



468 S. Perry Street
Montgomery, Alabama 36130-0900
Voice: (334)242-3184
Fax: (334)262-1083
www.ahc.alabama.gov

ECONOMIC TAX INCENTIVES REPORTING ALABAMA'S HISTORIC REHABILITATION TAX CREDIT ENACTED 2013

SECTION ONE

1. The Alabama Historic Rehabilitation Tax Credit (AL HRTC) Program (2013-2016) provides a tax credit against the tax liability of the taxpayer for the rehabilitation, preservation, and development of historic structures. The Alabama State Legislature enacted the program on May 15, 2013, in House Bill 140 and amended it in the 2014 Legislative Session in House Bill 509. The Alabama Historical Commission (AHC) administers the program. The AHC accepted applications beginning on October 1, 2013 up until May 15, 2016, when the program expired.

The AL HRTC Program provides a tax credit of up to 25% of Qualified Rehabilitation Expenditures incurred as part of the certified rehabilitation of an historic property eligible for listing in the National Register of Historic Places. The program is available to owners of both commercial/income producing properties and to owner-occupied residential properties. Qualified Rehabilitation Expenditures include both hard and soft costs, generally consisting of improvements made to the building structure, interior and systems, as well as design and engineering services. In the legislation, the state set aside \$20 million annual in tax credit reservations per calendar year from 2013-2016, not to exceed \$60 million. The program also caps credits available to commercial projects at \$5 million and credits available to owner-occupied projects at \$50,000.

Interested property owners applied through the Alabama Historical Commission to receive a tax credit reservation. The AHC reviewed projects in the order they were received and no preference was given to any particular project type or location. If more than one application was received on the same day, the AHC held a lottery to determine the review order of the applications. The AHC only reserved a tax credit allocation if an application was complete and approved. The first round of credit reservations was made on December 6, 2013.

The taxpayer may claim the credit in the tax year the property is placed into service. If the tax credit exceeds the amount of taxes owed, the taxpayer will not receive a refund, but can claim any portion of the unused credit for up to ten tax years. If requested by the taxpayer, the Alabama Department of Revenue can allow for a one-time transfer of tax credits.

2. The goal of the Historic Rehabilitation Tax Credit is to issue tax credits to taxpayers who complete rehabilitation projects on buildings they own or long-term lease. The current AL HRTC Program portfolio includes seventy-two approved project applications that will spur economic development in twelve Alabama cities. Of the seventy-two approved projects, thirty-nine have received reservations from the \$60 million total allocation. Thirty-three additional projects are on a waiting list. The Alabama Historic Rehabilitation Tax Credits have facilitated an estimated \$351 million in total construction investment.

3. Intended beneficiaries of the AL HRTC include owners or long-term lessees of historic buildings who complete rehabilitation projects. The Department of Revenue shall grant a tax credit to a taxpayer holding the tax credit certificate issued by the AHC against any state tax due under Chapters 16 and 18 of Title 40, Code of Alabama 1975. The tax credit offers a financial incentive for those willing to undertake substantial rehabilitation projects in historic buildings in Alabama. The tax credit reduces a financial burden in undertaking such projects.

SECTION TWO

1. The number of taxpayers applying for, qualifying for and claiming the Tax Incentive, and the Tax Incentive amounts (in dollars) claimed by taxpayers in the reporting year.
The program expired on May 15, 2016, therefore, no applications were received for tax year 2017. However, for tax year 2017, the AHC certified eleven projects and issued tax credit certificates totaling \$11,035,825.02. According to the Department of Revenue, to date, 44 taxpayers have claimed \$2,928,993 in historic rehabilitation tax credits for tax year 2016. This includes credits that have been transferred.
2. The number of taxpayers applying for, qualifying for and claiming the Tax Incentive, and the Tax Incentive amounts (in dollars) claimed by taxpayers since the creation of the Tax Incentive, if available.
For tax years 2013 through 2016, 73 taxpayers applied for the Tax Incentive. During these same years, the AHC certified 17 projects and issued tax credit certificates totaling \$18,341,485.50. According to the Department of Revenue, 97 taxpayers have claimed \$10,818,871 in historic rehabilitation tax credits since tax year 2014. This includes credits that have been transferred.
3. The amount of Tax Incentives that could be carried forward and the length of time the Tax Incentive can be carried forward.
The Alabama Historical Commission is not aware of the amount of tax incentives that could be carried forward, however, Act 2013-241 allows for any unused portion of the credit to be carried forward for up to 10 additional tax years.
4. The amount of Tax Incentives that have been transferred, if applicable, and the amount that the credit(s) were discounted when they were transferred.
The Alabama Historical Commission does not have this information.
5. The amount of fees and / or other transaction costs associated with the Tax Incentive, including but not limited to application fees and transferability fees.
 - a. Application fees: The AHC collected a review fee for each project that was equal to 1% of the qualified rehabilitation expenditures, not to exceed \$10,000. As of January 11, 2018, the Commission has collected \$369,175.98 in review fees.
 - b. Transferability fees: *The Alabama Historical Commission does not have this information.*
6. The estimated cost of administering the Tax Incentive.
An estimated \$282,973 of direct AHC employee cost over four years, and an additional \$20,000 for the cost of an economic impact study as required by the Legislature.
7. The number of direct jobs created by the Tax Incentive
The Alabama Historical Commission does not collect this information for the 2013 program, however we are collecting this data for the 2018 program.

8. The timing between awarding the tax incentive and creation of jobs and/or investment, and the maintenance of any job creation requirement:

The Alabama Historic Rehabilitation Tax Credits are not authorized until the taxpayer has followed all regulations and requirements set forth in the 2013 enabling legislation and the 2014 amendment. The taxpayer cannot utilize the credits until the project is completed, therefore, the taxpayer must make the up-front investment of all rehabilitation costs as part of the construction phase. The building cannot be sold or modified for at least five years after taking the credits.

9. Describe any caps associated with the Tax Incentive (identify if fiscal year or calendar year) and whether or not the cap was met for each year the Tax Incentive was in existence. Include the number of taxpayers who were denied a Tax Incentive due to the cap being in place.

Tax credits are capped at \$5 million for commercial properties and \$50,000 for residential homes. Eligible costs must exceed 50 percent of the owner's original purchase price or \$25,000, whichever is greater. No taxpayers were denied a tax incentive due to the cap being in place.

10. Describe any penalties, including claw back provisions, associated with noncompliance of the Tax Incentive.

Recapture of any of the credit, and any required adjustments to basis due to recapture, shall be governed by Section 50 of the Internal Revenue Code; provided, however, that only the owner initially awarded the tax credit certificate, and not any subsequent transferee of the tax credit certificate, shall be liable for any amount of the credit recaptured.

11. Provide an estimate of the indirect economic activity stimulated by the Tax Incentive. This shall include an estimate of any tax benefits that have been sourced outside of Alabama.

Please refer to the 2016 Novogradac Economic Impact Study and the 2017 study by the University of Tennessee, Knoxville. The Alabama Historical Commission does not track any tax benefits that have been sourced outside of Alabama.

12. Any other information necessary for the State Agency to comply with the requirements of the Act.

SECTION THREE

1. Any results the Tax Incentive has on Alabama's economy. Indicate whether or not the Tax Incentive is successfully influencing business decisions and describe how this is being determined.

Please refer to the 2016 Novogradac Economic Impact Study and the 2017 study by the University of Tennessee, Knoxville.

2. Any evidence that the Tax Incentive is or has changed business behavior, as opposed to rewarding businesses for what they would have done anyway.

Please refer to the 2016 Novogradac Economic Impact Study and the 2017 study by the University of Tennessee, Knoxville.

3. How the Tax Incentive is effecting businesses beyond those that benefit directly from the Tax Incentive.

Please refer to the 2016 Novogradac Economic Impact Study and the 2017 study by the University of Tennessee, Knoxville.

4. Any potential changes to the design or administration of the Tax Incentive that could lead to better results. If possible, indicate if the Tax Incentive could be made more effective through legislative changes.

In May 2017, the legislature passed the new Alabama Historic Rehabilitation Tax Credit Program, which expires December 31, 2022. As with the old program, it caps the total amount of tax credit reservations at \$20 million per year.

New changes include:

- *of the annual \$20 million, 40% will be set aside for the first six months each year for projects in counties with populations under 175,000. The 40% will revert to other projects if credits are not allocated for projects in the specified counties.*
- *Buildings must be listed in or eligible for the National Register and be at least 60 years old to qualify unless they are already designated as National Monuments or Parks.*
- *A Historic Tax Credit Evaluating Committee, made up of state officials, will be responsible for ranking applications to determine which projects receive a tax credit allocation.*

5. State whether or not the State Agency could accomplish the same purpose or goal of the existing Tax Incentive through a non-tax incentive or subsidy, such as a normal budgetary expenditure, and do it more effectively or efficiently. Explain your reasoning.

The Alabama Historical Commission could not accomplish the same purpose of the existing Tax Incentive because it does not have the financial resources to provide incentives or subsidies to taxpayers who rehabilitate historic buildings.

6. The methodology and assumptions of the review, analysis, and evaluation of the Tax Incentive.

Please refer to the 2016 Novogradac Economic Impact Study and the 2017 study by the University of Tennessee, Knoxville.