Establishing a Federal Homeowners' Tax Credit

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ABSTRACT

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After years of disinvestment in urban neighborhoods the federal government needs to create policies to encourage revitalization of these areas that have been neglected for decades. The benefits of such policies include economic growth and sustainable development. A federal historic homeowners' tax credit can be used to help spur urban revitalization in the United States by making reinvestment in urban areas more affordable for middle class residents. Although never passed, the National Trust for Historic Preservation and Preservation Action proposed the Historic Homeowners' Assistance Act (from 1993-2001) that would create a federal homeowners' tax credit. This paper explores the benefits of reintroducing the Historic Homeowners' Assistance Act, and how it can be improved to make the tax credit more useable for middle income homeowners.

ESTABLISHING A FEDERAL HOMEOWNERS TAX CREDIT.

By

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Chapter 1: Introduction

Urban areas in the United States have suffered from decades of disinvestment and the federal government needs creative solutions to revitalize them. The benefits of such revitalization include economic growth to sustainable development. This paper will examine a tool for revitalizing them: a federal homeowners' tax credit. How could a federal homeowners tax credit help revitalize urban areas? Who would benefit from such a tax credit? What components of the credit are necessary to make it useable for homeowners? Research for this paper began by examining the archives of Preservation Action, National Council for State Historic Preservation Officers, and Preservation Maryland to gather information about the historic of tax credits at the state and federal levels. Interviews were then conducted with people involved with the existing tax credit programs, including employees of the National Park Service Tax Incentives programs, Preservation North Carolina, and the Arlington County Historic Preservation Program. Lobbyists for the Historic Homeowners' Assistance Act were also interviewed.

Urban areas "have endured hardship as their building stock ages and they suffer the effects of urban flight. What results is neglect, blight, absentee ownership, and boarded up, vacant structures."[1] This problem of urban disinvestment was encouraged by a federal government policy to relocate people to the suburbs. Many architects and planners such as Frank Lloyd Wright, Le Corbusier, and Lewis Mumford either advocated for or predicted the decentralization of urban centers to the

[1] City of Savannah, Preservation Action, and Heritage Consulting Group. *Home Again in Savannah, Applying the Proposed Federal Historic Homeownership Tax Credit: Four Case Studies.* (Photocopy, Preservation Action, City of Savannah, and Heritage Consulting Group, 1998), 1.

farmland surrounding the cities. This relocation was possible as the ease of communication and travel increased with technological inventions such as the car, telephone, and radio. Federal government agencies encouraged this decentralization of urban areas with their policies beginning in the 1930's. Guy Tugwell, an agricultural economist from Columbia, described the federal government process as "go[ing]outside centers of population, pick[ing] up cheap land, build[ing] a whole community, and entic[ing] people into it. Then go[ing] back into the cities and tear[ing] down slums and make[ing] parks of them."[2] The New Deal Resettlement Agency took on some of the first projects that intentionally created suburban towns to house displaced farmers moving to cities to find jobs.

While the federal government itself built only a few of these communities, the Federal Housing Administration (FHA) adopted the idea of encouraging suburban development. The FHA became the single largest factor in changing the attitudes of where people lived. A depression-era agency, the FHA granted mortgages to people to encourage home buying to spur the construction industry, and thus job creation. The FHA allowed mortgages with only ten percent down, spanning thirty years, a drastic change from earlier, when typical mortgages required a fifty percent down payment and only five to seven years to repay.[3] The new mortgage policies allowed many middle income families to buy homes for the first time. The FHA restricted the location of the houses eligible for mortgage insurance, generally favoring new areas rather than old ones. Urban areas considered unsuitable, whether due to aging building stock or African-American (or other ethnic minority) presence somewhere

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[2] Richard Moe and Carter Wilkie, Changing Places: Rebuilding Community in the Age of Sprawl. (New York: Henry Holt and Company, 1997), 47.
[3] Ibid., 48.

on the block were “redlined” on maps, which were shared with bankers. This “redlining” of areas prevented bankers from investing in these areas, leading to the eventual decline of many urban neighborhoods. With most of the housing stock in cities considered unacceptable by the FHA, people were essentially forced to select new houses in the suburbs. The FHA even published a pamphlet for builders in 1938 entitled “Planning Profitable Neighborhoods” which explained how to create separate subdivisions outside cities to encourage developers to build homes to meet their criteria.[4]

In addition to the FHA mortgages, the GI bill in 1944, which guaranteed mortgages to sixteen million World War II veterans with no down payments, adopted similar policies as the FHA for where it would grant mortgages.[5] The demand for housing for these veterans spurred the building of massive subdivisions. For example, Levittown in New York, created in 1948 was the largest suburb built during this era. With this development of seventeen thousand homes, the scale of suburbs increased exponentially. This trend toward encouraging massive suburban developments by both private and governmental institutions continues to the present day.

Residents who wanted to stay in cities found it increasingly difficult to do so. Home-repair loans or mortgages were nearly impossible to get because the FHA felt these areas were not stable enough in which to invest. People left the cities in massive numbers, crippling once stable urban neighborhoods. As the cycle continued, property values decreased and urban areas decayed even further, making

[4] Ibid., 49.
[5] Ibid., 48.

mortgages even harder to obtain. Factors other than the federal government's involvement in housing also contributed to urban decay: including race riots, white flight, and the automobile; however those topics are beyond the scope of this discussion of a new policy the federal government should use.

To deal with blighted neighborhoods, the government created policies to eliminate these areas by providing federal funds to localities that tore these homes down to build new housing. These policies, which became known as urban renewal, further concentrated low income people in certain areas. Urban renewal failed to help the underserved population it was targeted to assist. Instead it perpetuated the problems it tried to fix by concentrating lower-income people in certain areas.

While many historic neighborhoods survived urban renewal demolitions, they generally suffer from years of disinvestment from the federal government and private sources. A brief case study of Baltimore, Maryland, can highlight many of the issues facing urban areas. Baltimore lost 32% of its population between the1950 and 2000 censuses (1950 population: 949,708; 2000 population: 651,154).[6] A key sign of disinvestment of properties within urban areas is the high level of vacant or abandoned property found within a city. As of 2007, Baltimore had almost 30,0000 abandoned properties, equaling almost 13% of the total property in the city.[7] (see appendix A for map of Baltimore Vacant Properties). [8] According to the 2000

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[6] Richard L. Forstall, "Maryland: Population of Counties by Decennial Census: 1900 to 1990" (Washington, D.C.: US Bureaus of the Census, 1995).; United States Census Bureau. "Baltimore City Maryland: Population Estimates" United States Census Bureau. http://factfinder.census.gov/servlet/DTTable?_bm=y&-geo_id=05000US24510&-ds_name=PEP_2008_EST&-redoLog=false&-mt_name=PEP_2008_EST_G2008_T001 (accessed 9 May 2009).

[7] Jennifer Leonard, email message to author. 10 May 2009.

[8] Michael A. Pagno and Ann O. M. Bowman. *Vacant Land in Cities: An Urban Resource* (The Brookings Institute, Center on Urban & Metropolitan Policy, December 2000), 5

Census, 14.85% of housing units in the United States were built before 1939 and 34.72% of them built before 1959 (see appendix B for a list of housing units by state and year built).[9] A high concentration of this older housing is found in urban areas. Not surprisingly, the location of historic districts is directly correlated with urban areas. Fifty-seven of Maryland's one hundred eighty-three historic districts are located in the city of Baltimore, 30.6% of the historic districts in the state. This is a high percentage considering the area of the city is only 80.8 square miles which is 0.8% of the total land area for the state of Maryland.[10] The people living in many these urban neighborhoods are typically lower-income, especially in comparison with the surrounding suburbs. According to the 2000 Census, the median family income (in 2007 inflation-adjusted dollars) for Baltimore City was $44,891, while the average for the county surrounding the city, Baltimore County, was $74,168.[11] The median family income for the United States was $60,374.[12] 20.7% of the individuals in Baltimore City were listed as being below poverty level while only 7.8% of individuals in Baltimore County were listed as such (the national average was

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[9] "Housing Units by State and Year Built" unpublished photocopy.
[10] City-Data, "Baltimore" City-Data. . http://www.city-data.com/city/Baltimore-Maryland.html, (accessed April 2009).; United States Census Bureau. "Maryland Quick Facts." United States Census Bureau. http://quickfacts.census.gov/qfd/states/24000.html (accessed April 2009).
[11] United States Census Bureau, "Baltimore City, Maryland Data Fact Sheet." United States Census Bureau. http://factfinder.census.gov/servlet/ACSSAFFFacts?_event=ChangeGeoContext&geo_id=05000US24005&_geoContext=&_street=&_county=baltimore&_cityTown=baltimore&_state=&_zip=&_lang=en&_sse=on&ActiveGeoDiv=&_useEV=&pctxt=fph&pgsl=010&_submenuId=factsheet_1&ds_name=ACS_2007_3YR_SAFF&_ci_nbr=null&qr_name=null&reg=null%3Anull&_keyword=&_industry= (accessed April 2009).; United States Census Bureau, "Baltimore County Data Fact Sheet" United States Census Bureau. http://factfinder.census.gov/servlet/ACSSAFFFacts?_event=ChangeGeoContext&geo_id=05000US24510&_geoContext=&_street=&_county=baltimore&_cityTown=baltimore&_state=&_zip=&_lang=en&_sse=on&ActiveGeoDiv=&_useEV=&pctxt=fph&pgsl=010&_submenuId=factsheet_1&ds_name=ACS_2007_3YR_SAFF&_ci_nbr=null&qr_name=null&reg=null%3Anull&_keyword=&_industry= (accessed April 2009).
[12] Ibid.

13.3%).[13] Many of these lower-income residents live in the disinvested historic neighborhoods. Thirty-five (21%) of the historic districts located in Maryland are located in census tracts with twenty percent or more of the residents living below the poverty level (see Appendix C for a list of states and percentage of historic districts in census tracts with twenty percent or more below poverty level).[14] Nationally, thirty-two percent of households below the poverty line live in older and historic homes. The problems of urban areas in the United States, as evidenced by Baltimore, Maryland, need to be addressed by federal government policy to encourage revitalization and maintenance of historic buildings.

Establishing federal policies to encourage reinvestment in these declining urban neighborhoods will encourage Smart Growth and spur economic growth. Revitalizing urban centers promotes sustainable development and reduces the environmental impacts of continued suburban development. The Smart Growth Network created ten principles to follow to encourage planners, developers and others involved in the development process rethink the way growth is allowed (see Appendix D for a complete list of Smart Growth Principles and Issues). Reinvesting in urban areas meets many of these principles, including strengthening and directing development toward existing communities, providing a variety of transportation options, creating walkable neighborhoods, and fostering distinctive, attractive communities with a strong sense of place. Over forty percent of people who live in older or historic homes (defined as pre-1950 construction) live within five miles of where they work while less than twenty-five percent of those who live in new housing

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[13] Ibid.
[14] National Park Service Cultural Resource Geographic Information Services, "Historic Districts and Historic Buildings in Poverty Areas as of July 24, 2000" unpublished photocopy. 2000.

do.[15] Additionally almost sixty percent of people who live in older or historic homes live within walking distance of public transportation while only twenty-five percent new construction home owners have that option.[16] The environmental benefits of revitalizing urban areas are significant.

Reinvestment in urban areas will spur widespread economic growth, not just in the targeted community, but in the surrounding ones as well. The rehabilitation of buildings increases property tax for local governments which means they generate more income and can offer more services to residents. When the houses are rehabilitated, the residential population increase which means more office and retail space will be needed. The increased need for office and retail space can also be fulfilled by rehabilitating historic buildings for new uses. These increased commercial tenants in the area generate more tax revenue for the local governments. It is important to have a balance between commercial and residential space in an area because the commercial tenants are more lucrative for the local governments because they require fewer services than residents do, such as providing schools for residents.

In addition, the costs associated with the restoration of historic buildings are mostly labor costs. High labor costs and low material costs typically create more jobs, and typically these are skilled jobs which are higher paying. The National Association of Home Builders calculated that new construction for 1,000 single family homes would create 2,448 jobs in construction and construction-related industries and would generate $79.4 million in wages, but the same amount of money

[15] Donavan Rypkema, "Historic Preservation and Affordable Housing: The Missed Connection" (Washington, D.C.: The National Trust for Historic Preservation, 2003). http://www.placeeconomics.com/pub/PlaceEconomicsPUB2003b.pdf.7.
[16] Ibid., 8.

spent on rehabilitating older and historic housing would create 2,838 jobs and $88.7 million in wages.[17] The employment of skilled laborers in an urban neighborhood contribute to the local economy.

In order to encourage people to fully utilize these urban buildings, local, state, and federal action are needed to provide incentives for people to move back into cities and reinvest in urban areas. A federal historic homeowners' tax credit is a federal level policy that could encourage people to return to urban areas. The tax credit offers homeowners a dollar for dollar reduction of their income tax liability based on the percentage of the rehabilitation costs. This type of tax credit assists homeowners with the expense of updating and bringing their homes up to code. The tax credit provides an incentive for private investment, which is a more sustainable practice for reinvestment in urban areas than continuing to rely solely on federal funds. A homeowners' tax credit would most likely be beneficial to middle-income residents who have access to equity to invest in their homes. Examining possibilities for the tax credit to benefit lower-income homeowners is out of the scope of this paper, but does need to be examined.

Chapter 2 provides information on historic preservation tax credits by examining the current federal income-producing tax credit as well as state income-producing and homeowners' tax credits. Chapter 3 discusses the National Trust for Historic Preservation campaign for the creation of a federal homeowners' tax credit (the Historic Homeowners' Assistance Act) from 1994 to 2001, and analyses the proposed legislation. Chapter 4 presents new approaches for lobbying and proposes new ideas for a homeowners' tax credit to make it more useable.

[17] Ibid., 11.

Chapter 2: Tax Credits as an Incentive Driven Policy

Introduction

The United States has a very complex income tax code. Part of the reason for this complexity is that the federal government (and state and local governments following suit) uses the tax code as a method of driving policy and achieving political goals. For example, the federal government encourages citizens to donate money to charities and non-profit organizations, by making charitable donations are tax deductable. This change in the tax code encourages people to make donations each year, helping the organization, and reducing their taxable income.

The policy of adjusting the tax code to encourage people to behave in certain ways has been applied to both historic preservation and urban policy. The historic preservation tax credit was started in the 1970's as a method of encouraging redevelopment of abandoned commercial centers but has evolved solely into a preservation-oriented policy. The United States historic preservation rehabilitation tax credit incentive policy encourages, but does not require, an individual or corporation to engage in preservation activities. Currently, the federal government offers a twenty percent federal tax credit for rehabilitating income-producing properties. Many states and local municipalities have mimicked the federal government's historic preservation tax credit and created their own incentive programs. These state tax credits provide further incentive for rehabilitation of historic resources. Some state and local governments have gone even further and developed a homeowners' tax credit to assist homeowners bring their historic houses up to code and modern standards. Despite repeated attempts by preservation lobbying organizations, there is no federal homeowners' tax credit for historic properties.

History of Federal Historic Preservation Tax Credits

The first historic preservation tax incentives are found in the Tax Reform Act of 1976, which sought to:

> …stimulate the preservation of historic commercial and income-producing structures by allowing favorable tax treatments for rehabilitation; and discourage destruction of historic buildings by reducing tax incentives both for demolition of historic structures and for new construction on the site of demolished historic structures.[18]

The Tax Act of 1976 achieved these goals by increasing the depreciation rate for properties listed on the National Register.[19] The Revenue Act of 1978 established for the first time an investment tax credit of ten percent for buildings listed on the National Register.[20] In order to receive this tax credit, all the work on the building had to follow the Secretary of the Interior's Standards for Rehabilitation, and be certified by the National Park Service as having done so. Both of these programs limited the types of projects to income-producing properties and had many restrictions, making them difficult to use, but mark the first attempt by the federal government to encourage the private sector to preserve and use historic buildings.

While the Revenue Tax Act of 1978 provided only limited benefits, the Economic Recovery Tax Act in 1981 dramatically increased the economic benefits of

[18] Bruce MacDougal and Kristin O'Connell, "How to Apply for Certification of Significance under section 2124 of the Tax Reform Act of 1976" (US Department of the Interior, Heritage Conservation and Recreation Service: Washington, DC, 1981), 1.
[19] "History of Federal Tax Incentives for the Rehabilitation of Historic Structures." Preservation Action Archives, National Trust Library, University of Maryland. Box 3 folder 9, 1.
[20] Ibid., 2.

preservation when it established a three-tiered program for tax credits. These tax credits were dollar for dollar reduction in the amount of income-taxes owed. The first tier was for a twenty-five percent tax credit on income-producing buildings listed on the National Register and all work had to meet the Secretary of the Interior's Standards for Rehabilitation. The second tier was a twenty percent credit for non-residential income producing properties at least forty years old and the third tier was a fifteen percent credit for buildings thirty years old with the same restrictions as the second tier credit. The second and third tier buildings did not have to be certified historic properties, meaning they did not have to be on the National Register or listed as a contributing building in a historic district.[21]

The whole tax credit system was part of the large Economic Recovery Tax Act, aimed at revitalizing a slowing economy. The lawmakers' goals did not focus on the preservation of the United States' historic resources, but rather on how to jump start the economy. The entire tax credit program was intended to bring older buildings back into use. The Congressional Budget Report from February 1984 states that the purpose of the program was to "encourage businesses to renovate their existing premises rather than relocate, to encourage people to purchase and put to new use older buildings that have outlived their original purposes…"[22] In 1981, the buildings eligible for the second and third tiered part of the program were those built during and immediately after World War II (a forty year old building in 1981 was built in 1941, and a thirty year building, was built in 1951). The economic boom during and after the war led to a building explosion, but in the 1980's these buildings

[21] Ibid., 3.
[22] "Limit Rehabilitation Tax Credits to historic Buildings" Preservation Action Archives, National Trust Library, University of Maryland. Box 9 folder 1, 1.

were considered old, outdated, and often not in desirable locations for a business. The tax credit sought to encourage citizens to reconsider these buildings and help them see that despite the fact that they are older, they should not be abandoned for new ones. The result of the program being structured in a three tier manner led to parts of the program encouraging preservation. The first tier credit encouraged preservation of historic resources in a manner consistent with the best practices of the field. The second and third tier tax credits were used to encourage economic activity and were not seen as being able to meet historic preservation goals.[23] While the 1981 Economic Recovery Tax Act aided historic preservation goals, it was not the primary intent of the legislation. In subsequent years, preservationists across the country saw the economic benefits of the Act and the impact it had on preservation.

The tax credit system under the Economic Recovery Tax Act of 1981 was extremely successful. The National Trust for Historic Preservation began tracking the impact of the program in 1982 using an econometric model called PRIME (Preservation and Rehabilitation Impact Estimator). Between 1982 and 1985, $4.82 billion worth of rehabilitation work was completed.[24] During the 1983 fiscal year, 2,572 projects were approved to create $2.165 billion worth of private investment. The impact on local municipalities as well as states was staggering. For example, the National Trust estimated that between 1978 and 1984 about 300 properties in New Jersey applied for the first tier, twenty-five percent tax credit, generating $399 million in certified rehabilitation work. This work lead to the creation of 9,100 full time jobs

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[23] Ibid.

[24] "Historic Preservation Tax Task Force-How to Begin" Preservation Action Archives, National Trust Library, University of Maryland, Box 9 folder 1, 1.

and at least 1,000 housing units in New Jersey.[25] In Chicago during that same time period ninety-five projects generated $300 million in certified rehabilitation work leading to an increase of $1.05 billion maximum gross output from sales and general business and at least 12,100 jobs.[26]

As the economy began to recover, President Reagan sought to eliminate the tax credit system. Preservationists fought to save it, arguing the effectiveness of the incentives for preservation via a major campaign called the Tax Task Force.[27] In 1986, Congress reduced the certified twenty-five historic percent tax credit from the 1981 Economic Recovery Tax Act to twenty percent. The twenty percent and fifteen percent tax credits from the 1981 Act were combined and reduced to a ten percent credit. Qualifying buildings now had to have been put in service prior to 1936.[28] The change from buildings either thirty to forty years old to buildings put in service prior to 1936 changed the outlook on the ten percent tax credit. The age of the building was raised to reduce the number of buildings eligible for this tax credit, thus reducing the number of projects per year.[29] By selecting a date prior to 1936, the change prevented buildings built during and after the World War II building boom from being eligible for this tax credit.[30] This change changed the original purpose of the 1981 program to put to new use buildings which had outlived their original function,

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[25] National Trust for Historic Preservation. "Use of the Tax Incentives for Historic Preservation in New Jersey" (unpublished photocopy, 1985), 1.
[26] National Trust for Historic Preservation. "Facts about the Use of Federal Tax Incentives for Historic Preservation in Chicago, Illinois" (unpublished photocopy, c. 1985), 1.
[27] Ibid.
[28] National Park Service, "About the Federal Tax Incentives for Historic Preservation: 10% Rehabilitation Tax Credit." National Park Service. http://www.nps.gov/history/hps/tps/tax/brochure1.htm#10 (accessed 1 April 2008).
[29] Nellie Longworth, email message to author. 28 February 2008.
[30] Ibid.

especially those from the post World War II period. There is currently no statistical data available for the use of the ten percent tax credit.[31]

Changes made in other parts of the tax code during the 1986 Tax Reform Act also reduced the impact of the incentives. These changes made real estate investment less profitable as a whole, whether related to historic preservation or not. The rate of depreciation for buildings was changed from being spread out over nineteen years to twenty-seven and a half years for residential buildings. As a result real estate investments received less protection from taxes, lowering their appeal as tax shelters. Capital gains preferential taxes were also eliminated from the tax code (which have since been reinstated). The result being when a property was sold, the income was taxed as ordinary income which is a higher rate than if it was capital gains.

Perhaps the most significant change was to "passive loss" rules. Loses created by accelerated depreciation now may only be taken against passive loses. that were previously taken against all types of income now may only be taken against comparable types of income. Now "passive losses" can not be offset against an "active" category such as wages. This change reduced the appeal of real estate investment to many people because in order to get the tax break an investor now needs a "passive income," such as investment dividends to benefit. While it is difficult to determine which of these changes had the largest effect on the

[31] Colleen K Gallagher (Senior Program Analyst, Internal Revenue Service), in discussion with author, 7 March 2008.

rehabilitation of historic property, the result was a thirty-five percent decline in the number of approved projects in 1987 from the previous year.[32]

Despite the changes in the real estate tax code, investors and developers have continued to make substantial investments in historic properties. From its inception to 2007, the federal rehabilitation tax credits have generated over $45 billion in historic preservation activity.[33]

State Historic Preservation Income-Producing and Homeowners Tax Credits

As a result of the success of the federal rehabilitation tax credits, many states developed their own tax credit programs. As of 2007, twenty-nine states offered some form of rehabilitation tax credit. The programs vary from Wisconsin's five percent income-producing tax credit to New Mexico's fifty percent homeowner's tax credit (see Appendix E for the complete list of states which offer tax credits and their program details). These programs have resulted in 5,276 projects totaling over $3 billion in investment, as of 2002.[34] Most of the states' income producing tax credits piggy-back on the federal program.

These state credits vary in their requirements and restrictions. Delaware, for example, has a $20,000 maximum tax credit per project on their program while states such as Maryland have a $50,000 maximum tax credit per project for homeowners applying for state credits. The difference in the success of these two programs is

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[32] Betsy Chittenden, "Tax Incentives for Rehabilitating Historic Buildings: Fiscal Year 1987 Analysis" (Technical Preservation Services Preservation Assistance Division, National Park Service: Washington, D.C., 1987), 3.
[33] National Park Service, "Annual Report for Fiscal Year 2007: Federal Tax Incentives for Rehabilitating Historic Buildings" (Technical Preservation Services, National Park Service, U.S. Department of the Interior: Washington, DC, 2008), 1.
[34] Sydney A Becker and Harry K. Schwartz, "State Income Tax Credits for Historic Rehabilitation" (unpublished photocopy, 2002), 1.

staggering. Maryland has had over 2,500 residential projects approved since the tax credits were created in 1997, while Delaware has had only 41 projects since its start in 2001.[35] Other states such as Michigan and North Carolina do not have any maximum tax credit on projects. States also require different minimum investments in the projects. Connecticut for example, requires that $25,000 be invested while Colorado requires only $5,000. Missouri requires that minimum investment be fifty percent of the adjusted basis of the structure. Some states have also developed creative ways to use tax credits to encourage development and preservation of specific structures. For example, New York offers a historic barn tax credit and North Carolina recently created a historic industrial building tax credit in 2006. States that have developed homeowners' tax credits have created unique opportunities for preservation and revitalization for communities in those states.

All but three of the states with tax credit programs have created homeowners' tax credits in addition to their programs mimicking the federal income-producing rehabilitation tax credits. These programs are crucial to maintaining historic homes because bringing old homes up to code and putting in modern conveniences can be expensive. The tax credit can help defray these expenses which helps keep the building in use. For example, a young couple recently bought a 1930's duplex in Arlington, Virginia that was structurally and functionally solid, but needed approximately $40,000 in rehabilitation projects such as bringing the house up to electrical code, fixing heating and cooling systems, and insulating the roof.[36] The

[35] National Trust, "State Tax Credits for Historic Preservation A State-by-State Summary" (unpublished photocopy, 2007).
[36] Kelly Merrifield, "Form for Client Virginia Historic Preservation Certification Application Part II: Description of Rehabilitation" (Unpublished. 2008.), 1-4.

$10,000 tax credit made the repairs less costly and reinforced the idea that living in historic homes is feasible.

Making rehabilitation more affordable for homeowners encourages more people to reinvest in an economically depressed area. Once one home is rehabilitated it can have a snowball effect for the whole community. The town of Glencoe in Alamance County, North Carolina, is a mill town which benefited from North Carolina's thirty percent homeowners tax credit program. The mill was started in the 1880's by E.M. Holt and stayed in operation until 1954.[37] In the years following the mill's closure, the houses and town were vacated, leaving an almost abandoned and forgotten about town. Preservation North Carolina (PNC) purchased the town in 1997, created a redevelopment plan, and updated infrastructure. They sold all thirty-two extant houses to interested buyers, many of whom used tax credits to rehabilitate the homes. They sold the remaining in-fill lots and all but one has been built on. PNC is currently working to rehabilitate the ten other structures located in the town. The estimated value of the land in 1998, just after they purchased it was $244,000 and it had risen to $8 million by 2006. The estimated value of the project once it is complete is $18 million. Myrick Howard, the director of PNC, said while it is difficult to know the exact impact the homeowners' tax credit had on the project, without them, the redevelopment of the town would have happened a lot slower, or not at all.[38] Homeowners' tax credits can provide the necessary market intervention techniques to spur growth and redevelopment where it would not occur otherwise.

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[37] Preservation North Carolina, "General Information: Glencoe Mill Village" http://www.presnc.org/index.php/Property/Glencoe-Mill-Village.html (accessed 24 March 2009).
[38] Myrick Howard (director, Preservation North Carolina), in discussion with author. 24 March 2009.

While state homeowners' tax credits have been extremely beneficial in revitalizing neighborhoods, they do have some shortcomings as a tool to assist the middle income with homeownership. The majority of the state homeowners' tax credit programs are geared (unintentionally perhaps) towards higher-income residents because of the minimum investment required for the projects, which is to say, you need to spend money to get the credit. This requirement is designed to ensure that substantial rehabilitation occurs and that routine maintenance is not eligible for the tax credits. The high minimum investment requirements may be reflective of the fact that these programs were developed in response to the income-producing tax credits where these minimums are not nearly as daunting as they may be for an individual homeowner. While $20,000 might not seem like a lot of money when considering the rehabilitation of a house, it is a lot for an individual homeowner. Having to pay the entire cost upfront and then wait over a year to receive the credit makes the financial logistics a lot more complicated for homeowners. Preservation North Carolina is working to create a solution to this problem by developing a program to help homeowners sell their tax credits, which would enable them to gain access to the equity before the completion of their project.[39] In Virginia the minimum investment for a project is 25% of the adjusted basis. Especially in areas with high property values, this requires a substantial investment by the homeowner. In many cases this prevents homeowners from being able to take advantage of the program simply because they cannot spend enough money to qualify.[40]

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[39] Ibid.
[40] Michael Leventhal (director, Historic Preservation Program, Arlington County, Virginia), in discussion with author. July 2008.

The federal income-producing and state income-producing and homeowner tax credits have made a substantial impact to encourage reinvestment in historic resources across the country. For homeowners who do not live in a state with a homeowners' tax credit, the possibilities of them reinvesting in historic resources are less likely because of the lack of incentive to do so. A federal program is necessary to encourage homeowners across the country to reinvest in historic resources.

Chapter 3: Historic Homeowners' Assistance Act

Introduction

In the early 1990's, preservationists saw the connection between historic preservation, urban revitalization, and affordable housing. To encourage urban revitalization by rehabilitating historic buildings, they advocated for a federal level homeowners' tax credit to assist in revitalizing communities across the country. The National Trust for Historic Preservation and Preservation Action, along with other preservation organizations across the country, led a campaign for eight years (1994-2001) to get a homeowners' tax credit bill passed. Michael A. Andrews, a former member of Congress and trustee of the National Trust for Historic Preservation, calls a homeowners' tax credit "a carefully targeted incentive to revitalize the communities which will involve a minimum of government involvement and a maximum of individual initiative, one that is modest in cost and limited in scope but that can spark broad private activity."[41] While the emphasis of a historic homeowners' tax credit is to help low to moderate-income families rehabilitate homes, a credit can also bring more affluent families back to depressed urban areas, increase tax revenue for cities and towns, and encourage developers, realtors, and homebuilders with new economic opportunities.[42] The private investment will also create new, high-skill jobs for local residents and the private investment in the area will have a multiplier effect on the community. Preservation advocates saw increasing interest in the bill as they

[41] Hearing on Reducing the Tax Burden: II. Providing Tax Relief to Strengthen the Family and Sustain a Strong Economy: Hearing on H.R. 1172, the Historic Homeownership Assistance Act Before the H. Comm. on Ways and Means, 106 Cong. 2. (1999) (statement of Michael A. Andrews, Trustee, National Trust for Historic Preservation, former Member of Congress).

[42] E. Clay Shaw. "The Historic Homeowners Assistance Act Extensions of Remarks." (Library of Congress, 2001), 1.

campaigned. Despite all the advantages to such a program, the bill was never able to gain enough support and the lobbying efforts stopped in 2001.

Components of the Legislation

The Historic Homeowners' Assistance Act, H.R. 5249, proposed a twenty percent tax credit on qualified rehabilitation expenses, with a maximum credit of $50,000 (see Appendix F for complete text of H.R. 5249).[43] The expenditures had to be at least $5,000 or greater than the adjusted basis, unless the house is in an Enterprise or Empowerment Zones in which case the minimum is $5,000.[44]

The proposed bill was designed to assist low-income residents, and provides more options and flexibility in certain aspects of the legislation than the federal income-producing tax credit does. The bill provided for a "pass through" feature which means that a developer can rehabilitate a home and pass the tax credit onto a homeowner, who might not have had the resources or expertise to complete the rehabilitation. The bill defined a qualified purchase of a historic home as "any substantially rehabilitated certified historic structure purchased by the taxpayer if the taxpayer is the first purchaser of such structure after the date rehabilitation is completed, and the purchase occurs within five years after such date."[45]

The Historic Homeowners' Assistance Act provides provisions to tax credit more useable for low to moderate-income homeowners who are in Enterprise and Empowerment Zones. The Historic Homeowners Assistance Act also gives

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[43] The maximum for the tax credit was lowered to $40,000 in 1999

[44] Enterprise or Empowerment Zones are low-income areas defined by section 143(j)(1) of the tax code (see Appendix G)

[45] Historic Homeowners' Assistance Act, H.R. 5249, 103rd Cong. 2nd Session (1994).

consideration to “the feasibility of preserving existing architectural and design elements of the interior of such building, the risk of further deterioration and demolition of such building in the event that certification is denied because of the failure to preserve such interior elements, and the effects of such deterioration and demolition on neighboring historic properties.”[46] In addition, the bill provides an alternative to receiving the money as a tax credit for homeowners who do not have a tax liability high enough to make use of the program. The credit can be used as a historic rehabilitation mortgage credit certificate which is:

> …issued to the taxpayer…the face amount of which shall be equal…which may only be transferred by the taxpayer to a lending institution in connection with a loan that is secured by the building with respect to which the credit relates, and the proceeds of which may not be used for any purposes other than the acquisition or rehabilitation of such building and in exchange for which the lending institution provides the tax payer a reduction (determined as provided in such regulations) in the rate of the interest of the loan.[47]

This clause of the bill allows the homeowner to use the tax credit toward a down payment of the home.

The City of Savannah, Preservation Action, and Heritage Consulting Group wrote *Home Again in Savannah, Applying the Proposed Federal Historic Homeownership Tax Credit: Four Case Studies,* to illustrate how the tax credit could work to assist low to moderate income families. Census tracts of eighty percent or less of the median state income were identified in all of the five National Register Historic Districts in Savannah (see Appendix H for pro forma for the case studies). These case studies illustrate three different methods for using the proposed federal homeowners’ tax credit. Case study one examines how the tax credit could be used

[46] Ibid., 1.
[47] Ibid., 3.

for down payment assistance at 603 West 38th Street, Savannah, Georgia in the Cuyler-Brownsville Historic District. The house's purchase price is $32,500 with an estimated $56,384 for qualifying rehabilitation expenses. The $11,277 generated from the rehabilitation could be applied toward the down payment of the house and have a monthly mortgage payment of $639.54. Case study two reduces mortgage interest rates for the purchase and rehabilitation of 218 East Bolton Street, Savannah, Georgia in the Victorian Historic District from 7% to 5.28% to create an interest savings of $79,998 over the thirty year mortgage. The monthly mortgage payment is thus reduced to $1,326.62. In case study three the tax credit is used to offset the homeowner's federal tax liability. 501 East Hungtingdon Street, Savannah, Georgia, in the Savannah Landmark National Historic District is estimated to need $194,514 in rehabilitation costs which generates a $39,000 tax credit; the monthly mortgage payment is unaffected in this scenario and would be $1,744.26. The three examples examined here show how the Historic Homeowners' Tax Credit could be used to assist families in rehabilitating homes.

Proponents of the Historic Homeowners' Assistance Act claimed that the legislation would help low to middle income families. Using the previous case studies as examples, even with the tax credit, low income families still could not afford to purchase and rehabilitate these homes. According to the 2000 Census, the median family income (in 1999 dollars) for Savannah, Georgia was $36,410.[48] Low

[48] US Census Bureau, "Fact Sheet: Savannah City, Georgia" US Census Bureau. http://factfinder.census.gov/servlet/SAFFFacts?_event=&geo_id=16000US1369000&_geoContext=01000US|04000US13|16000US1369000&_street=&_county=savannah&_cityTown=savannah&_state=04000US13&_zip=&_lang=en&_sse=on&ActiveGeoDiv=&_useEV=&pctxt=fph&pgsl=160&_submenuId=factsheet_1&ds_name=ACS_2007_3YR_SAFF&_ci_nbr=null&qr_name=null&reg=&_keyword=&_industry= (accessed 10 May 2009).

income households are defined as those whose gross income is below fifty percent of the area median income. To be considered low income in Savannah in 2000, a family's income must be below $18,205 (the median incomes in the historic districts used in the case studies ranged from $9,000 to 12,000). According to HUD:

> …the generally accepted definition of affordability is for a household to pay no more than 30 percent of its annual income on housing. Families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care.[49]

Using this definition, a low income family in Savannah should spend no more than $505.69 on monthly mortgage payments. Each of the pro formas listed in the case studies have monthly mortgage payments well above this figure. If the low-income family applied their $39,000 tax savings toward their monthly mortgage payment to effectively reduce it to the affordable level of 505.69, it would reduce payments for equivalent of 31 months, but leave the monthly mortgage payment at a full $1,744.26 for the remaining twenty-seven years. For these reasons exemplified above, low income families will not be able to benefit from a homeowners' tax credit.

Lobbying and Legislative History of the Historic Homeowners' Assistance Act

Representative Michael Andrews from Texas introduced the first rendition of the Historic Homeowners Assistance Act in 1994, as bill H.R. 5249. The bill had a high number of co-sponsors: 225 co-sponsors of the bill in the House of Representatives and 39 in the Senate in 1999. These co-sponsors never made the bill

[49] United States Department of Housing and Urban Affairs, "Affordable Housing" United States Department of Housing and Urban Affairs. http://www.hud.gov/offices/cpd/affordablehousing/ (accessed 10 May 2009).

their top priority and at the end of each session, as no one pushed the issue to ensure the bill was passed.

From 1995 to 2001, the Historic Homeowners' Assistance Act was introduced in the House of Representatives and the Senate and it was always referred to the Committee of Ways and Means or the Committee on Finance, respectively. The bill was never able to gain enough support to bring the bill to a vote the committee level. The chairman of the Ways and Means Committee, Charles Wrangle, stopped the bill from being voted on each time because believed the bill was elitist.[50] His Congressional district was Harlem in New York and supporters of the bill from his district tried to show him how the bill could benefit the area, but he still was not convinced. He wanted tax code simplification and even pushed creating a flat tax for the country.

Other Congressional opponents of the bill thought it was too expensive, being reported to cost $1.2 billion dollars over five years.[51] The tax committee initially scored the bill at costing $239 million in revenue over a five year period. This is initial estimate in 1993/1994 was similar to the $247 million over five years that the National Park Service estimated. Harry Schwartz, the master-mind of the Historic Homeowners Assistance Act, believes that opponents of the bill indicated to the tax committee that they needed to come up with a higher cost so the committee members could have a reason to vote the bill down.[52]

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[50] Harry Schwartz (employee, National Trust for Historic Preservation), in discussion with author. 13 April 2009.
[51] Ibid.
[52] Ibid.

Schwartz also believes that the bill was "too clean," meaning, the bill was designed to help homeowners rehabilitate homes; it would not be profitable to developers or other business owners on a large scale. Individuals and neighborhoods would most certainly benefit, but it would not be a lucrative tax credit for businessmen like the Low Income Tax Credit, which provides a tax credit for developers who provide affordable housing units in their projects. Developers have financially benefited from using this credit on large scale projects. The Historic Homeowners' Assistance act was not designed to be used on a large scale and thus developers and others in the business community chose not to lobby for the bill had it been able to be used for larger projects.[53]

[53] Ibid.

Chapter 4: New Approaches for a Federal Homeowner's Tax Credits

Introduction

Even though the Historic Homeowners' Assistance Act was not passed in the 1990's, the bill with some modifications, should be reintroduced. The economic, social, and environmental situations have changed since the last time the bill was written and introduced. Features of the bill can be restructured to make the program more useable for homeowners. To have a successful new lobbying campaign and to be able to create a successful tax credit program designed to revitalize historic areas, aspects of the lobbying effort should be refocused to emphasize other lobbying organizations in addition to preservation ones.

Making the Tax Credit More User-friendly

The legislation of the Historic Homeowners' Assistance Act mimics the income-producing tax credit which is geared towards large scale projects; it does not take into consideration the needs and feasibility of use for an individual homeowner. The Historic Homeowners' Assistance Act requires the minimum investment to qualify for a tax credit to be $5,000 or an amount greater than the adjusted basis, unless in an Enterprise or Empowerment Zone. Investing the adjusted basis of a house is a substantial amount of money. While the objective is to ensure major rehabilitation work is completed for the project, not just routine maintenance, the requirement hinders the use of the tax credit. Citizens in Arlington County, Virginia, interested in using the Virginia state tax credit often did not qualify for the tax credit because their projects did not cost the required minimum and the minimum is at least 25% of the adjusted basis of the house.[54] Future legislation should have a lower minimum investment, somewhere between 15-20% of the adjusted basis in order to allow expansion of tax credits while excluding routine maintenance. This way the homeowner is still required to invest a substantial amount of money, but is less likely to be disqualified due to the minimum investment requirement.

The proposed tax credit legislation also limits the homeowner's ability to take advantage of the program because the credit is only granted after the completion of the entire rehabilitation project. For those homeowners who intend to use the tax credit to reduce their tax liability instead of using it for down payment assistance or reduction of interest rate on a mortgage, perhaps because they already own their house, they must wait until the project is completed to receive the tax credit. The tax credit would be more beneficial to the homeowner if the project could be phased. The corresponding amount of tax credit for each completed phase of the project could be claimed at the end of each year. This allows the initial investment to be spread out over multiple years and the homeowner has the tax credit from the completed phases to invest in future phases of the project. For example, in the first year of the project, the homeowner could repair the roof of the house and earn the 20% tax credit for those expenses that year. The tax credit money could then be used to continue to the rehabilitation with upgrades to electrical and plumbing systems the following year. This process would help homeowners absorb the cost of the rehabilitation over a longer period of time. Having to certify each portion of the project would create

[54] Leventhal.

substantially more work for the SHPOs office, but in the end it would benefit the homeowner and make the tax credit more apt to be used by middle income families and not just homeowners with enough capital on hand to absorb the tax credit until the end of the rehabilitation.

A historic homeowners' tax credit offers numerous benefits to both the homeowner and communities, but only if homeowners know enough about the program to actually take advantage of it and are able to navigate their way through the process. The process needs to be simplified for homeowners. Workshops and literature will need to be developed to help homeowners understand the process. When most people hear the word "tax," they zone out and automatically believe it will be a complicated process involving the IRS and other federal agencies. While the tax credit applications are not complicated, sufficient guidance helps make the task seem less daunting. Preservation North Carolina recently held a workshop in Raleigh to provide an overview of the process to homeowners; the room was packed with interested people.[55] The number of people attending their event clearly shows the interest and need for such workshops in other areas of the country.

A federal homeowners' tax credit would require such workshops to help educate homeowners about the process. State Historic Preservation Offices (SHPOs) expect high levels of expertise when applying for these tax credits which is good and appropriate for large, commercial projects; many developers pay to have the application prepared by an architect or consultant. A tax credit will not be as valuable to a middle income family if they must pay a consultant to guide them through the process. In Arlington County, Virginia the county Historic Preservation Office fills

[55] Howard.

out the forms for residents. There is a large difference between the number of completed projects since 2000 when the program began as compared to surrounding areas, such as the City of Alexandria and Fairfax County. Since 2000, 147 projects have been completed in Arlington, (both income-producing and residential) while only seventeen projects have been completed in Alexandria and two in Fairfax County.[56] Future legislation needs to include structure and funding for programs like these. To lower the amount of work for SHPOs offices and provide more guidance, SHPOs should be allowed to delegate the application process to Certified Local Governments (CLGs). In doing so, the CLGs will be able to provide more support to homeowners. For jurisdictions without a CLG, then the SHPO would be responsible for guiding the homeowner and the approval process.

Lobbying Efforts

The National Trust for Historic Preservation and Preservation Action worked hard to get the Historic Homeowners' Assistance Act passed, but were ultimately unsuccessful . Over the eight year period, they accumulated 225 co-sponsors of the bill in the House and thirty-nine in the Senate. In spite of this large number of supporters, they were still unable to get the bill to move forward out of committee and to any floor debate. While talking about the economic benefits and providing Congressmen examples of the types of areas which could benefit from such a policy, the houses and historic districts shown should be modest rowhouses or bungalows, not Queen Anne's mansions that many laypeople associate with preservation. This focus on vernacular houses will help dispel the elitist notion people have of historic

[56] Chris Novelli, Email message to author. 27 February 2009.

preservation and provide a better understanding of the far-reaching aspects of preservation. This type of education for lobbyists and Congressmen is crucial to getting a historic homeowners' tax credit. The notion of preservation being only concerned with high style or monumental architecture is misplaced and must be corrected.

Despite the far-reaching benefits a homeowners' tax credit offers, the bill was seen as a preservation related bill, rather than a housing bill, which would have been of more interest to most Congressmen. Arguing about the value of historic preservation and old buildings does not get the attention of many Congressmen or their staff. Even having preservationists discuss the economic and social benefits will not, and has not in the past efforts, gain the support needed. Constituencies that Congress cares about, such as middle-class homeowners need to be more involved.

Myrick Howard, of PNC said when he worked to get the North Carolina tax credits passed in the North Carolina General Assembly, he 'took a back seat' and did very little of the work because other people and organizations took the lead. He was only asked to testify a few times. A legislative study commission on downtown revitalization was also done to determine what could be done to improve the situation in many towns in North Carolina. Tax credits were one of the suggestions that came out of this study as a possible solution to help revitalize downtown areas. By having the study come from within, members of the General Assembly were more apt to agree with the recommendations. In fact, the bill passed with only two dissenting votes.[57] Howard felt this was a better way to approach the issue because the people

[57] Howard.

directly involved, such as mayors and the study commission, had a greater impact on the passage of the bill than he ever could.[58]

This strategy for lobbying needs to be the approach at the federal level. The lobbying efforts need to be led by other large, influential lobbying groups. By getting these organizations involved, the preservation goals will take a back seat to the social and economic impacts which are far-reaching and have greater societal impacts. For example, the United States Mayors Conference needs to lead the lobbying efforts for the Historic Homeowners' Assistance Act. This organization made an impact in 1966 in helping get the National Historic Preservation Act passed. The National Trust did get the Mayor's Conference involved in the lobbying process for a homeowners' tax credit, but not to the extent to the NHPA. The 1998 U.S. Mayors Conference issued a policy resolution to officially support the bill, as they did in all the subsequent conferences while the bill was active. While they supported the bill, it does not appear that they made it their top priority. The list of top ten priorities for the 2001 conference in Washington, D.C. did not include the Historic Homeowners' Assistance Act.[59] Congressional members are far more likely to care about what Mayors have to say than what preservation organizations are concerned about. The National Governor's association should also be involved, as governors from states with successful homeowners' tax credit projects could testify to the impact the tax credits have had on revitalizing urban areas in their states.

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[58] Howard.

[59] Ed Somers, "Coles Releases Priorities for 'The New American City'" United States Conference of Mayors. 2001. http://usmayors.org/USCM/us_mayor_newspaper/documents/01_29_01/priorities.asp (accessed 9 May 2009).

Additionally, lobbyists for environmentally-friendly building practices need to make the Historic Homeowners' Tax Credit a priority. Green methods to combat climate change are of great concern right now, much more so than preservation has ever been in the eyes of both the public and Congress. Preservationists need to increase education of the connection between green issues and preservation so lobbyists will have a better understanding. A quick glance at the U.S. Green Building Council's webpage on "The Green Home Guide" did not include any information about the environmental value of rehabilitating historic homes; they focus solely on how to build a new green home or how to retrofit an older home with green technology such as Energy Star appliance.60 Since the National Trust stopped lobbying for the Historic Homeowners' Assistance Act, they have launched a sustainability initiative to education the public about the connection between historic preservation and sustainability. This type of information needs to be widely distributed and those in the green movement must be convinced of the connection between preservation and environmentalism before they will begin to lobby for it. A Congressman or his staff is must more apt to listen to an expert from the U.S Green Building Council about green issues than a preservationist saying the same thing. This effort also applies to organizations advocating for sustainable development should also be involved, such as the Smart Growth Network. If preservation can successfully get the Smart Growth Network to discuss the connection between revitalizing historic urban areas and sustainability, the bill would also have a much greater chance of gaining support. One of the Smart Growth principals is to direct development toward existing

[60] U.S Green Building Council, "The Green Home Guide" U.S. Green Building Council. http://www.greenhomeguide.org/. (accessed 17 May 2009).

communities, which logically includes historic neighborhoods. Without coordination between multiple organizations ranging from the U.S Mayors Council to the U.S. Green Building Council, it is unlikely that the preservation movement alone will be able to get such a bill passed. Previous methods of lobbying for the credit have failed, but if preservationists adapt methods from other lobbying areas, congress will be more likely to view preservation as a middle class sustainability issue rather than a luxury for the wealthy.

Chapter 5: Conclusion

Since the federal government contributed to the decline and disinvestment of urban areas by encouraging suburban homeownership, it should establish policies to revitalize them. A historic homeowners' tax credit would help urban revitalization by spurring reinvestment in neglected areas and encourage the people to move back to cities by making it more affordable. Urban revitalization through rehabilitating historic homes spurs economic growth by creating high paying skilled jobs for construction workers and increasing the local tax base. Urban revitalization also is sustainable development because it encourages growth where investments in infrastructure have already been made.

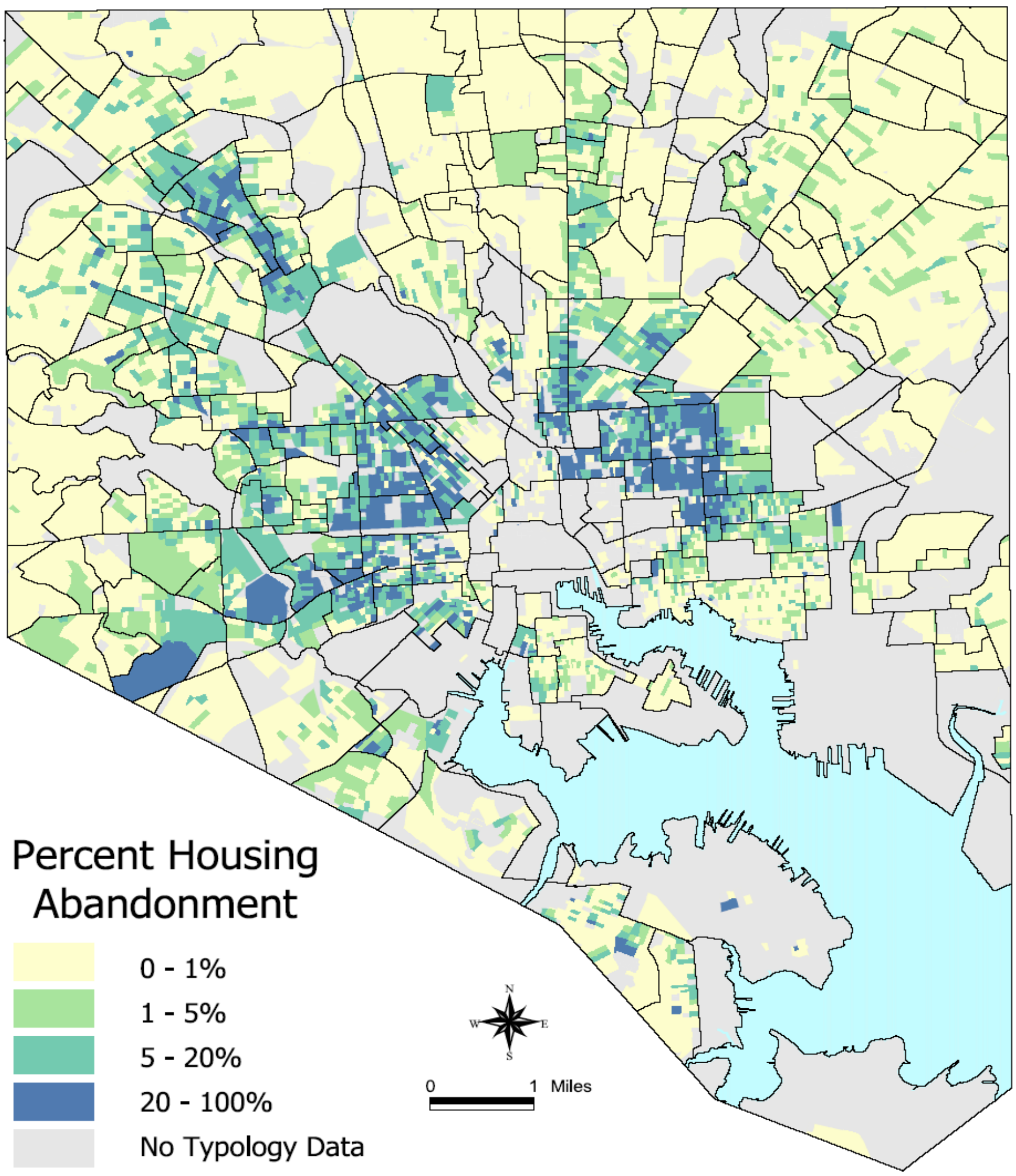
The creation of historic homeowners' tax credit would motivate people to move to these areas. Given the high number of historic buildings located in urban areas, a homeowners' tax credit could be used to make the necessary rehabilitations more affordable for middle income homeowners. The tax credit would enable them to reduce their monthly payments on their mortgage or be able to apply the tax credit to the down payment on their house if the home purchase and rehabilitation occur at the same time.

The homeowners' tax credit policy is a sustainable way to promote reinvestment in urban areas. The tax credit is an incentive to rehabilitate historic homes; it offers government funds, in terms of not having to pay taxes, but the majority (eighty percent) of the investment comes from the individual. Having private individuals invest in urban areas with incentives from the federal government is a more attainable goal than having the federal government reinvest in an area and then trying to entice people to move there. Using the tax credits, the individual has made the effort and took the initiative to move to the specified area, creating a longer term, more personal investment in the area.

A homeowners' tax credit will help middle class families purchase and rehabilitate historic homes. Such buyers have enough capital to invest in the property which gives them access to credit. The homeowners' tax credit will mostly likely not offer enough assistance to help low-income residents. As seen in the case study analysis, the tax credit would not bridge the gap between the cost of homeownership and income-levels. Different programs should be used to assist low income people afford a home.

The proposed Historic Homeowners' Assistance Act provided interesting concepts to make the tax credit more useable for middle class families. Steps toward making the program even more useable need to be taken before the legislation is proposed again. The minimum investment requirement needs to be reduced and tax credit projects should be divided into small increments to allow the homeowner to keep investing in the rehabilitation without having to wait until project completion for tax benefits. In addition, a significant amount of guidance and advice from SHPOs, CLGs and preservation non-profits for homeowners will be needed to make the tax credit program successful. While a federal homeowners' tax credit does not assist everyone, it has the potential to make a substantial impact on middle class families interested in moving into urban areas where there is a high concentration of historic homes.

Appendix A: Vacant Properties in Baltimore, Maryland



Derived from the Baltimore City real property file and the HCD vacant house notice list. Percent is based on residential properties with five or fewer dwelling units and an assessed value over $3000. Does not include condominiums or multi-family dwellings such as apartments.

ty of Baltimore May 2002
ayor Martin O'Malley

Department of Planning
Charles C. Graves III, Director

Appendix B: Housing Units by State and Year Built

Housing Units by State and Year Built

Alpha by State

State	Total # Houses	Built < 1939	Built '40 - '59	Built < 1959	% < 1939	% < 1959
Alabama	1,963,711	139,227	341,735	480,962	7.09%	24.49%
Alaska	260,978	5,584	25,001	30,585	2.14%	11.72%
Arizona	2,189,189	48,794	210,845	259,639	2.23%	11.86%
Arkansas	1,173,043	82,464	185,070	267,534	7.03%	22.81%
California	12,214,549	1,152,550	2,834,883	3,987,433	9.44%	32.64%
Colorado	1,808,037	186,582	257,585	444,167	10.32%	24.57%
Connecticut	1,385,975	308,896	359,042	667,938	22.29%	48.19%
Delaware	343,072	36,809	66,951	103,760	10.73%	30.24%
District of Columbia	274,845	95,056	92,867	187,923	34.59%	68.37%
Florida	7,302,947	209,021	899,664	1,108,685	2.86%	15.18%
Georgia	3,281,737	192,972	427,488	620,460	5.88%	18.91%
Hawaii	460,542	21,719	73,163	94,882	4.72%	20.60%
Idaho	527,824	60,763	85,400	146,163	11.51%	27.69%
Illinois	4,885,615	1,103,376	1,190,514	2,293,890	22.58%	46.95%
Indiana	2,532,319	512,757	535,312	1,048,069	20.25%	41.39%
Iowa	1,232,511	389,154	240,239	629,393	31.57%	51.07%
Kansas	1,131,200	227,846	257,277	485,123	20.14%	42.89%
Kentucky	1,750,927	217,673	315,297	532,970	12.43%	30.44%
Louisiana	1,847,181	156,266	365,291	521,557	8.46%	28.24%
Maine	651,901	189,859	99,476	289,335	29.12%	44.38%
Maryland	2,145,283	268,567	457,633	726,200	12.52%	33.85%
Massachusetts	2,621,989	905,698	553,514	1,459,212	34.54%	55.65%
Michigan	4,234,279	715,459	1,123,299	1,838,758	16.90%	43.43%
Minnesota	2,065,946	427,275	382,877	810,152	20.68%	39.21%
Mississippi	1,161,953	72,381	176,394	248,775	6.23%	21.41%
Missouri	2,442,017	395,153	482,425	877,578	16.18%	35.94%
Montana	412,633	72,285	77,711	149,996	17.52%	36.35%
Nebraska	722,668	182,765	134,604	317,369	25.29%	43.92%
Nevada	827,457	13,921	52,269	66,190	1.68%	8.00%
New Hampshire	547,024	129,498	73,643	203,141	23.67%	37.14%
New Jersey	3,310,275	666,046	898,653	1,564,699	20.12%	47.27%
New Mexico	780,579	46,025	134,848	180,873	5.90%	23.17%
New York	7,679,307	2,398,237	2,174,766	4,573,003	31.23%	59.55%
North Carolina	3,523,944	255,613	536,608	792,221	7.25%	22.48%
North Dakota	289,677	58,707	51,292	109,999	20.27%	37.97%
Ohio	4,783,051	1,075,805	1,175,325	2,251,130	22.49%	47.06%
Oklahoma	1,514,400	155,723	314,909	470,632	10.28%	31.08%
Oregon	1,452,709	194,860	252,674	447,534	13.41%	30.81%
Pennsylvania	5,249,750	1,590,673	1,275,149	2,865,822	30.30%	54.59%
Puerto Rico	1,418,476	38,743	175,319	214,062	2.73%	15.09%
Rhode Island	439,837	129,217	105,709	234,926	29.38%	53.41%
South Carolina	1,753,670	107,139	253,438	360,577	6.11%	20.56%
South Dakota	323,208	77,867	56,144	134,011	24.09%	41.46%
Tennessee	2,439,443	191,826	428,704	620,530	7.86%	25.44%
Texas	8,157,575	437,809	1,336,454	1,774,263	5.37%	21.75%
Utah	768,594	76,867	119,027	195,894	10.00%	25.49%
Vermont	294,382	88,285	33,411	121,696	29.99%	41.34%
Virginia	2,904,192	264,542	515,153	779,695	9.11%	26.85%
Washington	2,451,075	307,078	414,555	721,633	12.53%	29.44%
West Virginia	844,623	163,121	180,652	343,773	19.31%	40.70%
Wisconsin	2,321,144	543,164	470,862	1,014,026	23.40%	43.69%
Wyoming	223854	31079	40115	71,194	13.88%	31.80%
TOTAL	117,323,117	17,418,796	23,321,236	40,740,032	14.85%	34.72%

Source: U.S. Bureau of the Census, Census 2000

Appendix C: Historic Districts and Buildings in Poverty Areas as of 2000

Historic Districts and Historic Buildings In Poverty Areas
As of July 24, 2000

State	Total Historic Districts	Historic Districts Used	Total Buildings within Historic Districts	Historic Districts in Census Tracts with 20% or more poverty level	Buildings within Historic Distrcits in Census Tracts with 20% or more poverty level	Percent of Historic Districts in Census Tracts with 20% or more poverty level	Percent of Buildings within Historic Districts in Census Tracts with 20% or more poverty level
Massachusetts	701	631	44143	144	15610	23%	35%
New York	669	613	55940	146	27851	24%	50%
Pennsylvania	559	515	71234	124	31633	24%	44%
North Carolina	499	435	30909	165	20065	38%	65%
Georgia	480	424	43939	250	34718	59%	79%
Ohio	440	401	47538	189	34159	47%	72%
Kentucky	427	396	31898	222	23168	56%	73%
Connecticut	388	346	32964	92	12116	27%	37%
Tennessee	319	287	26490	145	18612	51%	70%
California	388	283	9513	75	2993	27%	31%
Virginia	341	278	34851	75	16630	27%	48%
Alabama	267	244	15195	186	12476	76%	82%
New Jersey	262	244	27773	38	9523	16%	34%
Michigan	271	242	22232	107	12590	44%	57%
Wisconsin	284	241	15451	82	8341	34%	54%
Texas	271	216	17871	171	15754	79%	88%
Missouri	257	214	13937	87	9629	41%	69%
South Carolina	229	213	10105	126	6848	59%	68%
Indiana	249	212	27768	80	12203	38%	44%
Illinois	200	180	26491	62	14371	34%	54%
Florida	219	172	27114	89	21929	52%	81%
Colorado	206	170	8741	45	5079	26%	58%
Maine	210	170	5054	24	981	14%	19%
Vermont	178	170	8242	17	936	10%	11%
Maryland	183	167	37830	35	19039	21%	50%
Minnesota	201	165	5209	34	2616	21%	50%
West Virginia	172	157	11819	84	8003	54%	68%
Mississippi	167	156	9800	127	9001	81%	92%
Iowa	170	152	4493	52	2902	34%	65%
Washington	156	135	6319	41	2548	30%	40%
Rhode Island	147	130	10683	39	5049	30%	47%
Arizona	184	128	9808	58	5797	45%	59%
Montana	143	122	5955	60	3900	49%	65%

National Park Service
CRGIS
Cultural Resources Geographic Information Services

New Mexico	155	119	4935	92	4383	77%	89%
Louisiana	126	109	45084	99	44632	91%	99%
Wyoming	107	98	2407	13	615	13%	26%
Oregon	102	97	3973	31	2161	32%	54%
Nebraska	98	91	3912	13	1820	14%	47%
Arkansas	113	89	3862	52	2230	58%	58%
New Hampshire	93	87	2651	7	262	8%	10%
Idaho	109	84	3232	26	1123	31%	35%
Delaware	89	82	7206	15	1680	18%	23%
South Dakota	94	77	3700	18	1350	23%	36%
Utah	92	68	4940	19	2333	28%	47%
Oklahoma	71	58	4844	40	4133	69%	85%
Alaska	77	41	684	6	56	15%	8%
District of Columbia	46	41	17356	20	11030	49%	64%
Kansas	42	33	1051	6	425	18%	40%
North Dakota	35	31	1119	12	393	39%	35%
Hawaii	53	30	430	6	36	20%	8%
Nevada	34	25	1317	1	7	4%	1%
Outside U.S.	63	0	0	0	0	0%	0%
Total	**11,436**	**9,869**	**870,012**	**3,747**	**505,739**	**38%**	**58%**

About the data:

Number of Historic Districts:
Data source: National Register Information System
Date of data: July 24, 2000
Data selection:
Historic Districts in NRIS = 11,436
Historic Districts used = 9,869 (86%)
Historic Districts not used = 1,567 (14%)
Feature type: historic districts were expressed as a set of UTM coordinates that are the vertices of the polygon that defines the boundary of the district.
Analysis: A summary table was created using the count of historic districts in each state

Number of Contributing Buildings within Historic Districts
Data source: National Register Information System
Date of data: July 24, 2000
Data selection:
Number of Contributing Buildings within Historic Districts in NRIS = 947,006
Number of Contributing Buildings used = 870,012 (92%)
Number of Contributing Buildings not used = 76,994 (08%)
Analysis: A summary table was created using the sum of contributing buildings for historic districts in each state.

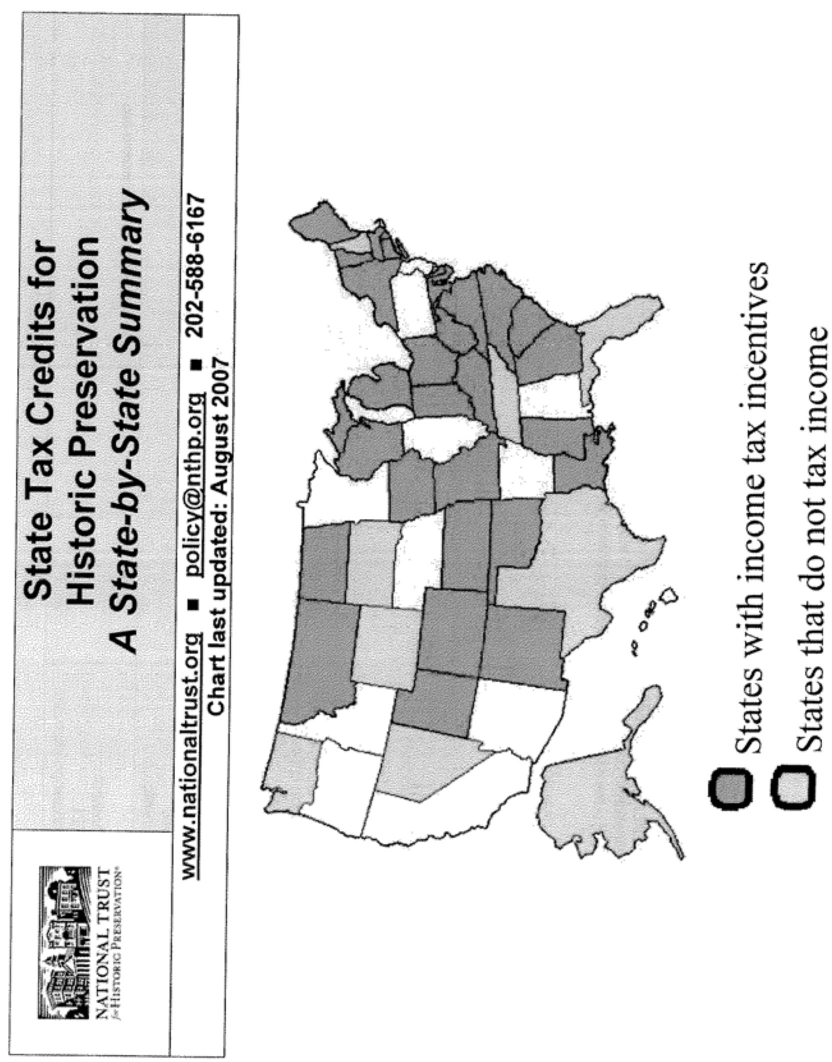
Historic Districts with Greater than or equal to 20% Poverty Rate:

National Park Service
CRGIS
Cultural Resources Geographic Information Services

Appendix D: Smart Growth Principles

- Create Range of Housing Opportunities and Choices
  Providing quality housing for people of all income levels is an integral component in any smart growth strategy.
- Create Walkable Neighborhoods
  Walkable communities are desirable places to live, work, learn, worship and play, and therefore a key component of smart growth.
- Encourage Community and Stakeholder Collaboration
  Growth can create great places to live, work and play -- if it responds to a community's own sense of how and where it wants to grow.
- Foster Distinctive, Attractive Communities with a Strong Sense of Place
  Smart growth encourages communities to craft a vision and set standards for development and construction which respond to community values of architectural beauty and distinctiveness, as well as expanded choices in housing and transportation.
- Make Development Decisions Predictable, Fair and Cost Effective
  For a community to be successful in implementing smart growth, it must be embraced by the private sector.
- Mix Land Uses
  Smart growth supports the integration of mixed land uses into communities as a critical component of achieving better places to live.
- Preserve Open Space, Farmland, Natural Beauty and Critical Environmental Areas
  Open space preservation supports smart growth goals by bolstering local economies, preserving critical environmental areas, improving our communities quality of life, and guiding new growth into existing communities.
- Provide a Variety of Transportation Choices
  Providing people with more choices in housing, shopping, communities, and transportation is a key aim of smart growth.
- Strengthen and Direct Development Towards Existing Communities
  Smart growth directs development towards existing communities already served by infrastructure, seeking to utilize the resources that existing neighborhoods offer, and conserve open space and irreplaceable natural resources on the urban fringe.
- Take Advantage of Compact Building Design
  Smart growth provides a means for communities to incorporate more compact building design as an alternative to conventional, land consumptive development.

Appendix E: List of States with Tax Credits



Terms and Abbreviations Used:

- CARRY BACK – the ability to apply current tax credits against state income taxes due in preceding years.
- CARRY FORWARD – the ability to apply current tax credits against taxes due in future years.
- CLG (certified local government) –a local government certified by the state historic preservation officer as having the capacity to administer historic preservation programs, including grants under the National Historic Preservation Act.
- SECRETARY OF THE INTERIOR'S STANDARDS FOR REHABILITATION (DOI)– general standards adopted by the Department of the Interior governing the rehabilitation of historic buildings. Rehabilitation must be carried out in accordance with these standards to qualify for federal rehabilitation tax credits for historic buildings as well as for many state tax incentives or financing programs.
- RECAPTURE PERIOD – period of time during which specified action, such as a change in ownership of the property, will trigger an obligation to pay back a ratable portion of the tax credit previously claimed.
- SUNSET DATE – the date on which a statutory provision will expire.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Alabama Alabama Historical Commission 334-242-3184 www.preserveala.org			Alabama does not offer a rehabilitation tax credit at this time
Arizona State Historic Preservation Office 602-542-4009 www.pr.state.az.us/partnerships/shpo/shpo.html			Arizona does not offer a rehabilitation tax credit at this time.
Arkansas Arkansas Historic Preservation Program 501-324-9880 www.arkansaspreservation.org			Arkansas does not offer a rehabilitation tax credit at this time.
Alaska Office of History & Archeology: 907-269-8721 www.dnr.state.ak.us/parks/oha/shpo/shpo.htm			Note: Alaska has no state income tax.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
California California Office of Historic Preservation 916-653-6624 www.ohp.parks.ca.gov			California does not offer a rehabilitation tax credit at this time.
Colorado Colorado Historical Society 303-866-3395 http://www.coloradohistory-oahp.org/programareas/itc/taxcredits.htm	20% rehabilitation credit **for eligible properties** designated by national, state, or local government and contributing buildings in historic districts; 20% state credit can be coupled with 20% federal rehabilitation tax credit for commercial property.	20% rehabilitation credit **for eligible properties** designated by national, state, or local government and contributing buildings in historic districts.	Cap: $50,000 per project for any tax year; no annual statewide cap. Minimum investment: $5,000. Transferability: carry forward 10 years. Other: DOI standards apply. Work must be completed within 2 years of inception date of project. CLG can review and approve project. Sunset date for credit is 2009. Usage: Average credit given is typically $10,000-$13,000, indicating smaller rehabilitation projects are using the credit. Approximately 440 projects approved since the program began in 1991. A list of the Certified Local Governments and their individual incentives can be found at http://www.coloradohistory-oahp.org/programareas/clg/CLGcomp.pdf.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Connecticut Connecticut Historical Commission 860-566-3005 www.chc.state.ct.us http://www.cultureandtourism.org/cct/taxonomy/taxonomy.asp?DLN=43543&cctNav=|43543|	25% credit **for rehabilitating commercial or industrial buildings *for "residential use."*** Effective Jan. 1, 2008, 25% credit **for rehabilitating certified historic structure for mixed residential and nonresidential uses** where at least 33% of total square footage of rehab is for residential use. 5% add-on credit for inclusion of affordable housing.	30% rehabilitation credit **for owner-occupied residential,** including apartments up to 4 units; properties must be on National *and/or* State Register *and* located in a targeted area. New program effective Jan. 1, 2008 (See column to left for description).	Cap: $2.7 million per project cap and $15 million annual statewide cap for rehabilitating commercial or industrial buildings for residential use; $30,000 per dwelling and $3 million annual statewide cap for owner-occupied structures; $50 million over 3 years aggregate program cap and $5 million per-project cap for new mixed use credit (effective 2008). Minimum investment: 25% of assessed building value prior to rehab for commercial; $25,000 for owner-occupied structures. Transferability: freely transferable either by direct sale or disproportionate allocation among partners of a syndication partnership; alternatively, credit for rehab of commercial or industrial structures for residential use can be carried forward 5 years. Carry forward 4 years for owner-occupied structures. Mixed-use credit can be carried forward 5 years and is transferable. Other: one unit must be owner-occupied for 5 years (recapture period 5 years for owner-occupied credit). Usage: Commercial credit went into effect 2006. Mixed-use credit goes into effect Jan. 1, 2008.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Delaware Division of Historical and Cultural Affairs, Preservation Section 302-736-7400 www.history.delaware.gov/preservation/taxcredit.shtml	20% rehabilitation credit **for income-producing properties**; additional 10% credit **for rental projects that qualify as low-income housing**.	30% rehabilitation credit **for owner-occupied residential properties**; additional 10% credit **for rental and owner-occupied projects that qualify as low-income housing**.	Cap: $20,000 per homeowner; no income-producing property cap; $5 million annual statewide cap. Minimum investment: none Transferability: credits can be transferred, sold, or assigned to anyone with Delaware income tax or franchise tax liability; carry forward 10 years. Other: Credit to be claimed in annual progress-based installments with phased projects. Usage: Approximately 41 projects approved since the tax credit program began in 2001. Kent County Levy Court passed (9/28/99) county property tax credit equal to 50% of qualified rehabilitation. Dover's property tax credit program covers exterior improvements only, must meet DOI standards.
Florida Florida Division of Historical Resources 850-245-6333 www.flheritage.com			Note: Florida has no state income tax.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Georgia Georgia Historic Preservation Division 404-656-2840 www.dnr.state.ga.us/dnr/histpres	20% rehabilitation tax credit **for eligible income-producing properties**.	10% credit **for owner-occupied properties in non-target area**; **15% for owner-occupied properties in target area**.	Cap: $5,000 per project; no annual statewide cap. Minimum investment: none Transferability: Carry forward 10 years
Hawaii Hawaii State Historic Preservation Division 808-692-8015 http://www.hawaii.gov/dlnr/hpd/			Hawaii does not offer a rehabilitation tax credit at this time.
Idaho Idaho State Historical Society 208-334-2682 http://www.idahohistory.net/shpo.html			Idaho does not offer a rehabilitation tax credit at this time.
Illinois Illinois Historic Preservation Agency 217-785-1153 http://www.illinoishistory.gov/PS/taxfreeze.htm			Illinois does not offer a rehabilitation tax credit at this time.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Indiana Indiana Department of Natural Resources 317-232-1646 http://www.state.in.us/dnr/historic/incentives.html	20% rehabilitation credit **for commercial, rental housing, barns, and farm buildings that are on the State Register**.	20% rehabilitation credit **for commercial, rental housing, barns, and farm buildings that are on the State Register**; 20% rehabilitation tax credit **for owner-occupied residential**.	Cap: $100,000 of tax credits per project for commercial, rental housing, barns and farm buildings; no per project cap for owner-occupied; $450,000 annual allocation for commercial, rental, barns and farm buildings; $250,000 annual allocation for owner-occupied residences. Minimum investment: $10,000 over 2 years for commercial, rental housing, barns and farm buildings; $10,000 for owner-occupied. Transferability: carry forward 15 years for commercial, rental housing, barns and farm buildings. Other: pre-approval of work required, no fees, and DOI standards apply for commercial, rental housing, barns, and farm buildings. Usage: Approximately 179 commercial projects approved since the program began in 1994. Approximately 60 residential projects approved since the program began in 2002.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Iowa State Historical Society of Iowa Historic Preservation and Cultural and Entertainment District Tax Credit Program 515-281-4137 http://www.iowahistory.org/preservation/financial_assistance/state_tax_credit/ia_state_tax_credit.html	25% rehabilitation tax credit **for eligible commercial properties; mixed use properties, and barns built before 1937.**	25% rehabilitation tax credit **for income-producing, non-income-producing residential properties and barns built before 1937**.	25% rehabilitation tax credit **for eligible commercial properties, residential properties** and **barns built before 1937**. Cap: $10 million annual statewide cap in State Fiscal Year 2008, $15 million in SFY2009, and $20 million in SFY2010 and each fiscal year thereafter; no per project cap. Minimum investment: For commercial property rehabilitation, costs must equal at least 50% of the assessed value of the property, excluding the land, prior to rehabilitation. For residential properties or barns, the amount of rehab costs must equal at least $25,000 or 25% of the assessed value of the property, excluding the land, prior to rehab. For mixed-use properties, the rehab costs shall not exceed $100,000 per residential unit. Transferability: credits are transferable. Refunds: Full refunds permitted for credits that exceed tax liability; or in lieu of a refund may be credited to tax liability for the following year. Other: DOI standards apply. Pre-approval of work encouraged. Review fees apply.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Kansas Kansas State Historical Society 785-272-8681 http://www.kshs.org/resource/statetax.htm	25% rehabilitation tax credit **for qualified expenses incurred during a qualified rehabilitation project for any property listed on the National Register or the State Register.**	25% rehabilitation tax credit **for qualified expenses incurred during a qualified rehabilitation project for any property listed on the National Register or the State Register.**	Cap: none. Minimum investment: $5,000 on qualified expenditures Transferability: credits freely transferable; carry forward 10 years. Other: DOI standards apply. Pre-approval of proposed work required. Usage: Approximately 500 projects have been reviewed since September 2001 when the program began. During that time, approximately $68 million dollars has been invested in rehabilitation of historic properties in Kansas.
Kentucky Kentucky Heritage Council 502-564-7005 http://www.heritage.ky.gov	20% rehabilitation credit **for non-residential properties.**	30% rehabilitation tax credit **for owner-occupied residential properties.**	Cap: $3 million annual statewide cap for total program; for owner-occupied residential, total credit can not exceed $60,000; $400,000 per project cap for all other properties. Minimum investment: $20,000 for owner-occupied; $20,000 or the adjusted bias, whichever is greater, for all other properties. Transferability: credits freely transferable. Usage: 43 projects approved in first year of program represent 16 counties and demonstrates $17,272,802.95 private investment in rehab.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Louisiana Louisiana Department of Culture, Recreation & Tourism 225-342-8160 http://www.crt.state.la.us/hp/taxincentives.htm	25% rehabilitation credit **for income-producing properties in downtown development districts.**	25% rehabilitation credit **for owner-occupied residential** and **owner-occupied mixed-use qualified properties.**	Cap: The commercial credit is capped at $5 million per taxpayer (or entity) for any number of structures rehabilitated in a particular Downtown Development District. The residential credit is capped at $25,000 per project for owner-occupied; $1 million statewide annually. Minimum investment: For Commercial credit, minimum of $10,000 in qualifying expenditures and for Residential Credit, a minimum of $20,000 in qualifying expenditures. Transferability: the commercial credit may be carried forward for 5 years and is transferable. Other: The residential credit must be taken in five equal annual installments and is non-transferable. Usage: The State Residential Tax Credit Program became effective on January 1, 2006.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Maine Maine Historic Preservation Commission 207-287-2132 http://www.maine.gov/mhpc	20% rehabilitation credit **for income producing properties that qualify for the federal tax credit**. Must be on, or eligible for, the National Register.		Cap: $100,000 per year, per taxpayer; no annual statewide cap. Minimum investment: investment in excess of the adjusted basis of the building or $5,000 during taxable year, whichever is greatest. Transferability: usable by owner or lessee. Other: Compliance period is 5 years with pro rata recapture. DOI standards apply for rehabilitation and qualified costs. Useable by owner or lessee. Final project approval by Maine Historic Preservation Commission and the National Park Service.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Maryland Maryland Historical Trust 410-514-7628 http://www.marylandhistoricaltrust.net/taxcr.html	20% credit **for commercial properties**.	20% credit **for owner-occupied properties**.	Cap: commercial – \$3 million per project; Governor required to include in budget \$30 million for 2007, 2008, but legislature not required to appropriate funds for commercial projects; Not more than 50% of funds available in any year may go to Baltimore City or any one county. Owner-occupied – \$50,000 in credits per project; no annual statewide cap; legislative appropriation not required. Minimum investment: \$5,000 for homeowners and a rehab cost that exceeds the adjusted basis of the property for commercial applicants. Transferability: credits fully refundable. Other: competitive award process for commercial credits requires preference for geographic distribution; no competitive award process for owner occupied structures. Nonprofits are also eligible. Usage: Approximately 500 commercial and 2500 residential projects approved since the tax credit program began in 1997.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Massachusetts Massachusetts Historical Commission 617-727-8470 http://www.sec.state.ma.us/mhc/mhctax/taxidx.htm	20% rehabilitation credit **for eligible income-producing properties older than 50 years.**		Cap: $50 million annual statewide; no per project cap Minimum investment: none Transferability: Carry forward 5 years. Other: DOI standards apply. December 2009 sunset for entire program. Usage: Program initiated in 2003. In 2006, cap rose and program extended till 2010.
Michigan Michigan Historical Center 517-373-1630 http://www.michigan.gov/hpcredit	25% rehabilitation tax credit **for historic commercial buildings**; reduces to 5% when federal 20% rehabilitation tax credit is claimed for commercial properties. Must be National, State, or local designated property.	25% rehabilitation tax credit **for owner-occupied residential buildings**. Must be National, State, or local designated property.	Cap: none. Minimum investment: 10% of the State Equalized Value (SEV) of the property. Transferability: carry forward 10 years. Other: 5 years recapture period. DOI standards apply. Usage: Approximately 600 projects approved since 1999; average 75 to 80 Part 3 certifications per year.
Minnesota Minnesota Historical Society 651-296-2747 http://www.mnhs.org/about/legis/legis.html			Minnesota does not offer a rehabilitation tax credit at this time.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Mississippi Division of Historic Preservation, Mississippi Department of Archives and History 601-576-6940 http://www.mdah.state.ms.us/hpres/prestaxincent.html	25% credit **for commercial property**.	25% credit **for owner-occupied residences**.	Caps: none. Minimum investment: 50% of total basis for commercial properties; $5,000 for owner-occupied residences. Transferability: Credit may be carried forward 10 years. Usage: New program effective as of 2006.
Missouri Missouri Historic Preservation Program 573-751-7858 www.dnr.mo.gov/shpo http://www.dnr.mo.gov/shpo/TaxCrdts.htm	25% rehabilitation tax credit **for commercial properties** listed on the National Register or in a certified historic district.		Caps: none. Minimum investment: costs must exceed 50% of the adjusted basis of structure. Transferability: carry back 3 years, carry forward 10 years. Other: DOI standards apply. Usage: Approximately 905 projects approved since the program began in 1998. During this period, $485,318,415 in credits were issued for $1,941,799,354 allowable rehab costs representing a total investment of $2,357,650,759 in Missouri's older communities.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Montana Montana State Historic Office 406-444-7715 www.his.state.mt.us	**Income-producing certified historic property** receives automatic 5% state rehabilitation tax credit if property qualifies for the 20% federal rehabilitation tax credit.		Caps: none. Minimum investment: must meet the requirements for the 20% Federal Rehabilitation Tax Credit. Transferability: carry forward 7 years.
Nebraska Nebraska State Historical Society 402-471-4787 http://www.nebraskahistory.org/histpres/vip/index.htm			Nebraska does not offer a rehabilitation tax credit at this time.
Nevada Nevada Historic Preservation Office 775-684-3440 http://dmla.clan.lib.nv.us/docs/shpo/			Note: Nevada has no state income tax.
New Hampshire New Hampshire Division of Historical Resources 603-271-6435 http://www.nh.gov/nhdhr/barntaxincentives.html			Note: New Hampshire only taxes dividends and interest income. New Hampshire has a tax incentive to preserve historic barns and agricultural structures (RSA79-D) Visit http://www.nh.gov/nhdhr/barntaxincentives.html for more information.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
New Jersey New Jersey Historic Preservation Office 609-984-0176 www.state.nj.us/dep/hpo			New Jersey does not offer a rehabilitation tax credit at this time.
New Mexico New Mexico Historic Preservation Division: 505-827-6320 http://www.nmhistoricpreservation.org/ PROGRAMS/creditsloans_taxcredits.html	50% of rehab costs for all properties listed in the State Register of Cultural Properties	50% of rehab costs for all properties listed in the State Register of Cultural Properties	Caps: $25,000 per project for projects not located within an Arts and Cultural District; $50,000 per project cap for projects located within an Arts and Cultural District; no annual statewide cap. Minimum investment: none. Other: DOI standards apply. Carry forward 4 years. Pre-approval required. Also applies to stabilization and protection of archaeological sites listed in the State Register of Cultural Properties. Usage: Approximately 580 projects approved since the program began in 1984.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
New York NYS Historic Preservation Office 518-237-8643 http://nysparks.state.ny.us/shpo/	A state rehabilitation credit equal to 30% of the federal credit value (approximately 6% of the rehabilitation cost) is available **for commercial properties** that receive the federal rehabilitation tax credit.	A 20% state rehabilitation credit is available **for owner-occupied residences** listed on the State or National Register and located in federally-recognized distressed census tracts	Cap: $100,000 per commercial project; $25,000 cap per homeowner project. No annual aggregate statewide caps. Minimum investment: commercial projects, same as federal requirements; $5,000 for homeowner projects. Transferability: None. Unlimited carry-forward for commercial and homeowner credits. Other: For homeowner tax credit, municipal authorization required to identify areas of use at local level. Pre-approval and completed work certification required. Usage: New program effective as of January 1, 2007. New York State Historic Barns Tax Credit: To qualify for an income tax credit equal to 25% of the cost of rehabilitating historic barns: it must be a barn; it must meet the tax definition of income-producing; it must have been built or placed in agricultural service before 1936; the rehabilitation cannot "materially alter the historic appearance" of the barn; and only costs incurred after January 1, 2003 are eligible.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
North Carolina North Carolina State Historic Preservation Office 919-733-4763 http://www.hpo.dcr.state.nc.us/tchome.htm	20% rehabilitation tax credit **for income-producing property owners**; and a 30%-40% credit **for income producing and non-income producing historic industrial properties.**	30% rehabilitation tax credit **for historic homeowners.**	Cap: none. Minimum investment: $25,000 for homeowners. Transferability: None. Unlimited carry-forward for commercial and homeowner credits. Other: state credit must be taken in equal annual installments over 5 years. The 20% commercial rehabilitation credit can be combined with federal rehabilitation tax credit of 20%. Usage: Approximately 412 commercial and 762 residential projects approved since the program began in 1998. New credit for historic industrial buildings effective in 2006.
North Dakota State Historical Society of North Dakota 701-328-2666 http://www.state.nd.us/hist/RehabCredits.htm	25% tax credit **for preservation and renovation of eligible property that is part of a Renaissance Zone Project.**	25% tax credit **for preservation and renovation of eligible property that is part of a Renaissance Zone Project.**	Cap: $250,000 per project; no annual statewide. Minimum investment: none Transferability: carry forward 5 years.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Ohio Ohio Historic Preservation Office 614-298-2000 www.ohiohistory.org/resource/histpres	25% of qualified rehabilitation expenditures **for approved projects** can receive state credit. Credit is fully refundable.	25% of qualified rehabilitation expenditures **for approved projects** can receive state credit. Credit is fully refundable.	Cap: No aggregate annual cap, but program is limited to 100 projects per year for two years. Applications to be accepted in the order filed. The Ohio Department of Development (ODOD) must conduct a cost benefit analysis on each proposed project; only projects that will result in a net gain in state and local taxes will be approved. ODOD must determine that the tax credit is a major factor in applicant's decision to rehabilitate the building or increase the level of investment in the building. Minimum investment: No express requirement for minimum investment, but ODOD has authority to establish eligibility requirements. Transferability: This credit can not be transferred and must be taken by the owner. Other: Pre-approval of work required; DOI Standards for Rehabilitation apply. Usage: new program effective July 1, 2007 through June 30, 2009.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Oklahoma Oklahoma State Historic Preservation Office 405-521-6249 www.okhistory.org/shpo/shpom.htm	20% rehabilitation tax credit **for any certified rehabilitation** that meets the requirements for the federal rehabilitation credit.	20% rehabilitation tax credit **for any certified rehabilitation** that meets the requirements for the federal rehabilitation credit.	Cap: none. Minimum investment: same as federal credit ($5,000). Transferability: freely transferable at any time for 5 years following the year of qualifications; credit may be carried forward for 10 years against subsequent income tax liability. Other: Does not apply to owner-occupied houses. Usage: Program created in 2005 and last amended in 2006.
Oregon Oregon State Parks & Recreation Department 503-378-4168 http://www.oregon.gov/OPRD/HCD/SHPO/tax_assessment.shtml			Oregon does not offer a rehab tax credit at this time.
Pennsylvania Pennsylvania Bureau for Historic Preservation 717-787-4363 www.phmc.state.pa.us/bhp/overview.asp?secid=25			Pennsylvania does not offer a rehab tax credit at this time.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Rhode Island Rhode Island Historical Preservation & Heritage Commission 401-222-2678 http://www.preservation.ri.gov/credits/	30% rehabilitation tax credit **for income-producing projects**; State Register properties qualify.	20% rehabilitation tax credit **for owner-occupied residential**. State Register properties qualify.	Cap: $2,000 per year for owner-occupied; no per project for income-producing projects; no annual aggregate statewide cap. Minimum investment: must exceed 50% of adjusted basis of structure for income-producing projects; $2,000 for owner-occupied residential. Transferability: credits for income-producing projects are freely transferable and can be carried forward 10 years; unused credits for owner-occupied residential can be carried forward as long as property is maintained. Other: interior and exterior rehab qualifies for income-producing properties; only exterior rehab qualifies for owner-occupied residential properties.
South Carolina South Carolina State Historic Preservation Office 803-896-6100 http://www.state.sc.us/scdah/hpfinancialinc.htm	10% state rehabilitation tax credit **for income-producing properties that also receive federal rehabilitation tax credit**.	25% rehabilitation tax credit **for owner-occupied residential properties**.	Cap: none. Minimum investment: $15,000 rehab expenses within a 36 month period for owner-occupied. Transferability: banks are eligible for the credit and allow partnerships to allocate the credits among the partners as they choose. Other: Taxpayer allowed one credit per structure per 10 year period. Credit must be taken in five equal annual installments.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
South Dakota South Dakota State Historic Preservation Office 605-773-3458 http://www.sdhistory.org/HP/hp_txmor.html			Note: South Dakota has no state income tax.
Tennessee Tennessee Historical Commission 615-532-1550 www.state.tn.us/environment/hist			Note: Tennessee only taxes dividends and interest income.
Texas Texas Historical Commission 512-463-6100 www.thc.state.tx.us			Note: Texas has no state income tax.
Utah Utah State Historical Society 801-533-3500 http://history.utah.gov/historic_preservation/financial_assistance/index.html		20% rehabilitation tax credit **for residential properties – both owner-occupied and non-owner-occupied**.	Cap: none. Minimum investment: $10,000 over 3 years. Transferability: n/a Other: DOI standards apply. No fees. Usage: Approximately 750 residential projects approved, $65 million invested in rehabilitation and 1750 housing units rehabilitated, since the program began in 1993.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Vermont Vermont Division for Historic Preservation 802-828-3211 www.historicvermont.org or http://www.historicvermont.org/financial/credits.html	10% add on tax credit **for projects approved for the federal 20% rehabilitation tax credit.** Eligible projects must be located within a designated "downtown" or "village center."		Cap: $50,000 per project for 10% credit projects; $1.5 million annual statewide. No more than 30% of total annual allocations can go to projects in a single municipality. Minimum investment: $5000. Transferability: carry forward 10 years; in lieu of a tax credit, the state will issue a bank credit certificate which may be sold to a bank to for cash or other terms. Other: Eligible projects must be located within a designated "downtown" or "village center" Usage: Program last expanded in 2006. 25% façade tax credit for buildings built before 1983 that do not qualify for the federal rehabilitation credit Cap: $25,000 per project for 25% façade credit projects 50% Credit for Elevators, Lifts, Sprinklers and for Code Improvements that bring the building into code compliance. Cap: $50,000 for elevator, $12,000 for lifts, $50,000 for sprinkler, and $25,000 for code work.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
Virginia Virginia Department of Historic Resources 804-367-2323 http://www.dhr.virginia.gov/tax_credits/tax_credit.htm	25% rehabilitation tax credit **for certified historic, income-producing buildings**.	25% rehabilitation tax credit **for certified historic, owner-occupied residential properties**.	Cap: none. Minimum investment: rehabilitation expenses must amount to at least 25% of the assessed value for owner-occupied buildings and at least 50% of the assessed value for all other eligible structures, or $5,000, which ever is greater. Transferability: carryover 10 years; state credit may be syndicated through partnership arrangement. Other: DOI standards apply. Usage: Approximately 1300 projects approved since the program began in 1997.
Washington Washington Department of Archeology & Historic Preservation 360-407-0753 http://www.dahp.wa.gov/			Note: Washington has no state income tax.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
West Virginia West Virginia Historic Preservation Office 304-558-0220 http://www.wvculture.org/shpo/tcresoverview.html	10% rehabilitation tax credit **for income-producing structures eligible for federal rehabilitation tax credit**.	20% rehabilitation tax credit **for private residential structures listed on National Register.**	Cap: none. Minimum investment: For homeowner's credit, 20% of the property's basis. Transferability: For homeowner's credit, can carry forward 5 years and/or may be transferred. Other: DOI standards apply. Properties must be listed on national, state, or local registers. Usage: Approximately 95 commercial projects approved since the program began in 1990. Approximately 29 residential projects approved since the program began in 2000.
Wisconsin Wisconsin Historical Society 608-264-6490 http://www.wisconsinhistory.org/hp/architecture/index.asp	5% rehabilitation credit that can be coupled with the federal 20% rehabilitation credit is available **for commercial properties**.	25% rehabilitation tax credit **for owner-occupied residential properties**.	Cap: $10,000 per project for owner-occupied, no per project for commercial properties, no annual statewide. Minimum investment: $10,000 over 2 years for owner-occupied; expenses equal to building's adjusted basis for commercial. Transferability: owner-occupied credit not transferable. Other: owner occupied credit extendable for 5 years. Usage: approximately 640 commercial projects approved sing the program began in 1978. Approximately 2000 residential projects approved since the program began in 1992.
Wyoming Wyoming State Historic Preservation Office 608-264-6500 Wyoshpo.state.wy.us/index.htm			Note: Wyoming has no state income tax.

STATE CONTACT	STATE INCOME COMMERCIAL TAX CREDIT	STATE INCOME TAX CREDIT FOR HOMEOWNERS	PROGRAM DETAILS
District of Columbia District of Columbia Historic Preservation Division 202-741-5248 Planning.dc.gov/planning/site/default.asp			A grant for historic housing rehabilitation expenses, valued at 35% of applicable D.C. income taxes is available for homeowners living within specific districts. Must be contributing structure in one of 12 historic districts, and there is an additional 15% bonus for homeowners within the Anacostia District. Costs for purchase and new additions are excluded and grant is intended for structural repairs or exterior work only. Household income requirements apply. Must also be principal residence within 60 days after rehab is certified. Work must be approved prior to grant and consistent with DC preservation law. Penalty for failure to maintain property. Max grant is $25,000 per homeowner and owner must spend more than $5,000 within 24 month period or within 60 months in phased project.

Appendix F: H.R. 5249

HR 5249 IH

1st time introduced

103d CONGRESS

2d Session

H. R. 5249

To amend the Internal Revenue Code of 1986 to provide a credit against income tax to individuals who rehabilitate historic homes or who are the first purchasers of rehabilitated historic homes for use as a principal residence.

IN THE HOUSE OF REPRESENTATIVES

October 7, 1994

Mr. ANDREWS of Texas (for himself, Mrs. KENNELLY, and Mr. SHAW) introduced the following bill; which was referred to the Committee on Ways and Means

---

A BILL

To amend the Internal Revenue Code of 1986 to provide a credit against income tax to individuals who rehabilitate historic homes or who are the first purchasers of rehabilitated historic homes for use as a principal residence.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the `Historic Homeownership Assistance Act'.

SEC. 2. HISTORIC HOMEOWNERSHIP REHABILITATION CREDIT.

(a) IN GENERAL- Subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to nonrefundable personal credits) is amended by inserting after section 22 the following new section:

`SEC. 23. HISTORIC HOMEOWNERSHIP REHABILITATION CREDIT.

`(a) GENERAL RULE- In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 20 percent of the qualified rehabilitation expenditures made by the taxpayer with respect to a qualified historic home.

`(b) DOLLAR LIMITATION-

`(1) IN GENERAL- The credit allowed by subsection (a) with respect to any residence of a taxpayer shall not exceed $50,000 ($25,000 in the case of a married individual filing a separate return).

`(2) CARRYFORWARD OF CREDIT UNUSED BY REASON OF LIMITATION BASED ON TAX LIABILITY- If the credit allowable under subsection (a) for any taxable year exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under this subpart (other than this section), such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such succeeding taxable year.

`(c) QUALIFIED REHABILITATION EXPENDITURE- For purposes of this section:

`(1) IN GENERAL- The term `qualified rehabilitation expenditure' means any amount properly chargeable to capital account--

`(A) in connection with the certified rehabilitation of a qualified historic home, and

`(B) for property for which depreciation would be allowable under section 168 if the qualified historic home were used in a trade or business.

`(2) CERTAIN EXPENDITURES NOT INCLUDED-

`(A) EXTERIOR- Such term shall not include any expenditure in connection with the rehabilitation of a building unless at least 5 percent of the total expenditures made in the rehabilitation process are allocable to the rehabilitation of the exterior of such building.

`(B) OTHER RULES TO APPLY- Rules similar to the rules of clauses (ii) and (iii) of section 47(c)(2)(B) shall apply.

`(3) MIXED USE OR MULTIFAMILY BUILDING- If only a portion of a building is used as the principal residence of the taxpayer, only qualified rehabilitation expenditures which are properly allocable to such portion shall be taken into account under this section.

`(d) CERTIFIED REHABILITATION- For purposes of this section:

`(1) IN GENERAL- Except as otherwise provided in this subsection, the term `certified rehabilitation' has the meaning given such term by section 47(c)(2)(C).

`(2) FACTORS TO BE CONSIDERED IN THE CASE OF TARGETED AREA RESIDENCES, ETC-

`(A) IN GENERAL- For purposes of applying section 47(c)(2)(C) under this section with respect to the rehabilitation of a building to which this paragraph applies, consideration shall be given to--

`(i) the feasibility of preserving existing architectural and design elements of the interior of such building, `(ii) the risk of further deterioration or demolition of such building in the event that certification is denied because of the failure to preserve such interior elements, and

`(iii) the effects of such deterioration or demolition on neighboring historic properties.

`(B) BUILDINGS TO WHICH THIS PARAGRAPH APPLIES- This paragraph shall apply with respect to any building--

`(i) any part of which is a targeted area residence within the meaning of section 143(j)(1), or

`(ii) which is located within an enterprise or empowerment zone,

but shall not apply with respect to any building which is listed in the National Register or a State or local register of historic places.

`(3) COOPERATIVE AGREEMENTS- The term `certified rehabilitation' includes a certification made in accordance with a cooperative agreement between the Secretary of the Interior and a State Historic Preservation Officer which authorizes such officer (or a local government certified pursuant to section 101(c)(1) of the National Historic Preservation Act), subject to such terms or conditions as may be specified in such agreement, to certify the rehabilitation of buildings within the jurisdiction of such officer (or local government) for purposes of this section.

`(e) DEFINITIONS AND SPECIAL RULES- For purposes of this section:

`(1) QUALIFIED HISTORIC HOME- The term `qualified historic home' means a certified historic structure--

`(A) which has been substantially rehabilitated, and

`(B) which (or any portion of which)--

`(i) is owned by the taxpayer, and

`(ii) is used (or will, within a reasonable period, be used) by such taxpayer as his principal residence.

`(2) SUBSTANTIALLY REHABILITATED- The term `substantially rehabilitated' has the meaning given such term by section 47(c)(1)(C); except that, in the case of any building described in subsection (d)(2), clause (i)(I) thereof shall not apply.

`(3) PRINCIPAL RESIDENCE- The term `principal residence' has the same meaning as when used in section 1034.

`(4) CERTIFIED HISTORIC STRUCTURE- The term `certified historic structure' has the meaning given such term by section 47(c)(3).

`(5) ENTERPRISE OR EMPOWERMENT ZONE- The term `enterprise or empowerment zone' means any area designated under section 1391 as an enterprise community or an empowerment zone.

`(6) REHABILITATION NOT COMPLETE BEFORE CERTIFICATION- A rehabilitation shall not be treated as complete before the date of the certification referred to in subsection (d).

`(7) LESSEES- A taxpayer who leases his principal residence shall, for purposes of this section, be treated as the owner thereof if the remaining term of the lease (as of the date determined under regulations prescribed by the Secretary) is not less than such minimum period as the regulations require.

`(f) WHEN EXPENDITURES TAKEN INTO ACCOUNT- In the case of a building other than a building to which subsection (g) applies, qualified rehabilitation expenditures shall be treated for purposes of this section as made--

`(1) on the date the rehabilitation is completed, or

`(2) to the extent provided by the Secretary by regulation, when such expenditures are properly chargeable to capital account.

Regulations under paragraph (2) shall include a rule similar to the rule under section 50(a)(2) (relating to recapture if property ceases to qualify for progress expenditures).

`(g) ALLOWANCE OF CREDIT FOR PURCHASE OF REHABILITATED HISTORIC HOME-

`(1) IN GENERAL- In the case of a qualified purchased historic home, the taxpayer shall be treated as having made (on the date of purchase) the qualified rehabilitation expenditures made by the seller of such home.

`(2) QUALIFIED PURCHASED HISTORIC HOME- For purposes of this subsection, the term `qualified purchased historic home' means any substantially rehabilitated certified historic structure purchased by the taxpayer if--

`(A) the taxpayer is the first purchaser of such structure after the date rehabilitation is completed, and the purchase occurs within 5 years after such date,

`(B) the structure (or a portion thereof) will, within a reasonable period, be the principal residence of the taxpayer,

`(C) no credit was allowed to the seller under this section or section 47 with respect to such rehabilitation, and

`(D) the taxpayer is furnished with such information as the Secretary determines is necessary to determine the credit under this subsection.

`(h) HISTORIC REHABILITATION MORTGAGE CREDIT CERTIFICATE-

`(1) IN GENERAL- The taxpayer may elect, in lieu of the credit otherwise allowable under this section, to receive a historic rehabilitation mortgage credit certificate. An election under this paragraph shall be made--

`(A) in the case of a building to which subsection (g) applies, at the time of purchase, or

`(B) in any other case, at the time rehabilitation is completed.

`(2) HISTORIC REHABILITATION MORTGAGE CREDIT CERTIFICATE- For purposes of this subsection, the term `historic rehabilitation mortgage credit certificate' means a certificate--

`(A) issued to the taxpayer, in accordance with procedures prescribed by the Secretary, with respect to a certified rehabilitation,

`(B) the face amount of which shall be equal to the credit which would (but for this subsection) be allowable under subsection (a) to the taxpayer with respect to such rehabilitation,

`(C) which may only be transferred by the taxpayer to a lending institution in connection with a loan--

`(i) that is secured by the building with respect to which the credit relates, and

`(ii) the proceeds of which may not be used for any purpose other than the acquisition or rehabilitation of such building, and

`(D) in exchange for which such lending institution provides the taxpayer a reduction (determined as provided in such regulations) in the rate of interest on the loan.

`(3) USE OF CERTIFICATE BY LENDER- The amount of the credit specified in the certificate shall be allowed to the lender only to offset the regular tax (as defined in section 55(c)) of such lender. The lender may carry forward all unused amounts under this subsection until exhausted.

`(i) RECAPTURE-

`(1) IN GENERAL- If, before the end of the 5-year period beginning on the date on which the rehabilitation of the building is completed (or, if subsection (g) applies, the date of purchase of such building by the taxpayer)--

`(A) the taxpayer disposes of such taxpayer's interest in such building, or

`(B) such building ceases to be used as the principal residence of the taxpayer,

the taxpayer's tax imposed by this chapter for the taxable year in which such disposition or cessation occurs shall be increased by the recapture percentage of the credit allowed under this section for all prior taxable years with respect to such rehabilitation.

`(2) RECAPTURE PERCENTAGE- For purposes of paragraph (1), the recapture percentage shall be determined in accordance with the table under section 50(a)(1)(B), deeming such table to be amended--

`(A) by striking `If the property ceases to be investment credit property within--' and inserting `If the disposition or cessation occurs within--', and

`(B) in clause (i) by striking `One full year after placed in service' and inserting `One full year after the taxpayer becomes entitled to the credit'.

`(j) BASIS ADJUSTMENTS- For purposes of this subtitle, if a credit is allowed under this section for any expenditure with respect to any property (including any purchase under subsection (g) and any transfer under subsection (h)), the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of the credit so allowed.

`(k) PROCESSING FEES- Proceeds of fees levied for the processing of applications for the certification of any rehabilitation under this section--

`(1) shall be deposited in a trust fund, and

`(2) subject to appropriations Acts, may be used only to defray expenses associated with the processing of such applications.

`(l) DENIAL OF DOUBLE BENEFIT- No credit shall be allowed under this section for any amount for which credit is allowed under section 47.

`(m) REGULATIONS- The Secretary shall prescribe such regulations as may be appropriate to carry out the purposes of this section, including regulations where less than all of a building is used as a principal residence and where more than 1 taxpayer use the same dwelling unit as their principal residence.'

(b) CONFORMING AMENDMENT- Subsection (a) of section 1016 of such Code is amended by striking `and' at the end of paragraph (24), by striking the period at the end of paragraph (25) and inserting `, and', and by adding at the end the following new item:

`(26) to the extent provided in section 23(j).'

(c) CLERICAL AMENDMENT- The table of sections for subpart A of part IV of subchapter A of chapter 1 of such Code is amended by inserting after the item relating to section 22 the following new item:

`Sec. 23. Historic homeownership rehabilitation credit.'

(d) EFFECTIVE DATE- The amendments made by this section shall apply with respect to rehabilitations the physical work on which begins after the date of enactment of this Act.

END

Appendix G: section 143(j)(1) of the tax code

Sec. 143. Mortgage revenue bonds: qualified mortgage bond and qualified veterans' mortgage bond
TITLE 26, Subtitle A, CHAPTER 1, Subchapter B, PART IV, Subpart A, Sec. 143.

(j) Targeted area residences
(1) In general
For purposes of this section, the term "targeted area residence" means a residence in an area which is either -
(A) a qualified census tract, or
(B) an area of chronic economic distress.
(2) Qualified census tract
(A) In general
For purposes of paragraph (1), the term "qualified census tract" means a census tract in which 70 percent or more of the families have income which is 80 percent or less of the statewide median family income.
(B) Data used
The determination under subparagraph (A) shall be made on the basis of the most recent decennial census for which data are available.
(3) Area of chronic economic distress
(A) In general
For purposes of paragraph (1), the term "area of chronic economic distress" means an area of chronic economic distress -
(i) designated by the State as meeting the standards established by the State for purposes of this subsection, and
(ii) the designation of which has been approved by the Secretary and the Secretary of Housing and Urban Development.
(B) Criteria to be used in approving State designations
The criteria used by the Secretary and the Secretary of Housing and Urban Development in evaluating any proposed designation of an area for purposes of this subsection shall be -
(i) the condition of the housing stock, including the age of the housing and the number of abandoned and substandard residential units,
(ii) the need of area residents for owner-financing under this section, as indicated by low per capita income, a high percentage of families in poverty, a high number of welfare recipients, and high unemployment rates,
(iii) the potential for use of owner-financing under this section to improve housing conditions in the area, and
(iv) the existence of a housing assistance plan which provides a displacement program and a public improvements and services program.

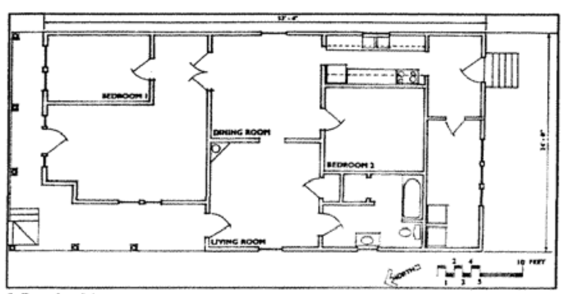
http://fourmilab.ch/uscode/26usc/www/t26-A-1-B-IV-A-143.html

Appendix H: Home Again in Savannah, Applying the Proposed Federal Historic Homeownership Tax Credit: Four Case Studies

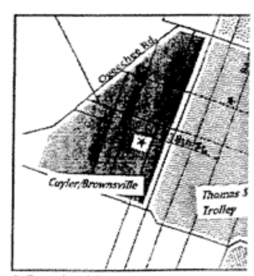
Kathy Ledvina

603 West 38th

Cuyler-Brownsville Historic District
Census Tract: 2300
Median Income: $11,799
Total Units: 1283 Vacant Units: 287 or 22%
Mortgages: $22,000 - $354,450
(18 between 7/97 and 6/98)



J. Brendan Meyer



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10 HOME AGAIN IN SAVANNAH: A CASE STUDY

603 West 38th

Tax Credit Used for Downpayment Assistance

Cuyler-Brownsville Historic District
1,431 s.f. raised bungalow style on 2,970 s.f. lot
Homeowner uses the $11,277 tax credit to make the down payment and a $23,085 lead paint abatement grant from the City of Savannah. Property must be located in a distressed census tract for homeowner to be eligible to use this method.

Appraisal Information	
Current fair market value	$ 32,500
"As rehabilitated" fair market value	$ 85,000
Current annual property taxes	$ 167.17
Project Costs	
Property purchase price	$ 32,500
Qualifying rehabilitation costs	56,384
Non-qualifying rehabilitation costs	23,710
Loan fees and costs	2,394
Reserves for taxes and insurance	572
Total cash, loan and grants required to close	$ 115,560
Sources of funds	
Owner's equity	$ -
Mortgage tax credit certificate	11,277
Mortgage loan	81,199
Lead paint abatement grant	23,085
Total sources of funds	$ 115,560
Calculation of federal income tax credit	
Total qualifying expenditures	$ 56,384
20% tax credit	20%
Amount of tax credit	$ 11,277
Mortgage loan (30-year fixed rate)	
Amount of loan	$ 81,199
Loan to value	96%
Interest rate	7.00%
Monthly house payment	
Principal and interest	$ 540.22
Private Mortgage Insurance (96% LTV)	49.53
Property Taxes	13.93
Property Insurance	35.86
Monthly mortgage payment	$ 639.54

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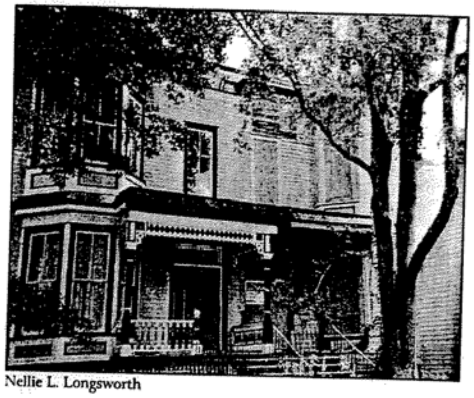
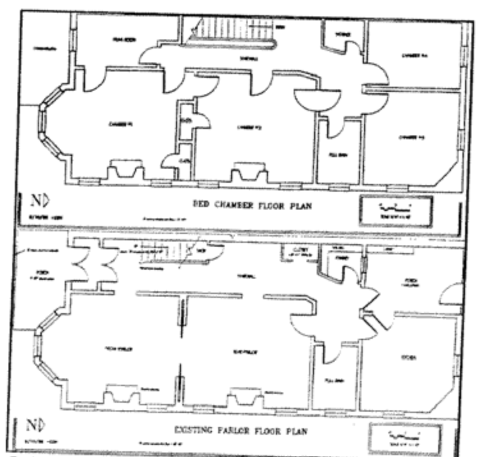


Nellie L. Longsworth

218 East Bolton

Victorian Historic District
Census Tract: 1500
Median Income: $11,090
Total Units: 791 Vacant Units: 149 or 18%
Mortgages: $45,600 - $430,000
(23 between 7/97 and 6/98)



Dirk Hardison, Historic Savannah Foundation

J. Brendan Meyer

218 East Bolton

Tax Credit Used to Reduce Mortgage Interest

Victorian Historic District
2,548 s.f. duplex on 2,970 s.f. lot
Built in 1897
Homeowner uses tax credit to "buy down" mortgage interest rate to 5.28% on a 30-year fixed rate mortgage. Interest savings of $79,988 over the 30-year life of the mortgage.

Appraisal Information	
Current fair market value	$ 40,000
"As rehabilitated" fair market value	$ 210,000
Current annual property taxes	$ 606.50
Project Costs	
Property purchase price	$ 40,000
Qualifying rehabilitation costs	166,983
Non-qualifying rehabilitation costs	629
Loan fees and costs	4,135
Reserves for taxes and insurance	1,177
Total cash, loan and grants required to close	$ 212,924
Sources of funds	
Owner's equity	$ 12,924
Mortgage loan	200,000
Lead paint abatement grant	-
Total sources of funds	$ 212,924
Calculation of federal income tax credit	
Total qualifying expenditures	$ 166,983
20% tax credit	20%
Amount of tax credit	$ 33,397
Mortgage loan (30-year fixed rate)	
Amount of loan	$ 200,000
Loan to value	95%
Interest rate	5.28%
Interest savings over 30 years	$ 79,988
Monthly house payment	
Principal and interest	$ 1,108.42
Private Mortgage Insurance (95% LTV)	101.63
Property Taxes	50.54
Property Insurance	66.04
Monthly mortgage payment	$ 1,326.62

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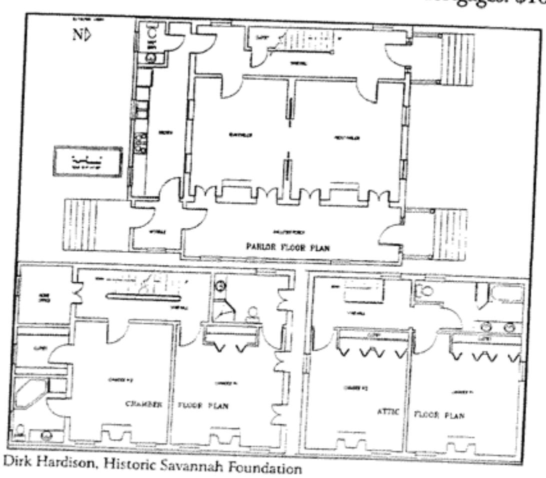
Nellie L. Longsworth

501 East Huntingdon

Savannah Landmark National Historic District
Census Tract: 1000
Median Income: $9,067
Total Units: 770 Vacant Units: 207 or 27%
Mortgages: $10,700 - $315,000
(22 between 7/97 and 6/98)



Dirk Hardison, Historic Savannah Foundation

J. Brendan Meyer

14 HOME AGAIN IN SAVANNAH: A CASE STUDY

501 East Huntingdon

Credit Used to Reduce Federal Tax Liability

Landmark Historic District
2,929 s.f. Second Empire style on 3,400 s.f. lot
Built in 1900
Use of a $39,000 historic homeowner's tax credit bridges the "appraisal gap" between the $261,000 project cost and the projected $230,000 fair market value of the rehabilitated house.

Appraisal Information	
Current fair market value	$ 60,000
"As rehabilitated" fair market value	$ 230,000
Current annual property taxes	$ 892.03
Project Costs	
Property purchase price	$ 60,000
Qualifying rehabilitation costs	194,514
Non-qualifying rehabilitation costs	440
Loan fees and costs	4,510
Reserves for taxes and insurance	1,482
Total cash, loan and grants required to close	$ 260,946
Sources of funds	
Historic homeownership tax credit	$ 38,903
Net owner's equity after tax	3,043
Mortgage loan	219,000
Lead paint abatement grant	-
Total sources of funds	$ 260,946
Calculation of federal income tax credit	
Total qualifying expenditures	$ 194,514
20% tax credit	20%
Amount of tax credit	$ 38,903
Mortgage loan (30-year fixed rate)	
Amount of loan	$ 219,000
Loan to value	95%
Interest rate	7.00%
Monthly house payment	
Principal and interest	$ 1,457.01
Private Mortgage Insurance (95% LTV)	133.59
Property Taxes	74.34
Property Insurance	79.32
Monthly mortgage payment	$ 1,744.26

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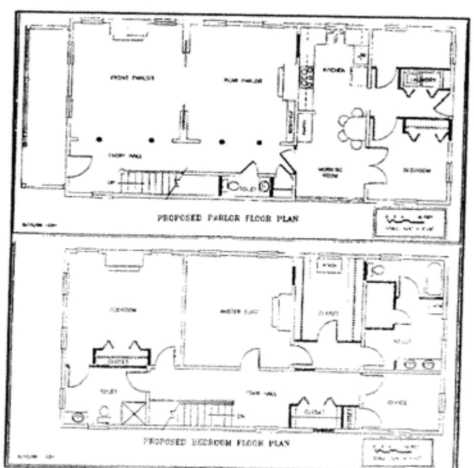
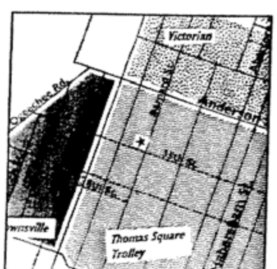
Bob Naito

220 West 35th

Thomas Square -Trolley Historic District
Census Tract: 2400
Median Income: $12,234
Total Units: 728 Vacant Units: 157 or 21%
Mortgages: $34,00 - $103,000
(8 between 7/97 and 6/98)



Dirk Hardison, Historic Savannah Foundation



J. Brendan Meyer

220 West 35th

Comparison of Three Credit Use Options

2,573 s.f. single family residence on 2,625 s.f. lot, ca. 1910
Estimated "as completed" value of only $95,000 limits conventional bank financing to 74% of project costs. Tax credit would meet the next 15% of project costs leaving an equity requirement of 11%. Homeowner can apply credit against personal income tax liability; use the tax credit for a down payment; or reduce the interest rate on the mortgage to 4.95%.

Appraisal Information		
Current fair market value	$	30,000
"As rehabilitated" fair market value	$	95,000
Current annual property taxes	$	220.69
Project Costs		
Property purchase price	$	30,000
Qualifying rehabilitation costs		80,865
Non-qualifying rehabilitation costs		193
Loan fees and costs		2,524
Reserves for taxes and insurance		596
Total cash, loan and grants required to close	$	114,178
Sources of funds		
Owner's equity	$	22,.028
Mortgage loan		92,150
Lead paint abatement grant		-
Total sources of funds	$	114,178
Calculation of federal income tax credit		
Total qualifying expenditures	$	80,865
20% tax credit		20%
Amount of tax credit	$	16,173
Mortgage loan (30-year fixed rate)		
Amount of loan	$	92,150
Loan to value		97%
Interest rate		7.00%
Option 1: Use tax credit on personal return		
Receive tax credit against federal income tax	$	16,173
Invest equity in house equal to tax credit	$	22,028
Monthly house payment	$	727.70
Option 2: Use tax credit to reduce downpayment		
Cash equity required to close	$	5,855
Monthly house payment	$	723.70
Option 3: Use tax credit to "buy down" interest rate		
Invest equity in house equal to tax credit	$	22,028
Monthly house payment	$	606.23
Mortgage loan interest rate		5.19%
Interest savings over 30 years	$	42,287

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