

HISTORIC TAX CREDIT TOOLKIT

Preservation is a powerful economic catalyst for community revitalization. Historic tax credits are one of the most effective tools to ensure the viability of rehabilitation projects and are often a crucial financial consideration for developers. Our go-to guide will help you navigate the process.

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There's no doubt that preservation of historic buildings connects us to our heritage, but it provides a profound economic benefit to our communities, too. Property owners take note: Our federal and state governments offer substantial incentive for investment through their rehabilitation tax credit programs. The process may seem daunting, but here are the nuts and bolts to help you take full advantage.

Rehabilitation tax credits—available from both the federal government and state—are dollar-for-dollar reductions in income tax liability for taxpayers who rehabilitate historic buildings. The federal credit is 20% of eligible expenses for income-producing properties that are certified historic structures and 10% for non-historic buildings built before 1936. The state credit is 10% of eligible rehabilitation expenses for income-producing buildings, and 20% is available for owner-occupied residential buildings. In some cases, taxpayers can qualify under both programs. The State Historic Preservation Office (SHPO) administers both the federal and state tax credit programs in West Virginia.

Historic tax credits are the most significant reinvestment tools in the revitalization of West Virginia communities. According to the National Trust for Historic Preservation and the Historic Tax Credit Coalition, the economic impact of historic tax credit investment in West Virginia from 2002 to 2015 was substantial. During this time period the tax credits created nearly 3,600 jobs and generated \$36 million in taxes.

Applying for tax credits can be overwhelming. Hiring an architect or a consultant will help you maximize the potential. Applicants are strongly advised to consult the SHPO before beginning the process.

Frequently Asked Questions

What buildings qualify?

Under the federal and state programs, the credits are available to certified historic structures that are:

- ↔ Listed on the National Register of Historic Places either individually or as a contributing building in a historic district that is listed on the National Register of Historic Places.
- ↔ Listed on the National Register prior to submission of the Historic Preservation Certification Application Request for Certification of Completed Work.

How much money do I have to spend?

Under the federal program, the project must be a “substantial rehabilitation” to qualify the investor for the credit. The Internal Revenue Service defines “substantial” as exceeding the owner’s adjusted basis in the building, or \$5,000, whichever is greater. The adjusted basis is generally defined as the purchase price, minus the value of the land, minus any depreciation already claimed, plus the value of any earlier capital improvements.

The threshold requirements for the state program are different from the federal requirements. In order to qualify for the state credit, the rehabilitation expenses must:

- ↔ For owner-occupied projects, undertake “material” rehabilitation that is an expenditure of more than 20% of the assessed value of the building, not including the value of the land. The expenditure necessary to qualify as “material” rehabilitation must take place in the 24-month period ending on December 31 of the taxable year for which the credit will be claimed.

- ↔ For income-producing projects, must take place in a 24-month period or a 60-month period with the starting date determined by the taxpayer.

Can a tax credit be carried backward or forward?

For commercial projects, any portion of the federal income tax credit that cannot be fully used for the taxable year in which it is earned may be carried backward one year and forward for up to 20 years. Any portion of the state income tax credit that cannot be fully used for the

taxable year in which it is earned may be carried backward one year and forward for up to 20 years.

Can I transfer the tax credits?

The tax code may permit the party that earns the credit to syndicate it outright to a third party with adequate tax liability to use it. Both commercial credits and homeowner credits may be directly transferred or transferred by disproportionate allocation. The code may allow a tax credit not fully usable in the current year to be carried back to offset taxes previously paid for prior tax years.

For commercial income-producing projects, the tax credits can be syndicated to a third party through the establishment of a partnership. Contact the Internal Revenue Service for additional information on federal tax credits. The West Virginia tax credits can be transferred to a third party. Contact the state revenue department for additional information on state tax credits.

What are the eligible expenses?

Any expenditure for a structural component of a building is eligible for tax credits. In addition, construction period interest and taxes, architect fees, engineering fees, construction management costs, reasonable developer fees, and other fees that would normally be charged to a capital account are eligible. For a list of structural components, visit wvculture.org/shpo.

What expenses aren't eligible?

The following items aren't eligible for tax credits: costs of acquiring the building or interest therein; enlargement costs that expand the total volume of the existing building (Interior remodeling is not considered enlargement); expenditures attributable to work done to facilities related to a building, such as parking lots, sidewalks, and landscaping; new building construction costs; appliances; cabinets; carpeting (if tacked in place and not glued); decks (not part of original building); demolition costs (removal of a building on property site; enlargement costs (increase

in total volume); fencing; feasibility studies; financing fees; furniture; leasing expenses; moving (building) costs (if part of acquisition); outdoor lighting remote from building; parking lot; paving; planters; porches and porticos (not part of original building); retaining walls; sidewalks; signage; storm sewer construction costs; and window treatments.

Can I sell the building after I complete the rehabilitation?

Under the federal program, if the building is disposed of, or if it loses its income-producing status, within five years after the rehabilitation is completed, the taxpayer will face recapture of the credit. The amount of recapture is reduced by 20% in each succeeding year after the year the rehabilitation is completed—in other words, if the building is sold after one year, there will be recapture of 80% of the credit, if it is sold after two years, there will be recapture of 60% of the credit, and so forth. In addition, the National Park Service reserves the right to inspect a rehabilitated property any time during the five-year period and to revoke certification if work was not undertaken as presented in the application, or if further unapproved alterations have been made.

How do I obtain National Register status?

In order to receive tax credits, the building must be listed on the National Register prior to submission of the Historic Preservation Certification Application Request for Certification of Completed Work. First, research the WVSHPO website to see if you are individually listed or part of a historic district. Owners of buildings within historic districts must complete Part 1 of the Historic Preservation Certification Application—Evaluation of Significance. The owner submits this application to the SHPO. The SHPO reviews the application and forwards it to the NPS with a recommendation for approving or denying the request. The NPS then determines whether the building contributes to the historic district. If so, the building then becomes a certified historic structure.

How do I apply for the credit?

Applying for the credit is a three-part process.

PART 1

If the property is individually listed on the National Register, you must complete portions of this section.

- Two copies of the completed Part 1, with signatures. Cover sheets should be on a blue form.
- Two sets of photos depicting general view of exterior of building and any special interior features. Photos will be used to evaluate if building is eligible for listing on the National Register; or to ascertain that the building still reflects the historic character from time of listing.
- If the building is already listed on the National Register: On the cover sheet provide the name of the individual property or the historic district where the building is located. Under description, state if the building appears the same as the time of listing, or if changes have occurred.
- If the building is not listed on the National Register, contact the SHPO for further steps.

PART 2

- Two copies of completed tax application with signatures. Cover sheets should be on a blue form.
- Two sets of “before” photos of each planned construction activity; photo numbers should be tied to the numbered box on the form and to a floor plan.
- Two copies of any specifications or blueprints. (This may depend on the scale of the project.)

PART 3

- Two copies of completed form with signatures.
- Two sets of “after” photos of each planned construction activity listed on the application under Part 2. Also send good photographs of general changed appearance of project whether interior or exterior. Do not send digital images unless of particularly high resolution.

FOR MORE INFORMATION VISIT

- ↔ wvculture.org/shpo/taxcredit.html
- ↔ nps.gov/tps/standards/rehabilitation.htm

The Secretary of the Interior's Standards for Rehabilitation

Your rehabilitation work for the entire project must meet The Secretary of the Interior's Standards for Rehabilitation, as interpreted by the National Park Service. If the project does not meet these standards, no part of the credit may be claimed. WVSHPO does the initial review. If the work is certified as meeting these standards, the credit is based on all eligible expenses.

The standards are applied to projects in a reasonable manner, taking into consideration economic and technical feasibility. The standards apply to historic buildings of all periods, styles, types, materials, and sizes. They apply to both the exterior and the interior of historic buildings. The standards also encompass related landscape features and the building's site and environment as well as attached, adjacent, or related new construction.

- A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
- The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
- Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
- Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
- Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.
- Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
- Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.
- Significant archeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.
- New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
- New additions and adjacent or related new construction shall be undertaken in such a manner that, if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

Profiles of Successful Projects in West Virginia



NAME: First Ward Senior Living Building

LOCATION: Elkins

ORIGINAL CONSTRUCTION YEAR: 1909

REHABILITATION YEAR: 2014

ORIGINAL USE: School

NEW USE: Senior Housing

QUALIFIED EXPENDITURES: \$3,488,587

“The First Ward School project would not have been possible without historic tax credits. The building required extensive renovation. While we were able to secure equity through low-income housing tax credits, it simply wasn't enough to complete the project.”

- RCHA EXECUTIVE DIRECTOR KAREN JACOBSON



NAME: The Ritz Theatre

LOCATION: Hinton

ORIGINAL CONSTRUCTION YEAR: 1929

REHABILITATION YEAR: 2009

ORIGINAL USE: Movie Theater and Performing Arts Venue

NEW USE: Movie Theater, Performing Arts, and Multi-use Venue

QUALIFIED EXPENDITURES: \$750,000

“Historic tax credits allowed the Ritz Theatre to become a vital community asset, contributing to the local economy by bringing people from surrounding counties to enjoy its amenities.”

- OWNER KEN ALLMAN



NAME: The Kaley Center

LOCATION: Wheeling

ORIGINAL CONSTRUCTION YEAR: 1922

REHABILITATION YEARS: 2011–2012

ORIGINAL USE: The Riley Law Building

NEW USE: Office Building

QUALIFIED EXPENDITURES: \$6,000,000

“When the owners hired me to work on the building, they weren't pursuing tax credits. I brought it to the table. It saved them a lot of money and enabled them to do other things that they had put on hold.”

- ARCHITECT VIC GRECO

What You Need to Know Before Hiring an Architect

Tax rules for historic preservation can be complicated, but the financial rewards are worth the effort. The process includes significant research, filing of paperwork, and planning, so it is often worthwhile to seek professional help. A historic preservation architect can be instrumental as a trusted advisor throughout the process. Consider the following when hiring:

An experienced architect understands what the character-defining historic features are

and compiles historic research such as deeds, historic drawings, oral histories, and photos to substantiate the findings. The architect understands original design intent and structural framework and has an important knowledge of compatible materials.

Is the project financially and structurally feasible?

An architect experienced with historic structures has the ability to “unpeel the onion” by providing the owners with an understanding of what they have, what condition it is in, and what the priorities are along with the associated costs.

Does the architect have past historic tax credit experience?

An architect with past historic

tax credit experience has the ability to advise the owner of the project timeline and the entitlement process for the regulatory agencies. Historic projects not only require typical reviews and compliance with local, state, and national fire and building codes but, in order to receive tax credits, they also have the added layer of State Historic Preservation Office and National Park Service reviews.

An architect will serve as the team's quarterback for the required consultants,

who may include structural, mechanical, electrical, and geotechnical engineers. To make the process flow more easily and quickly, it is important when hiring an architect to consider the complete team—ideally, all members will have historic tax credit experience, will have worked with the specific review agencies, and

will have worked together in the past.

An experienced architect designs for 21st century needs and lifestyles with a rehabilitation mindset.

Knowledge of how to balance life safety, health, and welfare with historic preservation standards along with local and state regulatory compliance will save you time and money.

An experienced historic architect should advise an owner on material selections and a design approach that will comply with the Secretary of Interior Standards, and the work should be executed with future maintenance in mind. Very often maintenance plans are developed in concert with the rehabilitation plans.



NAME: Flatiron Building

LOCATION: Wheeling

ORIGINAL CONSTRUCTION YEAR: 1895

REHABILITATION YEARS: Ongoing

ORIGINAL USE: Riverside Iron Main Offices

NEW USE: Loft Apartments with Commercial

QUALIFIED EXPENDITURES: Ongoing

“Federal and state historic tax credits are invaluable tools for success. It is important to utilize the expertise of professionally qualified architects and accountants. The process is multi-faceted and requires a team approach.”

- OWNER KEVIN DUFFIN



NAME: Montwell

LOCATION: Lewisburg

ORIGINAL CONSTRUCTION YEAR: 1818

REHABILITATION YEARS: 2002–2004

ORIGINAL USE: Residential

NEW USE: Residential and Multi-use

QUALIFIED EXPENDITURES: \$1,017,861

“One of the first things we did was hire Michael Gioulis to document the property and shepherd the tax credit project through the SHPO and NPS. We received around \$200,000 in federal and state tax credits and, with the help of our attorney, we transferred a portion of those credits.”

- CO-OWNER PAUL LINDQUIST

9 Tips to Take Away

When the Mills Group works with clients on historic tax credit projects, they offer them the following advice:

1. Hire an architect or consultant to shepherd you through the process. Consultant fees are eligible for tax credit.
2. Apply as soon as possible—preferably before beginning work.
3. Consult with the SHPO before beginning work; get them on site and familiar with the property.
4. Photograph the building inside and outside—before and after the project. “Before” photographs are especially important. Without them, it may be impossible for the NPS to approve a project. Key these photos to a floor plan.
5. Read carefully the program application, regulations, and any other information the SHPO supplies.
6. Wait until the project is approved in writing by the NPS before beginning work. Work undertaken prior to approval by the NPS may jeopardize certification. In the case of properties not yet designated certified historic structures, apply before the work is completed and the building is placed in service.



7. Read and follow the “Secretary of the Interior’s Standards for Rehabilitation” and the “Guidelines for Rehabilitating Historic Buildings.” If you are unsure how they apply to your building, consult with the SHPO or the NPS.



8. The SHPO has Development Grant funds available for the rehabilitation of buildings listed on the National Register of Historic Places.

These funds may be used in conjunction with Rehabilitation Tax Credits to complete a project. Contact the SHPO for additional information.

9. If any changes in the scope of work occur over the course of a project, an amendment form must be submitted to the SHPO and NPS for review and approval. Contact SHPO prior to submitting an amendment form.

For an interactive roadmap on historic tax credits, visit millsgrouponline.com/resources/roadmap



THE BOURY LOFTS

FEDERAL AND STATE HISTORIC TAX CREDITS (HTC) are one of the most significant community reinvestment programs in the country. By attracting private capital to revitalize buildings, it not only aids historic rehabilitation but also serves as a catalyst for economic development. According to a study commissioned by the National Park Service, the Treasury receives \$1.25 in tax revenue for every dollar invested. The federal HTC anchors complementary state historic tax credit programs.

In West Virginia, several successful projects have used federal and state tax historic tax credits. In Wheeling alone, since 2000, 14 projects have benefited. One of the most recent and influential commercial developments, The Boury Lofts, transformed an inactive warehouse into modern market-rate residential lofts.

The former Boury Warehouse, located on the corner of 16th and Main streets, had lived several lives in its 120-year history. It once was a warehouse, a grocery company, a biscuit factory, and a booth manufacturer. Today, it is one of the most exciting residential developments in the state. The six-floor structure houses 73

leased units—with Wheeling Nailers hockey players occupying the entire first floor—and a fitness room, coffee bar, lounge, and off-street parking. With rental rates ranging from \$829 per month for a single-bedroom apartment to \$1,059 per month for a 1,380 square-foot two bedroom unit, the apartments rented out in 90 days. It's no wonder—the apartments combine unique historic character with exposed brick, heavy beams, and oversized arched windows that frame a breathtaking view of downtown Wheeling with state-of-the-art conveniences like stainless steel appliances, quartz countertops, and in-unit washers and dryers.

But getting from an underutilized building with boarded-up windows to a high-demand residential building doesn't happen overnight. "The Regional Economic Development Partnership approached us about doing some market-rate housing in downtown Wheeling," explains Jeff Woda, president of The Woda Group, the owner and developer of Boury. "After looking at various sites and buildings, the Boury building made the most sense, especially having the Wheeling Nailers as a tenant. The federal and state historic tax credits helped finance the deal and were an important deciding factor." The Ohio-based developer invested \$16 million in the project. The Woda Group hired Mills Group, a historic preservation architecture firm based in Wheeling and Morgantown.

Mills Group principal architect Vic Greco worked on the Boury Lofts and has been helping developers and residential clients navigate the tax credit process for 25 years. "The Woda Group had experience with tax credits before, but they were really smart because they involved us from the beginning of the process," he says. "The difficulty with a building like Boury is that it doesn't meet modern life safety codes. You want to preserve the historic architecture—the feel of the brick walls, windows, and timbers—while modernizing it so that the building code authorities were convinced that the preservation would also meet life safety requirements."

Woda says, "It was a great collaborative effort. Vic was a wonderful part of the team. It is good for developers to have someone serve as a buffer between us and the reviewers."

As the project progressed the State's Historic Preservation Office frequently reviewed the process. Woda says, "West Virginia has a robust SHPO that is very involved. We knew what the office's priorities were going to be and what was historically significant. We did not feel like we were trying to hit a moving target, which we sometimes do in other states. Because of that, when we submitted the design for Part 2, we had minimal changes to make."

The Woda Group applied for and received additional grants as well. Greco says, "The



research, work, and advice we give enable our clients to seek out complementary funding. Tax credits are often used in combination with other grant programs. We help our clients seek those opportunities.”

Thanks to projects like Boury Lofts, Wheeling is abuzz with excitement and poised for a renaissance. Jake Dougherty, executive director of Wheeling National Heritage Area, believes that without historic tax credits Wheeling would not be experiencing this resurgence. “The historic rehabilitation tax credits are critical to the development of historic downtowns and communities. The tax credit makes projects viable and spurs private investment,” he says. “The major development projects that have resulted in hundreds of jobs being located in downtown Wheeling have used historic tax credits. This is adding vibrancy and a population that lives, eats, shops, and spends free time in downtown Wheeling, and that creates more business opportunities.”

Woda, who has developed properties in seven states, praises the city and the Regional Economic Development Partnership. He says, “The RED helped us get over every hurdle. Without them, Boury wouldn’t have happened. The city was all-in. They were committed to making this happen. We aren’t used to that in the development world. Bureaucracy stymies development. Our experience in Wheeling was the exact opposite. It was a great experience.”



THE PRICHARD HOUSE

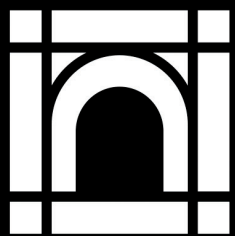
“WE DON’T HAVE AS MANY RESIDENTIAL HOMES SEEKING historic tax credits as we could,” says Deputy State Historic Preservation Officer Susan Pierce. “Although owner-occupied homes do not qualify for federal historic tax credits, they do qualify for state historic tax credits. Structural projects like roof repair, windows, doors, plumbing, or central air conditioning and heating systems are just a few examples.”

When homeowners Ann and Bruce Ratcliff of Huntington decided to restore their historic home, the Prichard House, they knew they wanted take advantage of state historic tax credits. Ann says, “The first thing we needed to do was to find out if we could place our home on the National Historic Register.” The Prichard House, built in the 1920s by Frederick C. Prichard, is predominantly Italian Renaissance, or Italian Villa-style, clad in gray granite from North Carolina that was brought to Huntington by riverboat on the Ohio River. Each stone for the outer walls was cut to a unique shape before being laid in a random, puzzle-like pattern. One of the distinguishing vertical architectural features is a tower that leads to a flat rooftop deck, originally covered with Spanish tiles.

“Since the home was built, the flat roof has never been waterproof,” Ann says. “Water is your biggest enemy. Over the years, water has leaked through chimneys and damaged the living room fireplace.” The roof had been tarred and rubberized in the past. Ann says, “In addition to restoring the house and the carriage house, we wanted to waterproof the flat roof.”

The Ratcliffs also hired architect Vic Greco, principal of Mills Group. “The most important thing to do when beginning a project like this is to have someone like Vic to help you through the process. He planned the work and was sensitive to the historic nature of the house,” Ann says. “He did a wonderful job. He was the most important person involved. Without the Mills Group we would never have found the right roofer.”

The Ratcliffs worked on their home in stages. “Historic tax credits were very important to us. They allowed us to rehabilitate the house and our guesthouse, install a central heating and cooling system, and repair and waterproof the roof, among other things.”



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