
ALABAMA'S NEW HISTORIC PRESERVATION TAX CREDIT

The following information about the tax credit program should be considered preliminary, and people interested in applying for the credits should study the bill carefully. Text of the bill may be found at this website:

http://alisondb.legislature.state.al.us/acas/ACTIONViewFrameMac.asp?TYPE=Instrument&INST=HB140&DOCPATH=searchableinstruments/2013RS/Printfiles/&PHYDOCPATH=/alisondb/acas/searchableinstruments/2013RS/PrintFiles/&DOC_NAMES=HB140-int.pdf,HB140-eng.pdf,HB140-enr.pdf

What is the tax credit?

25% of qualified rehabilitation expenditures for certified historic buildings used for income-producing or residential purposes.

10% of qualified rehabilitation expenditures for pre-1936 non-historic buildings used for income-producing purposes.

Historic versus Non-historic

Historic buildings

- listed individually in the National Register of Historic Places (NRHP)
- listed as a contributing resource in a NRHP district
- eligible for listing in NRHP

Non-historic buildings which meet Internal Revenue Code 47(c)(1)(a) and (b)

- built before 1936 and not eligible for listing in the National Register of Historic Places (NRHP)
- built before 1936 and listed as a non-contributing resource in the NRHP

Who can apply?

Taxpayers filing a State of Alabama tax return or entities that are exempt from federal income taxation who own title to a building or own a leasehold interest in a building for a term of 39 years or more may apply.

What type of project is eligible?

Both commercial developments and single-family residential projects may apply for this program.

How much must be spent?

Project expenditures must exceed 50 percent of the owner's original purchase price or \$25,000, whichever is greater.

What guidelines must be followed?

Work must follow the Secretary of the Interior's Standards for Rehabilitation, which insure that improvements are consistent with the historic character and maintain the historic integrity of the building.

The Standards may be found at <http://www.nps.gov/tps/standards/rehabilitation.htm>

What expenses qualify for the credit?

Expenses incurred by the owner for improvement of the building include such things like repair of exterior materials; repair of structural systems; repair of interior finishes like wood floors, plaster walls, and ceilings; upgrades to HVAC, electrical, and plumbing; and architectural, engineering, and land surveying fees.

What expenses do not qualify for the credit?

Acquisition costs; personal labor by the owner; furnishings; additions; and landscaping or site work outside the footprint of the qualified building are some things that do not qualify for the credit.

Application process

The Alabama Historical Commission is working on an application form to be available September 1, 2013, and applications will be accepted on October 1, 2013. An application fee will be required. The Commission will have up to 60 days to review the application and get back with you. In general, tax credits will be reserved for approved projects in the order in which complete applications are received.

When should you apply?

Apply before you begin working on the building and early in the planning stages of your project. The first portion of the application will determine if the building is eligible for the program and if the proposed rehabilitation plan meets the Standards. The only type of work that may occur before an application is submitted is related to design or development fees or emergency repairs that protect a building from deterioration. This work may not begin more than 6 months prior to making application.

Tax credit caps

Commercial projects are limited to a reservation of \$5,000,000 in tax credits.

Residential projects are limited to a reservation of \$50,000 in tax credits.

A total of \$20,000,000 in tax credits are reserved each fiscal year (October 1 to September 30).

Excess tax credits will be carried forward each year.

When to take the tax credit

At the end of a project, owners submit a final application providing information on the completed project. This includes a cost and expense certification prepared by a licensed CPA and an appraisal. If work complies with the Standards and all requirements of the final application are met, a tax credit certificate in the amount of the reservation is issued. Owners claim the tax credit in the taxable year in which the approved rehabilitated building is placed in service. Any unused portion of the tax credit may be carried forward for up to ten years.

Recapture of credit

Recapture of this credit is governed by Internal Revenue Code Section 50, which refers to disposal of the property within the recapture period, which is five years.