

## Federal Income Tax Credit for Low Income Housing

The Internal Revenue Service Tax Reform Act of 1986 created an income tax credit for the acquisition, construction or rehabilitation of low income housing. This can be used in conjunction with the 20% Federal Historic Rehabilitation Tax Credit to rehabilitate historic buildings into low income housing units. Contact the State Housing Finance & Development Authority at 803/734-2000 or visit the website, [www.sha.state.sc.us](http://www.sha.state.sc.us) for more information about this program.

## State Historic Rehabilitation Tax Credit – Owner Occupied Residences

Owners who rehabilitate their historic homes may be able to claim 25% of the costs for repairs and renovations over \$15,000 from state income taxes. The property must be either listed in the National Register of Historic Places or be a contributing property within a National Register listed historic district, or be determined by the SHPO to be eligible for individual listing on the National Register. Additionally, an outbuilding of a National Register listed or eligible property that contributes to the significance of the property is eligible for the tax credit.

For example, a property owner who meets the requirements of the tax credit program and spends \$18,000 on allowed expenses can subtract \$4500 ( $\$18,000 \times 25\% = \$4500$ ) from state income taxes.

The SHPO must review and approve plans for rehabilitation work prior to beginning work. The SHPO staff will consult with the property owners to ensure that all work respects the historic character of the building while also taking into account reasonable changes for today's needs. The SHPO must certify that the work proposed will meet the Secretary of the Interior's *Standards for Rehabilitation*. Under the homeowner credit, the homeowner needs to spend more than \$15,000 within a 36-month period (although this does not mean that work has to be completed in a 36-month period). After the work is completed, the SHPO must verify that the work is consistent with the approved plans.

Allowable expenses include preservation and rehabilitation work done to the exterior, repair and rehabilitation of historic structural systems, restoration of historic plaster, energy efficiency measures with the exception of insulation in frame walls, repairs or installation of HVAC systems, repairs or installation of electrical or plumbing systems with the exception of new appliances and plumbing fixtures, and architectural and engineering fees. Credit will not be extended to expenditures for new construction increasing the size of the existing building, purchase or marketing the property, value of property owner's personal labor or personal property.

The credit must be taken in equal installments over a five-year period beginning with the year the work on the property was completed by submitting South Carolina Department of Revenue form SC SCH. TC-22 with the state income tax return. If the installment exceeds the tax liability, the credit installment can be carried forward for up to five more years. The taxpayer can only claim one tax credit on the same building within a ten-year period.

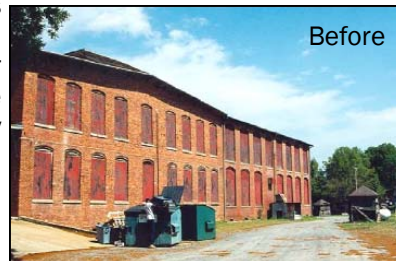
The State Historic Preservation Office (SHPO) is your first step in this process. For more information, contact the SHPO at 803/896-6199 or view the website at [www.scpo.sc.gov](http://www.scpo.sc.gov).

## Federal Income Tax Incentives for Easement Donations

A conservation easement or preservation easement is a voluntary legal agreement between the property owner and government agencies that can protect significant historical, archaeological, or cultural resources. Under certain circumstances, the owner who donates an easement may be eligible for tax benefits. **It is strongly encouraged that a tax advisor be consulted for individual advice on conservation easements.**

The property owner legally agrees to the conditions set by the governmental agency – known as the easement holder – in order to protect and ensure the integrity of historical properties. These conditions usually include written permission to make alterations, such as new construction or alterations to the existing property. The easement may entitle the property owner to a reduction in federal estate taxes and lower local property taxes. Easements donated in perpetuity along with meeting certain criteria may realize a one-time federal income tax deduction.

The South Carolina Conservation Easement Act of 1991 provides a legal basis for the donation of conservation easements in order to preserve historic properties. More information about easements on the Federal level can be found on the National Park Service website, [www.nps.gov/history/hps/tps/tax/easement.htm](http://www.nps.gov/history/hps/tps/tax/easement.htm). Information at the state level can be found on the SHPO website at [www.state.sc.us/scdah/hpceasements](http://www.state.sc.us/scdah/hpceasements). Additionally, websites for the Palmetto Conservation Foundation ([www.palmettoconservation.org](http://www.palmettoconservation.org)) and the Palmetto Trust for Historic Preservation ([www.palmettotrust.org](http://www.palmettotrust.org)) also have information about conservation ease-



Before



After

Highland Park Manufacturing Plant

Highland Park Manufacturing Plant #2 in Rock Hill was originally built in 1889 with significant additions constructed in 1898 and 1916 as textile operations expanded. When rehabilitation began in 2001 the building had been abandoned for many years. Plans to convert the mill building into living space were reviewed and approved by the State Historic Preservation Office for both Federal and South Carolina Historic Rehabilitation Tax Credits. Unusual for the state, this mill rehabilitation retained the majority of the historic wood windows. By creating housing for the elderly and a senior care facility in this historic textile complex the owners were also able to utilize the SC Textile Communities Revitalization Tax Credits and Federal Low-Income Housing Tax Credits.



# Tax Incentives for Owners of Historic Property

Rock Hill Board of Historic Review



Cotton Factory, 1895



Cotton Factory, Present

### Did You Know?

Homeowners may qualify for funding assistance through Housing and Neighborhood Services. Check the Neighborhood Development Section of the Housing and Neighborhood Services webpage at [www.cityofrockhill.com](http://www.cityofrockhill.com).

Note: This brochure is for information purposes only. Contact a tax advisor for more complete details and information regarding your own particular situation.

# ❖ Tax Incentives for Owners of Historic Property

## City of Rock Hill Tax Assessment Incentive

The Rock Hill City Council determined that historic preservation is in the best interest of its citizens and the community. Tax incentives were designed to encourage restoration of historic properties, promote community development and redevelopment, encourage sound community planning and promote the general health, safety and welfare of the community overall.

There are two situations eligible for the special tax assessment, owner-occupied properties and income-producing properties. Eligible properties will be able to receive the special tax assessment for ten years, provided certification has been received by the property owners. Contact the Development Services Department to find out if your property is eligible for certification.

Basically, a property owner can deduct 4% of the appraised value for an owner-occupied property (6% for income-producing properties) at the time of certification for two years; then deduct either the same 4% (6% for income-producing properties) as the previous two-years OR 40% of the 4% (6% for income-producing properties) based on the value of the structure appraised AFTER rehabilitation for another eight years, whichever amount is greater.

For example, a certified property is appraised at \$10,000 and the owner will receive a \$400 tax credit (\$600 for income-producing properties) for two years while doing approved rehabilitation work on the property. After the rehabilitation is completed, a new appraisal values the property at \$30,000. For the remaining eight years, the owner will then receive the greater of either the original \$400 credit, or 40% of the 4% (6% on income-producing properties) of the new appraised value, which is equal to \$480.

	Owner Occupied		Income Producing	
Original Appraised Value	\$10,000		\$10,000	
Tax Credit – Two Years	$\$10,000 \times 0.04 =$	\$400	$\$10,000 \times 0.06 =$	\$600
New Appraised Value	\$30,000		\$30,000	
Tax Credit – Eight Years	$\$30,000 \times 0.04$ $\$1200 \times 0.40 =$	\$480	$\$30,000 \times 0.06$ $\$1800 \times 0.40 =$	\$720

The special tax assessment must be applied for prior to doing any rehabilitation work to the historic property. The first step is to apply for certification with the Planning and Development Department, then have the work approved according to the *Standards for Rehabilitation* outlined by the Secretary of Interior. Rehabilitation costs must exceed 50% of the appraised value for an owner-occupied building or exceed the appraised value of an income-producing property. The assessment may be applied to the actual property being rehabilitated, the real property surrounding the historic structure, or structures that are significant to the rehabilitated property as determined by the City Council.

Prior to beginning any work, property owners must submit a Rehabilitated Historic Property Application and include supporting documentation along with a cashier's check in the amount of \$100 made payable to the City of Rock Hill. **Any rehabilitation work done prior to the application is done at the risk of the owner.** All work proposed is reviewed by the Rock Hill Board of Historic Review (RHBHR) and will determine if the work proposed meets the Secretary of the Interior's *Standards for Rehabilitation*. If approved, the owner can begin work; if not, the owner can revise the application in accordance with the comments provided by the RHBHR and resubmit (no additional fees required) or appeal the decision.



Any substantial changes to the original approved plans must be approved in writing by the RHBHR. Unapproved changes are done at the risk of the owner. After the work has been completed, the RHBHR will then provide final approval. Any additional work needed to be done before the ten-year special tax assessment period has expired needs to be approved by the RHBHR as well. Any work found to be inconsistent with the *Standards for Rehabilitation* may cause the approval to be withdrawn. The property owner must then withdraw the request or revise the proposed additional work.

Upon final approval, the City of Rock Hill will then notify the York County Tax Assessor's office that the property has received certification and is eligible for the special tax assessment. The property owners are then responsible for making an application to the York County Tax Assessor's office to begin the special assessment, and to make the application each year the property is eligible. Properties must be certified before April 1<sup>st</sup> of the year it intends to receive the special assessment.

In addition, the property may be decertified if the owner requests removal of the special tax assessment; the property is sold or transferred to another party during the ten-year period except by devise or inheritance; the Rock Hill City Council removes historic designation status of the property; or the approval of rehabilitation is revoked by the RHBHR.

For more information please contact Janice Miller at 803/817-5129.

## 20% Federal Historic Rehabilitation Tax Credit – Income Producing Properties

This 20% tax credit applies to income-producing properties that are listed on the National Register of Historic Properties either individually or a contributing property in a historic district. The Federal income tax credit is equal to 20% of rehabilitation costs. Costs for rehabilitation must exceed the adjusted basis of the building (the purchase price minus the cost of land plus the value if improvements made minus depreciation already taken) or \$5000, whichever is greater.



To illustrate, a property that is recently purchased for \$50,000 with a land value of \$10,000 has an adjusted basis of \$40,000 (\$50,000 - \$10,000). The substantial rehabilitation expenses would have to exceed \$40,000.

For a property that was purchased for \$75,000 a number of years ago with a land value of \$20,000, incurs \$15,000 worth of capital improvements and has experienced a depreciation of \$20,000, the adjusted basis would be \$50,000 (\$75,000 - \$20,000 = \$55,000; \$55,000 + \$15,000 = \$70,000; \$70,000 - \$20,000 = \$50,000). The rehabilitation expenditures would have to exceed \$50,000.

In addition, for those taxpayers qualifying for the 20% federal income tax credit, the state of South Carolina also offers a 10% rehabilitation tax credit. Both credits reduce the amount of income taxes owed. As always, check with a tax professional to see how the credits will affect your tax liability.

For example, a property owner who meets the requirements and spends \$80,000 on rehabilitating an historic building can subtract \$16,000 from the federal income taxes and \$8000 from the state income taxes.

After rehabilitation, the building must remain under continuous ownership and be used to produce income for five years. The Federal credit can be claimed on Internal Revenue Service form 3468 for the tax year the property is placed into service. The state tax credit must be claimed in equal installments over a five-year period beginning with the same tax year the property is placed into service. If the credit installment exceeds the tax liability for any of the five years, the credit installment can be carried forward for up to five years. The state credit is claimed by submitting South Carolina Department of Revenue form SC SCH. TC-21 along with a copy of your Federal income tax return showing the Federal tax credit claimed.

Qualified rehabilitation expenditures include exterior and interior work on the historic property as well as architectural and engineering fees, site survey fees, legal expenses, development fees and other construction related costs that are added to the basis. Expenditures do not include purchase, furnishings, new additions to the existing structure, new building construction, parking lots, sidewalks, or landscaping. The National Park Service must certify that the rehabilitation work meets the Secretary of the Interior's *Standards for Rehabilitation*. The State Historic Preservation Office (SHPO) is your first step in this process. For more information, contact the SHPO at 803/896-6174 or view the website at [www.shpo.sc.gov](http://www.shpo.sc.gov).

## 10% Federal Rehabilitation Tax Credit – Income Producing Properties

The 10% tax credit applies to income-producing properties built before 1936 that are not listed on the National Register of Historic Properties either individually or within an historic district, and will be rehabilitated for non-residential uses. The Federal income tax credit is equal to 10% of rehabilitation costs, and must exceed the adjusted basis of the building (the purchase price minus the cost of land plus the value if improvements made minus depreciation already taken) or \$5000, whichever is greater.

For example, a property purchased for \$100,000 with a land value of \$40,000, capital improvements of \$25,000, and depreciation value of \$50,000 must exceed \$35,000 in rehabilitation expenses (\$100,000 - \$40,000 = \$60,000; \$60,000 + \$25,000 = \$85,000; \$85,000 - \$50,000 = \$35,000). The property owner then spends \$40,000 in expenses and can subtract \$5000, since this amount is greater than the \$4000 (\$40,000 x 10% = \$4000) realized.