ALABAMA HISTORICAL COMMISSION
THE STATE HISTORIC PRESERVATION OFFICE

Lisa D. Jones, Executive Director &
State Historic Preservation Officer
468 South Perry Street, Montgomery AL
334-242-3184
Lisa.Jones@ahc.alabama.gov

ECONOMIC TAX INCENTIVES REPORTING
TAX YEAR 2018

ALABAMA'S HISTORIC REHABILITATION TAX CREDIT
ENACTED 2017

SECTION ONE

1. The Alabama Historic Rehabilitation Tax Credit (AL HRTC) Program (2018-2022) 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 24, 2017, in Act 2017-380. The Alabama Historical Commission (AHC) administers the program. The AHC began accepting applications on November 1, 2017, and continuously thereafter through the final application period in 2022.

   The Alabama Historic Rehabilitation Tax Credit is a 25% refundable tax credit available for private homeowners and owners of commercial properties who substantially rehabilitate historic properties that are listed in or eligible for the National Register of Historic Places and are 60 years old or older, unless the structure is located within the boundaries of a National Monument or Park as declared by the United States Congress or the President of the United States. 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 in tax credit reservations per calendar year from 2018-2022, not to exceed $100 million. Of the annual amount of tax credits available, 40% shall be reserved to taxpayers located in a county in which the population does not exceed 175,000 according to the 2010 decennial census. In the event the 40% is not reserved by the close of the second quarter of the program year, the credits may be reserved for other qualifying projects. The program also caps credits available to commercial projects at $5 million and credits available to owner-occupied projects at $50,000.

   The AHC reviews projects and determines if a property meets the eligibility requirements for the program and if the proposed rehabilitation meets preservation standards. Applications found to meet the requirements of the program will be recommended for review by a Historic Tax Credit Evaluating Committee made up of state officials each quarter. This committee ranks projects in the order they should receive tax credit reservations. Quarterly meetings in 2018 were held March 6, June 27, September 25, and December 19.

   The taxpayer must claim the entire credit in the tax year the property is placed into service. If the tax credit exceeds the amount of taxes owed, the taxpayer will receive a refund. If requested by the taxpayer, the Alabama Department of Revenue can allow for a one-time transfer of tax credits, at a value of at least 85% of the present value of the 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 45 approved project applications that will spur economic development in fifteen Alabama cities. Of the 45 approved projects, 13 have received reservations from the 2018 $20 million allocation. 32 additional projects are on a waiting list. Projects submitted in 2018 have the potential to facilitate an estimated $291 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.

   Forty-five (45) taxpayers have applied and qualified for the program in tax year 2018. Since this is the first year of the program, no projects have been completed and therefore, the AHC has not issued any tax credit certificates.

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.

   Forty-five (45) taxpayers have applied and qualified for the program in tax year 2018. Since this is the first year of the program, no projects have been completed and therefore, the AHC has not issued any tax credit certificates.

3. The amount of Tax Incentives that could be carried forward and the length of time the Tax Incentive can be carried forward.

   Act 2017-241 does not allow for credits to be carried forward. The taxpayer must claim the entire credit in the tax year the property is placed into service. If the tax credit exceeds the amount of taxes owed, the taxpayer will receive a refund.

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.

   Since this is the first year of the program and no projects have been issued any tax credit certificates, no credits have been transferred. In the future if credits are transferred, the Alabama Department of Revenue would 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 collects a review fee for each project. For projects of $1 million or less, a fee of 1% is collected. For projects over $1 million to $10 million, a fee of $15,000 is collected. For projects over $10 million, a fee of $20,000 is collected. Half of the fee is due with the submission of the application, and the second half is due when the applicant is notified their project has received a full or partial tax credit allocation reservation. In calendar year 2018, the Commission collected $285,452.91 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 $124,697.38 of direct AHC employee costs for tax year 2018.

7. The number of direct jobs created by the Tax Incentive.
   The Alabama Historical Commission collects this information once the project is complete. Since this is the first year of the program, no projects have been completed and therefore, the AHC has not collected this information.

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 2017 enabling legislation. 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 without prior approval from the Alabama Historical Commission 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 have been 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.

    The Alabama Historical Commission does not have this information. 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.
    N/A

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.

   According to the applications submitted in 2018, these projects have the potential to facilitate an estimated $291 million in total construction investment.

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.

   The Alabama Historical Commission does not have this information.

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

   The Alabama Historical Commission does not have this information.

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. This program succeeded the previous 2013 Alabama Historic Rehabilitation Tax Credit program that expired on May 15, 2016.

   Partly based on suggestions discussed in "Evaluation of Alabama's CAPCO Credit and Historic Rehabilitation Tax Credit" by Dr. Matthew N. Murray, Ph.D. and Donald J. Bruce, Ph.D., the Alabama Legislature made several significant changes to include:
   - *the tax credit is now refundable.*
   - *the credits are no longer allocated on a first-come first-served requirement. Applications are submitted over a longer pre-determined period of time and evaluated collectively by quarter.*
   - *a Historic Tax Credit Evaluating Committee, made up of state officials, is now responsible for ranking applications to determine which projects receive a tax credit allocation.*
   - *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 <u>and</u> be at least 60 years old to qualify unless they are already designated as National Monuments or Parks.*

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.

   A study has not been completed for the 2017 Historic Rehabilitation Tax Credit Program. Two studies were performed for the 2013 Historic Rehabilitation Tax Credit Program: 2016 Novogradac Economic Impact Study and the 2017 study by the University of Tennessee, Knoxville.