

Tax Incentives: ***Frequently Asked Questions***

What is the purpose of preservation tax incentives?

The tax incentives were designed to encourage the continued use of historic properties through rehabilitation. There are three different types of tax incentives available to owners who plan to rehabilitate their historic buildings. The federal Rehabilitation Investment Tax Credit is available only to properties that will be used in an income-producing capacity after rehabilitation- for commercial, professional, or residential rental purposes. The Georgia Preferential Property Tax Assessment and the State Income Tax Credit for Rehabilitated Historic Property are available to both private residential properties as well as income-producing properties.

How do I know if my property is eligible for tax incentives?

There are three criteria a project must meet to be eligible for the tax incentives: the property must be a certified structure, work must follow the Secretary for the Interior Standards for Rehabilitation, and the project must meet a substantial rehabilitation test. A "certified structure," means the property must be listed in, or eligible for listing in, the National/Georgia Register(s) of Historic Places, either individually or as a contributing structure in a National/Georgia Register historic district. If your property is eligible, but not yet listed in the National/Georgia Registers, you must pursue getting it formally listed. See "How are tax incentive projects evaluated?" and "How much money do I have to spend on rehabilitation work?" for more information on the Standards and the substantial rehabilitation test.

If I want to rehabilitate an income-producing property, what incentives are available to me?

- A 20% tax credit of qualified rehab expenses on your federal income tax (no cap)
- A 25% tax credit of qualified rehab expenses on your state income tax, capped at \$300,000, \$5 million, or \$10 million.
- A property tax assessment freeze for more than 8 years

Projects applying for the \$5 and \$10 million dollar caps are allocated on a first come first serve basis and have an annual \$25 million cap. Applicants apply for the credit for the year the project will be completed, subject to pro rata when applicable, and with a

rollover provision to the next year where credits are still available. When you apply to the Georgia Department of Revenue (DOR) for your credit preapproval and allocation, you must indicate a year in which you plan to complete your project. If no credits are available in the year your project is planned for completion or any subsequent year through 2021 (the final year credits are currently available), then the application for credits will be denied.

Usually, applicants applying for an income producing property apply for the state and federal programs concurrently. The federal program is a three-part application while the state program is a two-part application. The Part 1 of the federal program confirms the property's historic significance. The Part 2 tells us in detail about your planned rehabilitation. The federal Parts 1 and 2 correspond to the state Part A; and Part 3 corresponds to the Part B of the state application. Parts 1 and 2, and Part A start the review process at the beginning of your project. In these applications, you will describe the current condition of your property and then explain what you plan to do to the building. You also need to submit photographs and drawings of the property to help us more accurately understand your rehabilitation plans. After we review the applications, we forward our recommendation with your application and materials (for any projects also applying for the federal credit) to the National Park Service. NPS then completes its own independent review and will directly send you its certification decision. After receiving your approved Part A application, you must submit the application to the Georgia Department of Revenue (DOR) to “preapprove” the credit. (see “How do I apply for preapproval & allocation of my Rehabilitation Tax Credit with the Georgia Department of Revenue?”)

If I want to rehabilitate my primary residence, what incentives are available to me?

- *A 25 percent tax credit of qualified rehab expenses on your state income tax, capped at \$100,000*
- *A property tax assessment freeze for over 8 years*

What is the application process for my primary residence?

There are two parts to the application process. First, you should submit a state Part A application prior to beginning work. In the application, describe the current condition of your property and then explain what you plan to do to the building. You also need to submit photographs of the property to help us more accurately understand your rehabilitation plans. Once HPD reviews the application, we will send you a certification decision for your proposed project. When the rehabilitation is completed, submit a Part B application with photographs showing that the work was completed. We will review this and send you the final certification decision.

How are tax incentives projects evaluated?

All work, including interiors, exteriors, site work, new construction and any work on functionally related properties, will be evaluated. Rehabilitation work must follow the Secretary of the Interiors Standards for Rehabilitation, or, for the state programs the corresponding Department of Natural Resources Standards for Rehabilitation. These standards were developed to guide the review of work undertaken on historic buildings. The overall purpose is to provide direction for adapting a historic building for modern living while maintaining its historic character and integrity, and retaining as much of its historic fabric as possible. Guidance for interpreting these Standards as well as best practices can be found in the [Preservation Briefs](#), [Interpreting the Standards](#), and [Preservation Tech Notes](#).

How much money do I have to spend on the rehabilitation work?

That depends on how much the building is worth before it undergoes the rehabilitation. The three different tax programs each have slightly different requirements for meeting the substantial rehabilitation test. This is the formula used to determine if enough money was spent for the project to qualify as a rehabilitation for the purposes of these programs.

Preferential Property Tax Assessment Program

- *“Residential” Building (owner-occupied residence)*
 - **Tax Benefit:**
*Property tax assessment frozen for 8 ½ years**
 - **Substantial Rehabilitation Test:**
Rehabilitation must increase the fair market value of the building at least 50 percent.

- *“Mixed-Use” Building (partly income-producing, partly owner-occupied residence)*
 - **Tax Benefit:**
*Property tax assessment frozen for 8 ½ years**
 - **Substantial Rehabilitation Test:**
Rehabilitation must increase the fair market value of the building at least 75 percent.

- *“Incoming-Producing” Building (commercial, residential rental, office/professional)*
 - **Tax Benefit:**
*Property tax assessment frozen for 8 ½ years**

- **Substantial Rehabilitation Test:**
Rehabilitation must increase the fair market value of the building at least 100 percent.

State Income Tax Program

- **“Residential” Building (owner-occupied residence)**
 - **Tax Benefit:**
25 percent of qualified rehabilitation expenditures
 - **Substantial Rehabilitation Test:**
*Amount of qualified expenditures must equal or exceed the lesser of either \$25,000 or 50 percent of the fair market value of the building ***
- **“Target Area” Building (owner occupied in a qualified census tract Section 42 of Internal Revenue Code of 1986)**
 - **Tax Benefit:**
30 percent of qualified rehabilitation expenditures
 - **Substantial Rehabilitation Test:**
*Amount of qualified expenditures must equal or exceed \$5000 ***
- **“Incoming-Producing” Building (commercial, residential rental, office/professional)**
 - **Tax Benefit:**
25 percent of qualified rehabilitation expenditures
 - **Substantial Rehabilitation Test:**
*Amount of qualified expenditures must equal or exceed the greater of either \$5000 or the total adjusted basis of the building ***

Notes:

**In the ninth year, assessment will increase by 50 percent of the difference between the value of the property at the time the freeze was initiated and the current assessment value. In the tenth year, assessment will increase to the current assessment value.*

***At least 5 percent of all qualified rehabilitation expenditures must be allocated to work on the exterior of the building. Acquisition costs and costs associated with new construction are not qualified expenditures.*

What fees are involved for applying for tax incentives?

The fee schedule is based on a percentage of the qualified rehabilitation expenditures (QRE) that establish the amount of income tax credit allowed for a certified rehabilitation project. The fee amount is one-half percent (0.005) of the first \$500,000 in QREs, plus one percent (0.01) of any QREs over \$500,000. The fee is nonrefundable and is collected in two installments: 75 percent at Part A – Preliminary Certification application -- and 25 percent at Part B – Final Certification application. HPD will bill the owner when the applications are received and project review will only begin after payment is received. The minimum fee is \$250 (for projects with QRE of \$100,000 or under) and the maximum fee is \$10,000. For projects with an acceptable Part A application received prior to January 1, 2016, that are completed after January 1, 2017, only the Part B fee portion of

the new fee schedule will be charged. If you are only participating in the Preferential Property Tax Freeze program, the fee is \$50. If you are participating in both the Preferential Property Tax Freeze program and the State Income Tax Credit Program, the \$50 fee is waived. Only Cashier's Checks or money orders are accepted and must be made payable to the Georgia Department of Natural Resources. Additionally, federal projects must pay a separate fee to NPS for that agency's review. The federal fee is based on the actual dollar amount of the rehabilitation.

Examples:

Project with \$350,000 QRE

$\$350,000 \times 0.005 = \1750 total fee

Part A fee bill = $\$1312.50$ ($\$1750 \times .75$)

Part B fee bill = $\$437.50$ ($\$1750 \times .25$)

Project with \$900,000 QRE

$\$500,000 \times 0.005 = \2500

$\$400,000 \times 0.01 = \4000

Total fee = $\$6500$

Part A fee bill = $\$4875$ ($\$6500 \times .75$)

Part B fee bill = $\$1625$ ($\$6500 \times .25$)

Project with \$4,000,000 QRE

$\$500,000 \times 0.005 = \2500

$\$3,500,000 \times 0.01 = \$35,000$

Total fee = $\$10,000$ (maximum fee)

Part A fee bill = $\$7500$ ($\$10,000 \times .75$)

Part B fee bill = $\$2500$ ($\$10,000 \times .25$)

When should I submit my application to HPD?

Ideally, you should submit your application before beginning work. This allows HPD to alert you to any potential problems. However, HPD will still review projects that are ongoing or even completed. It is important to understand that if your project is already underway, any work that was done prior to our involvement is still reviewed. If work does not meet the Standards for Rehabilitation, this could result in a denial of the project.

For the State Preferential Property Tax Assessment program, your approved application (Part A) needs to be sent to your county tax assessor as early as possible for your assessment to be frozen at its pre-rehab value.

How do I apply for preapproval & allocation of my Rehabilitation Tax Credit?

You will electronically submit form IT-RHC-AP and an approved Part A – Preliminary Certification application (new form) through the Georgia Tax Center. The amount of credit preapproved and allocated for the project is based on the qualified rehabilitation expenditures (QREs) estimate listed on Form IT-RHC-AP, subject to individual project and program caps. The eventual claimed credit will be based on the actual QREs, except that it cannot exceed the preapproved amount. If a project's QREs are less than the amount estimated, the unused credits allocated for the project are not available to other projects, nor will they be added back into the pool of available credits. Questions about the Georgia Tax Center, DOR forms, and allocation of tax credits should be directed to Pamela Goshay at 404.417.2441 or Pamela.goshay@dor.ga.gov.

Applicants applying for a person residence (\$100K cap) will use IT-RHC 2017 which is filed with their annual taxes.

Is there a process that tracks the state income tax credit for rehabilitation of a historic home?

Yes, the tax incentives staff log in all applications on a database which is queried to respond to questions regarding all tax incentive programs.

Is there a way to know how many houses are rehabilitated by using the tax credit?

Yes, an annual report on the state income tax credit is prepared for the legislature every year. This report is available to anyone upon request.

Are there studies to determine if a tax credit is a worthwhile avenue to utilize our tax dollars?

Yes, the use of tax incentives has been proven by many economic studies to have leveraged many times its cost in private expenditures on historic preservation. Tax incentives help create viable life for abandoned and derelict buildings. Historic rehabilitation generates jobs, enhances property values, creates affordable housing, and augments revenue for local governments. It has been proven that for every one dollar spent in historic rehabilitation expenditures, five dollars are returned to the local economy.