



Preservation Hotline #11

South Carolina Department of Archives & History
 8301 Parklane Road
 Columbia, SC 29223-4905
State Historic Preservation Office
<http://shpo.sc.gov/>

Tax Savings for Owners of Historic Buildings

Is there a tax incentive for you?

In South Carolina, there are a number of state and federal tax incentives to help with the costs of preserving historic buildings. Both owner-occupied historic homes and historic buildings used to produce income — stores, offices, apartment buildings, for example — may be eligible for tax incentives. Use this chart to begin identifying tax incentives that may apply to your building.

Tax Incentive Program	Owner-Occupied Historic Residence	Income-Producing Historic Building	Mixed Use Historic Building (see note)
A. 20% Federal Historic Rehabilitation Tax Credit		✓	partial credit
B. 10% State Historic Rehabilitation Tax Credit		✓	partial credit
C. 25% State Historic Rehabilitation Tax Credit	✓		partial credit
D. Local Property Tax Abatement	✓	✓	✓
E. Federal Income Tax Incentives for Easement Donations	✓	✓	✓

Note: A rehabilitation project involving mixed uses (a store on the first floor and an owner-occupied residence on the second floor, for example) may be eligible for two different tax incentive programs. In these projects, rehabilitation costs must be allocated for each use, with a corresponding allocation of the tax credits.

Historic Preservation Tax Incentives — The Basics

The descriptions that follow are brief and do not include all of the detailed requirements for each program. Taxpayers/owners should read the other sources of information indicated at the end of each description and consult with an accountant or other professional tax advisor for help in determining whether the programs will be of benefit to them. For rehabilitation projects, contact the State Historic Preservation Office (SHPO) early in the planning process. Some of the programs require approval before work begins.

A. 20% Federal Historic Rehabilitation Tax Credit

Incentive: Federal income tax credit equal to 20% of rehabilitation costs. In general, each dollar of tax credit earned reduces the amount of federal income taxes owed by one dollar.

Eligible buildings: Buildings listed individually in the National Register of Historic Places or buildings that contribute to a National Register historic district.

Eligible use: Income-producing use (such as offices, stores, or rental housing).

Expenditure requirements: Costs must exceed the adjusted basis of the building (the purchase price, minus the cost of the land, plus the value if improvements made, minus depreciation already taken).

Review of work: The National Park Service must certify that the rehabilitation meets the Secretary of the Interior's *Standards for Rehabilitation*. Review begins with the State Historic Preservation Office (SHPO).

Authorizing legislation: Tax Reform Act of 1986 (PL99-514; Internal Revenue Code Section 47).

For more information: Visit the SHPO (<http://shpo.sc.gov/grants/incomeincent/>), National Park Service (www.nps.gov/history/hps/tps/tax/hpcappl.htm), and Internal Revenue Service (www.irs.gov/businesses/small/industries/article/0,,id=97599,00.html) websites.

B. 10% State Historic Rehabilitation Tax Credit

Owners of historic buildings in South Carolina who meet the requirements for the 20% Federal Historic Rehabilitation Tax Credit may also qualify for a state income tax credit. Taxpayers do not have to go through a separate State Historic Preservation Office (SHPO) application process. Successfully completing the federal application process qualifies them for the state credit.

Incentive: State income tax credit equal to 10% of rehabilitation costs. In general, each dollar of tax credit earned reduces the amount of state income taxes owed by one dollar.

Authorizing legislation: South Carolina Rehabilitation Incentives Act (Section 12-6-3535, SC Code of Laws, 1976, as amended).

For more information: Visit the SHPO website (<http://shpo.sc.gov/programs/tax/Pages/Income.aspx>).

C. 25% State Historic Rehabilitation Tax Credit

Incentive: South Carolina State income tax credit equal to 25% of *allowable rehabilitation expenses*. In general, each dollar of tax credit earned reduces the amount of state income taxes owed by one dollar. (*Allowable expenses* include exterior rehabilitation work; repair of historic structural systems, improving energy efficiency; repairs and installation of heating, air-conditioning, plumbing, and electrical systems; restoration of historic plaster; and architectural and engineering fees.)

Eligible buildings: Buildings must be listed in the National Register of Historic Places, individually eligible for the National Register, contribute to a National Register historic district, or be a historic outbuilding associated with a residence that is eligible for the program.

Eligible use: Owner-occupied residence (not used in a trade or business, held for the production of income, or held for sale or disposition in the ordinary course of the tax payer's trade or business).

Expenditure requirements: \$15,000 of *allowable rehabilitation expenses* within 36 months. (See definition of *allowable rehabilitation expenses* above.)

Review of work: The State Historic Preservation Office (SHPO) must review and approve plans **before work begins**. The SHPO must certify that the rehabilitation meets the Secretary of the Interior's *Standards for Rehabilitation*.

Authorizing legislation: South Carolina Rehabilitation Incentives Act (Section 12-6-3535, SC Code of Laws, 1976, as amended).

For more information: Visit the SHPO website (<http://shpo.sc.gov/programs/tax/Pages/Homeowner.aspx>).

D. Local Property Tax Abatement

Incentive: The property is assessed on the pre-rehabilitation fair market value for the length of the special assessment (up to 20 years; length set by the local government).

Eligible buildings: A building must be designated historic by the local government and the local government must have adopted an ordinance to implement the property tax abatement program. Buildings designated historic by the local government can include buildings listed individually in the National Register of Historic Places or contributing to a National Register historic district, or buildings that meet the local government's criteria for historic designation.

Eligible use: Owner-occupied residence or income-producing building.

Expenditure requirements: Expenditures for rehabilitation must exceed the minimum expenditure set by the local government. This can range from 20% to 100% of the fair market value of the building.

Review of work: A reviewing authority must approve that the proposed and completed rehabilitation work is appropriate for the historic building and the historic district in which it is located. The reviewing authority is the local board of architectural review, another designated entity with historic preservation expertise, or the State Historic Preservation Office (SHPO).

Authorizing legislation: Sections 4-9-195 and 5-21-140, SC Code of Laws, 1976, as amended (often referred to as the "Bailey Bill").

For more information: Visit the State Historic Preservation Office website (<http://shpo.sc.gov/programs/tax/Pages/Local.aspx>). **You must also check with your local government to determine if it has passed an ordinance.**

E. Federal Income Tax Incentives for Easement Donations

Incentive: Income and estate tax deductions.

Eligible buildings: Buildings listed individually in the National Register of Historic Places or buildings that contribute to a National Register historic district. (Historically important land areas are also eligible.)

Eligible use: Owner occupied residence or income-producing building.

Expenditure requirements: Rehabilitation work is not required for this incentive. The incentive is based on the charitable contribution of a partial interest in a historic property (i.e. easement) to a government or nonprofit organization. When donors donate partial interests — or easements — on historic buildings, they pledge to preserve significant historic features and agree to obtain the easement holder's consent before making alterations.

Authorizing legislation: Tax Reform Act of 1986 (Internal Revenue Code Section 170(h)).

For more information: Visit the State Historic Preservation Office (SHPO) (<http://shpo.sc.gov/programs/tax/Pages/Easements.aspx>) and National Park Service (www.nps.gov/history/hps/tps/tax/index.htm) websites.

Note: South Carolina law does not mandate tax incentives for the donation of easements to preserve historic properties. However, the Conservation Easement Act of 1991 states: "For ad valorem tax purposes real property that is burdened by a conservation easement must be assessed and taxed on a basis that reflects the existence of the easement." (Section 27-8-70, SC Code of Laws, 1976, as amended)

Other Tax Incentives for Rehabilitation Projects

10% Federal Rehabilitation Tax Credit: This credit, created by the Tax Reform Act of 1986 (PL 99-514; Internal Revenue Code Section 47), is available for the rehabilitation of buildings placed in service before 1936 that are not individually listed in the National Register or contributing buildings in a National Register historic district. The 10% federal income tax credit only applies to buildings rehabilitated for non-residential uses. To qualify for the credit rehabilitation costs must exceed the adjusted basis of the building (purchase price minus land value). No State Historic Preservation Office or National Park Service review is required for these projects. More information about the 10% federal credit is available on the National Park Service (www.nps.gov/history/hps/tps/tax/index.htm) and Internal Revenue Service (www.irs.gov/businesses/small/industries/article/0,,id=97599,00.html) websites.

Federal Income Tax Credit for Low Income Housing:

The Tax Reform Act of 1986 (Internal Revenue Code Section 42) also created an income tax credit for acquisition, construction, or rehabilitation of low income housing. Many developers have used the Low Income Housing Tax Credit in conjunction with the 20% Federal Historic Rehabilitation Tax Credit to rehabilitate historic buildings to provide rental units for low income residents. For more information, contact the State Housing Finance and Development Authority (803-734-2000 or www.sha.state.sc.us), which allocates the Low Income Housing Credits in South Carolina.

Tax Incentives for Rehabilitating Textile Mill Buildings:

The South Carolina Textiles Communities Revitalization Act (Section 6-32-10, SC Code of Laws, 1976, as amended) was approved by the General Assembly and signed by Governor Sanford in May 2004. The law provides tax incentives to encourage the renovation and redevelopment of abandoned textile mill sites. A taxpayer who meets the requirements of the law and improves, renovates, or redevelops an abandoned textile mill building is eligible for one of two tax credits: a credit against local property taxes or a state income tax credit.

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