, a property owner grants a portion of or interest in his property rights to an organization whose mission includes historic preservation. In return, the owner receives a substantial tax deduction because he has theoretically reduced the value of his structure by reducing his and any future owner's ability to unduly alter or demolish the designated significant features protected by the easement. The portion of the building property rights that are donated are monitored and protected by the preservation organization.

- Building must be a certified historic structure:
  - Listed on the National Register (individually or as a contributing building within a National Register district); or
  - A contributing building within a local historic district that has been certified by the National Park Service.
  - Individually listed local landmarks are *not* eligible.
- Easement equals the loss in value due to contribution. A typical easement might average 10% of the value of the rehabilitated building.
- Timing is complicated and critical if an easement is combined with the historic tax credit.
- Entity holding easement may a charge fee.

Investment Tax Credit for Low Income Housing

Administered in Illinois by the Illinois Housing and Development Authority (IHDA). Contact the IHDA: 312-836-5200. www.ihda.org/ViewPage.aspx?PageID=150

The Tax Reform Act of 1986 established a credit for acquisition, construction, and rehab of low-income housing.

- Owner must retain for 15 years.
- The amount of credit funds is limited and is allocated by IHDA on an annual basis.

The Architectural and Transportation Barrier Removal Deduction

This is the same program as the 50% Disabled Access Tax Credit

Administered by the IRS. Go to the IRS website to download Form 8826 form and instructions: http://www.irs.gov/forms_pubs/formpub.html See also Chapter 11 in Publication 535, *Business Expenses*: www.irs.gov/prod/forms_pubs/pubs/p5351107.htm

This is a deduction (not a credit) of the costs of removing barriers to the disabled and the elderly. This work entails making your facility or public transportation vehicle more accessible to, and usable by persons who are disabled or elderly. The cost of an improvement to a business asset is normally a capital expense. However, you can choose to deduct the costs of making a facility or public transportation vehicle more usable by those who are disabled or elderly.

- Cannot deduct costs to completely renovate or build a new facility or public transportation vehicle, or to replace depreciable property in the normal course of business.
- Can deduct up to $15,000 per year.
- Can add any costs over this limit to the basis of the property and depreciate the annual $15,000 tax deduction.

LOCAL INCENTIVES

Local incentives are designed by individual communities to encourage specific renovation programs. They can supplement the federal tax credits and often apply to projects not eligible for the credits. Matching grants are one of the most common local incentives. Grants may be given to eligible applicants for such things as façade renovations, exterior maintenance, new signage and interior remodeling. Grants are commonly matched with private funds in the range of 20% to 50%. Low-interest loans are another common local incentive. The loans are given at reduced interest rate, typically 2 to 5 points below prime. Eligible properties and projects are similar to those of matching grants. Low-interest loans can be given on a matching basis or have a cap on the low-interest portion.

Local governments often have resources available to provide incentives such as grants, low-interest loans, and public investment incentives. The programs can be administered much like any other local incentive program.

Grants and low-interest loans can be funded from special taxes or economic development districts. Tax Increment Financing (TIF) and special service area taxing districts (SSA) are common funding sources. The TIF district collects increased property tax revenue from a specially defined district over a specific numbers of years. Special service districts collect a special tax on properties in the district. The moneys collected *must be reused for the improvement* of the districts. Other communities have been designated as state or local economic development or empowerment zones that can provide for financial incentives for district improvements.

Some cities have offered public improvements as incentives. For example, if a property owner invests a certain amount in a façade renovation, the city will agree to replace sidewalks, add pedestrian amenities, or make improvements in the alley next to the building. Another incentive for building improvements is a property tax freeze on renovated buildings for a specified number of years.

LOAN PROGRAMS

Low-interest loans enable owners to borrow money to rehabilitate historic buildings usually at a reduced interest rate.

Experience Illinois Program

Administered by the Illinois State Treasurer, Judy Barr Topinka. Contact Cory Jobe: 217-524-4910, Fax: 217-557-5726. www.state.il.us/treas/Programs/Experience.htm

- A short-term, low-cost loan program for developing or further enhancing tourism-oriented projects including:
    - Historic preservation,
    - Tourism development, or
    - Community-enhancement projects.
- The applicant must be a non-profit corporation or organization:
    - A local municipality, county government, or other unit of government; or
    - An independent developer, joint venture association, or corporation.
- Historic preservation projects must be certified historic:
    - Listed on the National Register (individually or as a contributing building within a National Register district); or
    - Located in certified local historic district; or

    - An individually designated local landmark.
- Minimum loan amounts range from $10,000 to $25,000 up to a maximum amount of $2,000,000 to $5,000,000, depending on the type of project.

203(k) Rehabilitation Loan Program

Administered by the U. S. Department of Housing and Urban Development (HUD). Contact the loan officer at your bank or mortgage institution to find out if they participate. www.hud.gov/offices/hsg/sfh/203k/203kabou.cf

- HUD's 203(k) Rehabilitation Loan Program allows a qualifying private owner to borrow a single, long-term mortgage loan to finance *both* the acquisition and rehabilitation of an older home.
- The mortgage amount, which is usually at a higher rate than most mortgages, is based upon the projected value of the property with the work completed, taking into account the cost of the work.
- The loan can also be used to refinance the mortgage on a home one already owns in order to rehabilitate it.
- The loan cannot be used for rehabilitating properties for resale.

GRANT PROGRAMS

Most grants are targeted for publicly owned or non-profit-owned buildings and may be geared for specific building or occupancy types. They offer lump sums of money for specific rehabilitations. They can involve stringent qualifying criteria and can be competitive.

Tourism Attraction Grant Program

Administered by the Department of Commerce and Economic Opportunity (DCEO). Contact Cindi Fleischli: 217-785-6337. www.illinoisbiz.biz/bus/gri/grants_tour_tap.html

- Funds historic projects that are heritage-tourism related.
- Property must be open to the public on a regular basis (at least 5 days a week).
- Must be able to show that the project will result in visitors staying overnight in hotels in your region of Illinois.
- Projects are funded on a 1:1 (50/50) matching basis, and the maximum grant is $100,000.

Preservation Heritage Fund Grants

Administered by the Landmarks Preservation Council of Illinois (LPCI). Contact LPCI: 312-922-1742. See www.landmarks.org/heritage_fund_guidelines.htm for full guidelines and procedures.

- Funds (grants or loans) may be applied to one or more of the following services:
    - Engineering, architectural, and feasibility studies
    - Stabilization
    - Legal services
    - Surveys and National Register Nominations

    - Preservation ordinance support
- Grant amounts are determined by need and are awarded on a matching basis.
- For significant structures or sites in Illinois that are under threat of demolition, imminent deterioration, or are of such architectural importance that their preservation will benefit the public.
- Applicants must be not-for-profit organizations or governmental bodies that own or have sufficient legal control of the resource.
- A project must preserve all or part of the resource. Ordinary maintenance expenses are not considered preservation expenses.
- A project must comply with the Secretary of the Interior's Standards for Rehabilitation, Restoration, or Adaptive Reuse.

Public Museum Grants Program

Administered by the Illinois Department of Natural Resources, Illinois State Museum. Contact Karen Fyfe: 217-782-7388, Fax 217-782-1254, Email: kfyfe@museum.state.il.us
www.museum.state.il.us/programs/musgrants/mgrants.html

- Provides operating funds and capital project funding.
- Grants given to museums operated by or located on land owned by a unit of local government.
- At the time of application, the museum must have been in existence for 2 years and have professional staff.
- A minimum grant of $10,000 is available for operating expenditures, and it must be matched locally on a 1:1 basis.

Transportation Enhancement Program (TEA-LU)

Administered by the Illinois Department of Transportation (IDOT). Contact: IDOT 217-782-7388. The expected application for the next six years of funding is in late 2005 or 2006.
www.dot.state.il.us/opp/iltep.html

The current rounds rules have not yet been developed, but it is expected that they will parallel the past two rounds. In the past rounds:

- Funding for a variety of transportation-related programs, including historic preservation projects, transportation museums, rehabilitation of historic transportation buildings, scenic or historic highway programs (including visitors' centers), and historic streetscape projects.
- Funding was available on an 80/20 basis, with the 20% being the local match.
- Applicant must have had a unit of government sponsor for the project.
- Some program categories required the property to be listed in the National Register of Historic Places or designated by a Certified Local Government (CLG).
- Plan ahead now for the next round of funding. Projects should be designed and cost-estimated, and the buildings should be listed on the National Register or designated by a CLG before the next round is funded, or they will get left behind.

National Trust for Historic Preservation

Contact the National Trust's Chicago Regional Office: 312-939-5547. www.nationaltrust.org

The National Trust has a variety of grant programs for non-capital projects, including the Preservation Services Fund, which provides funding to non-profit, public agencies, or educational institutions for consultant services, educational programs, or conferences.

- Loans for capital projects are available through the National Preservation Loan Fund.

GENERAL INFORMATION

Illinois Historic Preservation Agency (IHPA)
Preservation Services Division
One Old State Capitol Plaza
Springfield, IL 62701-1507
217-785-4512
fax: 217-524-7525

IHPA, Preservation Services Division:	www.illinois-history.gov/ps
National Park Service, Heritage Preservation Services:	www.cr.nps.gov/hps
Internal Revenue Service:	www.irs.gov 800-829-1040
Landmarks Preservation Council of Illinois (LPCI):	www.landmarks.org 312-922-1742
National Trust for Historic Preservation (NTHP):	www.nationaltrust.org
NTHP Chicago Regional Office:	312-939-5547
National Main Street Center:	www.mainstreet.org

DETERMINING ADJUSTED BASIS & DEPRECIATION

Adjusted Basis is roughly equal to:

Purchase price – land value – annual depreciation + previous capital improvements

Depreciation

- 31.5 years for commercial
- 27.5 for rental residential

Land Value is determined through sales of comparable properties and assessed values. Virtually every commercial property establishes a land value at the time the property is placed in service, as this is necessary to begin claiming the depreciation deduction on income taxes.

The value of previous improvements is also added into the adjusted basis.

EXAMPLE OF 20% INVESTMENT TAX CREDIT FOR HISTORIC BUILDINGS

Owner: Individual, single owner.

Building: Built in 1890, 2 stories, listed as contributing to a National Register District, ground floor retail, second floor former residential unit now used as storage for the store. Owner purchased five years ago for $80,000. The land under the building is valued at $20,000.

Project: Renovate façade, repointing, new roof, interior remodeling.

To roughly calculate the Adjusted Basis, the Depreciation must first be calculated:

Depreciation for commercial floors within a building = ([Purchase Price] – [Land Value]) ÷ [Number of floors in building] ÷ 31.5 X [Number of years of ownership] X [Number of floors of commercial usage]:
($80,000 – $20,000) ÷ 2 total floors ÷ 31.5 X 5 years X 1 commercial floor = $4,762

Depreciation for rental residential floors within a building = ([Purchase Price] – [Land Value]) ÷ [Number of floors in building] ÷ 27.5 X [Number of years of ownership] X [Number of floors of rental residential usage]:
($80,000 – $20,000) ÷ 2 total floors ÷ 27.5 X 5 years X 1 residential floor = $5,455

Add the two depreciation amounts to get the building's total depreciation = $10,217

Adjusted Basis (roughly):
$80,000 [Purchase Price] – $20,000 [Land Value] – $10,217 [Total Depreciation] + $5,000 [Previous Capital Improvements] = $54,783

Minimum Expenditure:
Since $54,783 is greater than $5,000, the minimum expenditure is $54,783
Must spend Adjusted Basis on rehabilitation within 24 months, or can take up to five years with a phased rehabilitation plan

Project Cost:
$75,000 [Construction] + $5,250 [Professional Fees] + $500 [application fee for the tax credit program] = $80,750

Tax Credit:
$80,750 [Project Cost] x 20% [Credit percentage] = $16,150
Unused credit may be carried forward 15 years

Project Cost After Tax Credit:
$80,750 [Project Cost] – $16,150 [Tax Credit] = $64,600

EXAMPLE OF 50% DISABLED ACCESS TAX CREDIT

Owner: Small business with annual gross receipts of $750,000 and 5 employees.

Building: Built in 1915, one-story, not listed on National Register, ground floor commercial.

Project: Replace existing non-accessible restrooms to meet current ADA standards.

Minimum Expenditure: $250
[$10,250 maximum], per year

Project Cost: $8,000

Tax Credit:
50% X ($8,000 [Project Cost] – $250 [Minimum Expenditure]) = $3,875

Project Cost After Tax Credit:
$8,000 [Project Cost] – $3,875 [Tax Credit] = $4,125

This brief summary was compiled by the Illinois Historic Preservation Agency and is accurate to the best of our knowledge. However, for further information and complete, up-to-date and exact details, and to be certain all information is correct, please contact the sponsoring agency for each funding sources. We apologize for any inaccuracies or omissions. In all cases we recommended working with a knowledgeable tax accountant or attorney regarding the financial aspects these programs.