LIHTC Monthly Report

A MONTHLY PUBLICATION OFFERING NEWS, OPINION, FEATURES AND COMMENTARY ON THE LOW-INCOME HOUSING TAX CREDIT INDUSTRY

April 2005, Volume XVI, Issue IV, Published By Novogradac & Company LLP

State Historic Tax Credit Programs Grow More Popular

By Alex Ruiz, Staff Writer, Novogradac & Company LLP

If imitation is the sincerest form of flattery, then perhaps the federal historic rehabilitation tax credit (HTC) program can be commended for some level of success in light of the state-level tax credit programs modeled after it and proposed for use in conjunction with the HTC. In the first quarter of 2005, legislation has been introduced to create new state historic rehabilitation tax credit programs in several states, as well as a measure to expand at one state's existing program to provide more credit.

Arkansas

Senate Bill 359, the "Arkansas Historic 24 Structures Rehabilitation Tax Credit Act," sponsored by Sen. Terry Smith, D-Hot Springs, proposes a 25 percent tax credit for developers to rehabilitate older income-producing properties. The legislation does not impose any annual allocation cap.

To qualify for an Arkansas historic structures rehabilitation tax credit, a taxpayer must first submit an application and plans for the rehabilitation of the property to the Department of Arkansas Heritage, which will be the entity responsible for designating qualified projects. As the *LIHTC Monthly Report* went to press the bill had been referred to the Senate Committee on Revenue and Taxation.

Pennsylvania

In Pennsylvania, Rep. Dan Frankel, D-Allegheny, introduced House Bill 26, the Historic Rehabilitation and Economic Revitalization Tax Credit Act. HB 26 features a 20 percent tax credit on eligible redevelopment costs and limits allocations to $20 million annually and $4 million per project. If approved, Pennsylvania's tax credit would sunset in 2014.

The measure, which Frankel has introduced in previous legislative sessions, also includes business tax credits for owners who purchase, restore and do business in historic commercial properties. Frankel says the legislation would help reverse the "hollowing out" trend that has occurred in many of Pennsylvania's older, urban communities.

"As development, both commercial and residential, has fled our older communities in the past several decades, first to suburbs and then increasingly to more rural areas, our historic commercial, residential and cultural centers have lost the tax base necessary to keep them afloat," Frankel said.

"Pittsburgh is a perfect example. We all know the city is the cultural and commercial hub of southwestern Pennsylvania, and that our region would not be the same without it. But commercial and residential flight from the city has made its financial position untenable, and that's had a negative impact not just on the city, but on all the areas surrounding it, and the entire state, as well."

The legislation is supported by Preservation Pennsylvania, the Pennsylvania Downtown Center, the American Institute of Architects, 10,000 Friends of Pennsylvania, the Pennsylvania Association of Boroughs, the Pennsylvania League of Cities and Municipalities, the Pennsylvania State Association of Township Supervisors and the Pennsylvania State Association of Township Commissioners, among other groups.

Ohio

Sen. Kirk Schuring, R-District 29, introduced S.B. 60 to create a 25 percent tax credit for the restoration and rehabilitation of Ohio's vacant and underutilized historic buildings. The Ohio tax credit could be claimed against personal income taxes, dealer in intangible's taxes (state's share only), public utility taxes and corporate franchise taxes.

(continued on page two)

State Historic Tax Credit

(continued from page one)

Nine senators co-sponsored the bill: Sens. Coughlin, Dann, Jacobson, Zurz, Gardner, Fedor, Fingerhut, Brady and Clancy. Upon introduction in February, S.B. 60 was assigned to the Senate Ways & Means & Economic Development Committee.

Kentucky

The General Assembly in Kentucky last month passed a tax modernization package that incorporated virtually all of the components in Gov. Ernie Fletcher's tax modernization proposal, "JOBS for Kentucky," including the creating of a historic preservation tax credit.

A 30 percent tax credit will be available for qualified rehabilitation expenses of owner-occupied residential property and a 20 percent tax credit will be provided for qualified rehabilitation expenses in all other property. The maximum credit that may be claimed is $60,000; the total credit issued through the state would not exceed $3 million annually. The Kentucky Heritage Council will be responsible for approving projects and certifying the qualified expenditures.

The measure will establish a transferable credit for qualified residential or commercial restoration expenditures to structures located in the National Register of Historic Places. Individuals or businesses can apply the credits against their income tax liability. If insufficient liability exists, the credit can be carried forward for seven years or transferred to a banking institution to be used against the bank franchise tax. Transferability to banks helps individuals or businesses obtain financing for projects by pledging their future credits as collateral.

North Carolina

Meanwhile, a bipartisan group of state lawmakers introduced legislation this year to expand North Carolina's existing tax credit to help redevelop abandoned textile mills. Legislators filed bills in the state House and Senate to give developers increased tax credits of as much as 50 percent of the cost of renovating the old mills.

North Carolina's preservation state tax credit program provides a 20 percent state tax credit for rehabilitations of income-producing historic properties that also qualify for the 20 percent federal investment tax credit, in effect reducing the cost of a certified rehabilitation of an income-producing historic structure by 40 percent. There is also state tax credit of 30 percent for qualifying rehabilitations of non-income-producing historic structures, including owner-occupied personal residences. There is no equivalent federal credit for such rehabilitations.

The measures, S. 352 and H. 474, were introduced in March and referred to the Committee on Finance. The proposals would give devel-

(continued on page two)

LIHTC INFORMATION

Address all correspondence and editorial submissions to:

Jane Bowar Zastrow
LIHTC Monthly Report
Novogradac & Company LLP
246 First Street, 5th Floor
San Francisco, CA 94105
Telephone: 415.356.8034
E-mail: cpas@novoco.com

Visit us on the web:
www.taxcredithousing.com

ISSN 1094-8684

State Historic Tax Credit

(continued from page two)

opers a state tax credit of 30 percent to 50 percent of the cost of renovating a factory building that has been certified historic, has stood vacant for two years and will cost at least $2 million to renovate. Myrick Howard, the executive director of Preservation North Carolina, told the Associated Press that he estimated as many as 200 buildings across the state might qualify for the bigger tax break. ❖

This article first appeared in the April 2005 issue of Novogradac & Company's LIHTC Monthly Report *and is reproduced here with the permission of Novogradac & Company LLP.*

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.taxcredithousing.com.