



Tax Credits for Rehabilitation of Historic Buildings

Aloha! We will begin shortly.

For those joining us online, we will be using the Chat function to receive your input. Please enter your name and location to check in.

Images clockwise from top left: Hocking Building downtown Honolulu; Dearborn Chemical Company Warehouse in Kaka'ako, O'ahu; Podmore Building, downtown Honolulu; Kunia Village, Kunia, O'ahu.



Tax Credits for Rehabilitation of Historic Buildings

Tuesday, December 5, 2023

Presented by Historic Hawai'i Foundation, Hawai'i State Historic Preservation Division
and National Park Service

Images clockwise from top left: Hocking Building downtown Honolulu; Dearborn Chemical Company Warehouse in Kaka'ako, O'ahu; Podmore Building, downtown Honolulu; Kunia Village, Kunia, O'ahu.

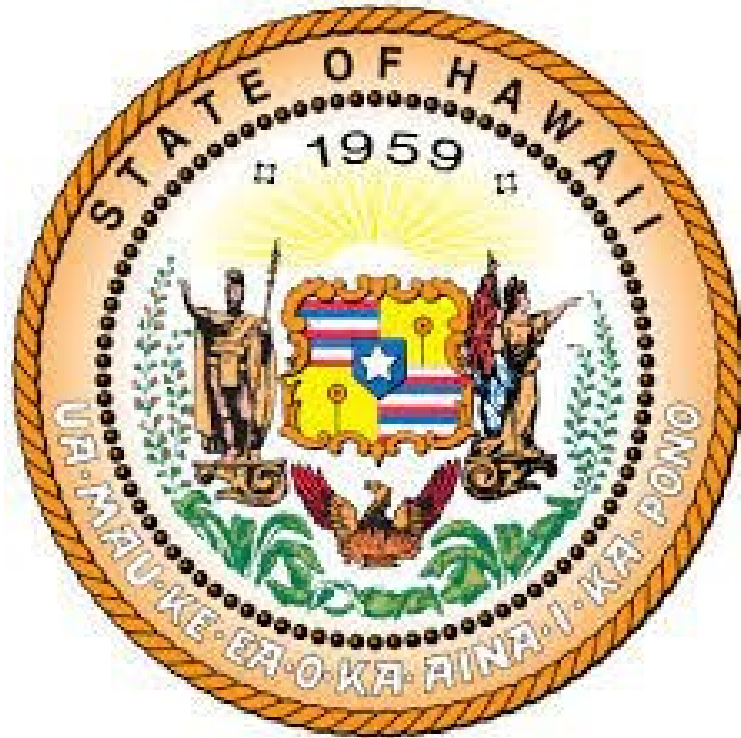
HISTORIC HAWAII'I FOUNDATION

A statewide non-profit advocacy organization, **Historic Hawai'i Foundation** encourages the preservation of historic buildings, sites, structures, objects and districts relating to the history of Hawai'i.

We help people save Hawai'i's historic places.

www.HistoricHawaii.org





The **Hawai'i State Historic Preservation Division** is comprised of three branches, Architecture, Archaeology, and History & Culture, that together collectively strive to preserve and protect Hawai'i's historic identity.



The **National Park Service** preserves unimpaired the natural and cultural resources and values of the National Park System for the enjoyment, education, and inspiration of this and future generations. The Park Service cooperates with partners to extend the benefits of natural and cultural resource conservation and outdoor recreation throughout this country and the world.



American Planning Association
Hawaii Chapter

Creating Great Communities for All

The American Institute of Certified Planners (AICP) is the APA's professional institute providing recognized leadership nationwide in the certification of professional planners, ethics, professional development, planning education, and the standards of planning practice.

<https://hawaii.planning.org/>



The AIA is the voice of the architectural profession and the resource for its members in service to society. Based in Washington, D.C., the American Institute of Architects (AIA) has been the leading professional membership association for licensed architects, emerging professionals, and allied partners since 1857.

AIA Honolulu is a Chapter of the AIA representing and serving members on the island of O‘ahu, Hawai‘i, Kaua‘i and Lāna‘i. Within these islands, AIA Honolulu represents and serves over 800 individual member architects, associates, and allied design professionals.

<https://www.aiahonolulu.org/>

Speakers



Dr. Elaine Jackson-Retondo, Region Preservation Partnerships and History Programs Manager, Interior Regions 8, 9, 10 and 12 in the National Park Service Pacific West Regional Office, earned her Doctorate in Architectural History and Masters of Architecture from the University of California, Berkeley and her Bachelor of Architecture from the University of Notre Dame in South Bend, Indiana. She has worked in the National Park Service since 2002



Kiersten Faulkner is the chief executive of Historic Hawai'i Foundation and oversees all aspects of its preservation programs, strategic planning, business lines and operational matters. She holds a Master of Arts in Urban and Environmental Policy from Tufts University and is a member of the College of Fellows of the American Institute of Certified Planners (FAICP).

Speakers

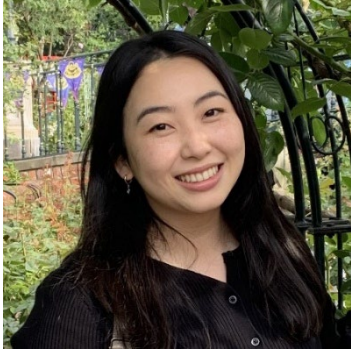


John Sandor has worked as an architectural historian in the Technical Preservation Services Branch of the National Park Service since 1996. He reviews rehabilitation projects seeking certification for federal tax credit and provides assistance to the users of the program and the general public on technical aspects of preservation. Sandor speaks frequently on windows for historic buildings and a variety of other issues relating to the application of the Secretary of the Interior's Standards for Rehabilitation. He is the lead author of the newly revised Preservation Brief #16, The Use of Substitute Materials on Historic Buildings.



Jessica Puff is Architecture Branch Chief at the Hawai'i State Historic Preservation Division and is a PhD Candidate at the University of Michigan.

Speakers



Shelby Mendes earned her Doctor of Architecture degree from the University of Hawai'i at Mānoa, with her dissertation Case Study Analysis of a Successful Preservation Project in Honolulu: Dearborn Chemical Company Building. Shelby works at FAI Architects, which specializes in architecture, planning, and historic preservation projects.



John Lee has over 16 years of experience in the affordable housing industry. He is the Managing Director of Funds Management at Hunt Capital Partners, LLC (HCP). HCP specializes in the syndication of Federal and State Low-Income Housing, Historic and Solar Tax Credits. Lee is primarily responsible for overseeing the Funds Management department that prepares, analyzes, and monitors financial projections for all operating partnerships and fund level investments. Additionally, he is responsible for working with investors and attorneys structuring certificated and allocated state tax credit investments.

Speakers



Mark Hashem is an Associate with Sofos Realty Corporation. He graduated from Pacific University in Forest Grove, Oregon and earned his MA from at Hokkaido University in Japan. He has represented the East Honolulu district in the Hawai'i House of Representatives since 2010.

ABOUT THIS SEMINAR

LEARNING OBJECTIVES

Eligibility requirements for Historic Tax Credits

Application procedures for Historic Tax Credits

Certified historic structures, applying Standards and Guidelines & qualified expenses

Funding sources and financing strategies

Online Interaction

Chat Box: use the chat to ask a question at any time. We will include online questions in the Q&A portion.

Historic Tax Credits: Purpose, Need, Objectives and Impacts

Background

The federal rehabilitation tax credit, better known as the **historic tax credit (HTC)**, originated in the late 1970s as one of America's first "investment tax credits."

The HTC facilitates the rehabilitation of historic buildings and structures by providing a tax incentive based on a percentage of "qualified rehabilitation expenditures."

HTC is administered by two federal agencies that operate independently:

The **National Park Service (NPS)**, a bureau within the U.S. Department of the Interior, works together with state historic preservation offices (SHPOs) in the 50 states to address compliance with the Secretary of the Interior's Standards for the Treatment of Historic Properties (36 CFR Part 68, 1995).

The **Internal Revenue Service (IRS)** interprets and administers the Internal Revenue Code of 1986, as amended (Code), specifically addressing matters of tax credit entitlement and compliance

Tax Credit vs Tax Deductions

Tax credits and tax deductions both reduce your tax bill but in very different ways.

Tax credits directly reduce the amount of tax you owe, giving you a dollar-for-dollar reduction of your tax liability. A tax credit valued at \$1,000, for instance, lowers your tax bill by the corresponding \$1,000.

Tax deductions, on the other hand, reduce how much of your income is subject to taxes. Deductions lower your taxable income by the percentage of your highest federal income tax bracket. So if you fall into the 22% tax bracket, a \$1,000 deduction saves you \$220.

	\$10,000 tax deduction	\$10,000 tax credit
Your AGI	\$100,000	\$100,000
Tax deduction	-\$10,000	
Taxable income	\$90,000	\$100,000
Tax rate*	25%	25%
Calculated tax	\$22,500	\$25,000
Tax credit		-\$10,000
Your tax bill	\$22,500	\$15,000
<i>* Example rate. The U.S. has a progressive tax system.</i>		

Objectives

- Community redevelopment and revitalization
- Revitalize older, economically depressed communities
- Preservation and adaptive reuse of historic buildings
- Economic growth

NPS Annual Report (FY2022):

[The Historic Tax Credit program is] the **nation's most effective program to promote historic preservation and community revitalization through historic rehabilitation.**

It generates much needed **jobs** and **economic activity**, enhances **property values** in older communities, creates **affordable housing**, and **augments revenue** for Federal, state, and local governments, leveraging many times its cost in private expenditures on historic preservation.

This widely recognized program has been instrumental in **preserving the historic buildings and places** that give our cities, towns, Main Streets, and rural areas their **special character** and has **attracted new private investment** to communities small and large throughout the nation

Fiscal Year 2022 at a Glance

1,463 Certifications of significance (Part 1)

Over \$6.56 billion in private investment in historic preservation and community revitalization.

1,187 Preliminary certifications of rehabilitation (Part 2)

Projects both big and small—almost half (44%) of all completed projects (Part 3) were under \$1 million QRE and 17% were under \$250,000 QRE.

Estimated rehabilitation costs \$6.99 billion
 Median project QRE \$1.00 million
 Average project QRE \$5.89 million

New National Register nominations—about 15% of projects involved properties not yet listed in the National Register of Historic Places.

Thirty-seven states have state historic tax credits that can be used in tandem with the Federal historic tax credit.

858 Certifications of completed work (Part 3)

FY 2022 Size of Projects

Estimated rehabilitation costs \$6.56 billion
 Median project QRE \$1.31 million
 Average project QRE \$7.64 million
 Rehabilitated housing units 5,533
 New housing units 9,036
 Low- and moderate-income housing units 6,789



QRE = Qualified rehabilitation expenditures

FY 1977 – FY 2022 Program Accomplishments



\$122.90 billion

Estimated Rehabilitation Investment

308,039

Rehabilitated Housing Units



48,293

Historic Rehabilitation
Projects Certified

343,403

New Housing Units

192,314

Low- and Moderate-Income
Housing Units

Source: Technical Preservation Services, National Park Service

Fiscal Year 2020 Highlights

\$7.3 billion

Total in rehabilitation investment

2020 POSITIVE IMPACTS
on the national economy:

\$13.8 billion in output,
\$7.0 billion in GDP,
\$5.2 billion in income, and
\$1.8 billion in taxes, including
\$1.2 billion in Federal tax receipts.

122,000

New jobs created and billions
of dollars in total (direct and
secondary) economic gains

51%

Projects in low- and moderate-
income census tracts*

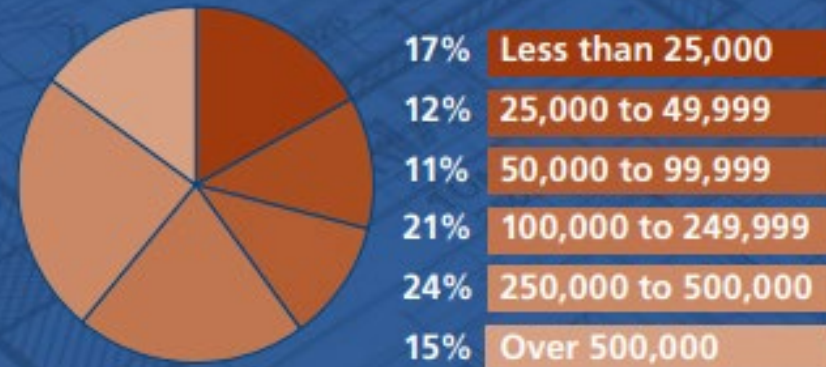
75%

Projects in economically
distressed areas*

29%

Projects in communities of
less than 50,000 people*

Projects by Community Size (Population)*



*Courtesy of PolicyMap (Estimated Population, 2015–2019. United States Census Bureau, American Community Survey 5-year estimates. New Markets Tax Credit (NMTC) Eligibility Status for 2019 using 2011–2015 eligibility data. United States Department of the Treasury, CDFI Fund)

Economic Impact 1978 - 2020

Fiscal Year 1978 — Fiscal Year 2020 Cumulative HTC Impacts

\$181.0 billion

in cumulative rehabilitation investment

An inflation-adjusted (2020 dollars) \$34.3 billion HTC cost encouraged a five times greater amount of historic rehabilitation, \$181.0 billion

2.9 million

New jobs created and billions of dollars in total (direct and secondary) economic gains

CUMULATIVE POSITIVE IMPACTS on the national economy:

\$391.5 billion in output,
\$195.2 billion in GDP,
\$143.6 billion in income, and
\$55.6 billion in taxes, including
\$39.4 billion in Federal tax receipts.

These leverage and multiplier effects support the economic argument that the **Federal HTC is a strategic investment that works.**

With over 48,000 completed projects since its enactment in 1976, the program has leveraged over \$122.90 billion in private investment in the rehabilitation of historic properties — spurring the rehabilitation of historic structures of every period, size, style, and type in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

National Economic Impacts

The following table summarizes the impacts of the HTC in inflation-adjusted 2020 dollars for each of these economic measures for the cumulative period FY 1978-2020 and for FY 2020.

National Total Impacts 2020 \$ billion	FEDERAL HTC-ASSISTED REHABILITATION	
	\$181.0 billion CUMULATIVE (FY 1978–2020) ² historic rehabilitation expenditures results in:	\$7.3 billion ANNUAL FY 2020 historic rehabilitation expenditures results in:
Jobs (person-years, in thousands)	2,908	122
Income (\$ billion)	\$143.6	\$5.2
Output (\$ billion)	\$391.5	\$13.8
GDP (\$ billion)	\$195.2	\$7.0
Taxes (\$ billion)	\$55.6	\$1.8
Federal (\$ billion)	\$39.4	\$1.2
State (\$ billion)	\$8.0	\$0.3
Local (\$ billion)	\$8.2	\$0.3

Activity by State FY2022

FY 2022 STATE-BY-STATE PROJECT ACTIVITY

Estimated Qualified Rehabilitation Expenditures (QRE) and Five-Year Cumulative Totals

State	Applications Received			Applications Approved			Estimated QRE at Part 2	Estimated QRE at Project Completion (Part 3)	Cumulative Totals FY 2018–FY 2022	
	Part 1	Part 2	Part 3	Part 1	Part 2	Part 3			Part 3	QRE
Alabama	22	22	12	25	24	11	\$79,919,485	\$43,642,459	49	\$271,225,278
Alaska	0	0	0	0	0	0	0	0	1	48,000
Arizona	10	4	1	9	1	1	973,684	1,001,080	10	57,787,375
Arkansas	26	26	28	28	26	25	39,472,667	25,436,067	110	238,097,228
California	13	8	6	12	4	4	40,540,754	139,612,294	27	641,349,101
Colorado	15	17	5	15	12	5	25,917,546	28,002,611	27	134,505,282
Connecticut	22	11	9	16	12	8	208,502,868	135,494,328	31	503,419,136
Delaware	9	3	4	10	6	4	62,959,728	132,543,790	15	180,705,946
District of Columbia	6	1	3	5	1	3	102,000,000	133,643,176	16	571,799,079
Florida	15	8	5	14	6	7	28,485,653	103,593,879	36	252,592,217
Georgia	76	58	41	82	75	51	235,299,670	137,966,910	225	754,693,400
Hawaii	1	1	0	1	1	1	18,000,000	1,000,000	4	11,611,133
Idaho	0	0	0	0	0	0	0	0	6	13,883,547
Illinois	30	24	14	29	23	12	270,288,027	155,957,301	86	1,873,213,745
Indiana	18	9	6	17	7	6	38,746,883	53,454,327	74	412,337,066
Iowa	26	21	18	22	20	17	151,057,796	99,319,306	113	727,040,302
Kansas	15	18	12	16	23	13	40,408,800	50,679,742	84	241,816,614
Kentucky	22	24	17	19	26	16	44,775,627	35,229,414	120	286,927,326
Louisiana	122	100	51	109	95	47	160,495,100	388,195,946	410	1,384,360,765
Maine	16	12	5	17	13	6	100,774,178	29,934,351	35	112,291,783
Maryland	32	29	11	31	31	11	158,668,312	97,576,683	128	523,076,372
Massachusetts	33	31	68	28	65	74	327,231,647	390,231,294	221	1,437,787,357
Michigan	13	12	10	15	18	12	130,202,455	143,598,880	96	1,065,549,406
Minnesota	10	16	13	10	16	17	181,112,011	331,357,421	58	734,683,123
Mississippi	71	32	20	65	32	17	58,573,973	36,777,238	76	193,354,222
Missouri	101	48	21	104	48	19	200,901,485	27,283,350	386	1,732,640,107
Montana	7	2	3	7	1	2	2,750,000	3,902,891	6	13,883,246
Nebraska	2	1	2	2	2	2	11,300,000	8,200,000	24	170,786,047
Nevada	0	0	0	0	0	0	0	0	0	0
New Hampshire	4	2	3	4	2	2	18,550,000	11,941,484	12	109,550,125
New Jersey	18	8	4	17	6	4	149,750,000	27,015,818	18	522,946,303
New Mexico	1	0	1	1	0	2	0	6,777,975	3	12,027,975
New York	118	99	96	124	116	116	1,333,668,343	1,195,028,584	509	3,966,900,370
North Carolina	86	58	43	101	70	48	266,282,227	100,848,830	220	945,255,400
North Dakota	0	0	0	0	0	1	0	13,042,175	4	31,552,345
Ohio	129	103	60	117	100	64	737,890,222	370,734,055	339	2,540,558,236
Oklahoma	12	10	5	16	13	5	108,640,287	69,597,967	54	325,417,487
Oregon	2	6	2	2	4	3	155,517,128	13,909,453	34	272,317,024
Pennsylvania	41	37	67	38	34	66	350,007,026	551,902,474	335	2,319,221,406
Puerto Rico	0	0	0	3	1	0	825,000	0	0	0
Rhode Island	26	27	2	26	25	4	114,644,652	32,715,450	39	525,268,144
South Carolina	42	30	18	39	29	17	174,833,037	163,005,901	87	453,027,804
South Dakota	2	5	0	4	2	0	11,500,000	0	6	25,312,106
Tennessee	10	13	7	11	9	2	83,865,503	5,767,000	43	470,008,722
Texas	57	43	15	56	38	14	310,206,984	111,927,759	116	2,091,929,909
Utah	4	5	6	3	5	9	10,250,410	50,565,467	28	87,040,937
Vermont	10	14	10	11	15	3	34,376,133	18,294,295	38	77,221,781
Virgin Islands	0	0	0	0	0	0	0	0	0	0
Virginia	101	90	65	125	93	80	204,270,001	322,530,960	427	1,521,066,232
Washington	11	6	6	10	3	5	13,250,000	547,132,806	34	921,380,660
West Virginia	18	17	6	19	15	6	109,478,147	10,063,298	27	81,957,344
Wisconsin	28	27	18	27	18	16	76,875,793	199,269,041	116	1,079,966,604
Wyoming	1	0	0	1	1	0	6,800,000	0	2	1,205,000
Total	1,454	1,138	819	1,463	1,187	858	\$6,990,839,242	\$6,555,705,529	4,965	\$32,922,596,116

Source: Technical Preservation Services, National Park Service

Economic & Tax Impacts by State 2016 -2020

Exhibit 2.2 Cumulative Fiscal Years 2016–2020

National Economic and Tax Impacts of Federal HTC-Related Investment by State

State	Total Rehabilitation Costs (in 2020 \$ millions)	National Economic Impacts (in 2020 \$ millions)				Tax Impacts (in 2020 \$ millions)			
		Employment (jobs)	Income	GDP	Output	Local	State	Federal	Total
Alabama	\$261.4	4,544	\$165.7	\$311.7	\$429.1	\$4.6	\$7.0	\$39.9	\$51.4
Alaska	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arizona	132.7	2,145	78.5	101.1	255.4	125.6	81.1	22.3	228.8
Arkansas	294.6	5,862	204.9	305.9	544.4	5.8	10.7	49.3	65.8
California	621.3	8,859	450.3	588.2	1,215.3	15.7	25.1	114.1	154.9
Colorado	104.4	6,518	73.5	102.1	196.5	2.6	3.4	17.4	23.5
Connecticut	540.2	7,258	376.1	522.7	988.1	28.4	24.2	86.6	139.2
Delaware	68.7	1,029	48.6	66.1	128.1	3.1	3.2	10.8	17.2
District of Columbia	584.5	8,078	394.2	533.1	1,029.0	39.3	15.9	79.9	134.9
Florida	86.3	1,425	61.0	82.6	161.7	4.5	2.8	14.5	21.7
Georgia	534.2	10,148	370.7	545.1	977.5	25.1	24.5	90.4	139.9
Hawaii	8.0	106	5.4	7.6	13.9	39.2	46.3	169.9	255.3

Benefits of Incentivizing the Rehabilitation of Historic Buildings

- Makes historic rehabilitation financially feasible.
- Creates high-wage local jobs.
- Increases the amount of rehabilitation occurring in a state.
- Attracts private capital to areas that have not seen public investment in decades.



Mā'alaea General Store, Maui

Benefits of Incentivizing the Rehabilitation of Historic Buildings

- Consistently provides a strong return on investment.
- Offers a flexible tool for community reinvestment.
- Leverages significant private investment.
- Provides housing for residents of all incomes.



Kunia Village Affordable Housing Project, O'ahu

Benefits of Incentivizing the Rehabilitation of Historic Buildings

- Conserves energy and resources.
- Supports revitalization of diverse, walkable communities.
- Benefits a broad range of communities.



Baldwin Memorial Home, Maui

Federal Historic Rehabilitation Tax Credits

Income Tax Credit

20% of qualified rehabilitation costs available as credit (dollar for dollar reduction in tax)

Available to owners and long-term lessees holding the property at the time the project is placed in service

- May not be sold
- Use subject to IRS limitations



Property must be a “certified historic structure”

Must be a building

Must be depreciable

Must be listed in the National Register of Historic Places

Part of a district



Individually



Rehabilitation must be “substantial”

Qualified rehabilitation expenditures within a 24-month period must exceed:

- the adjusted basis in the building at the beginning of the period
- and*
- \$5,000



Project must be a “certified rehabilitation”

IRS code: “certified by the Secretary of the Interior as being consistent with the historic character of the property.”

NPS regulations: Secretary of the Interior’s Standards for Rehabilitation



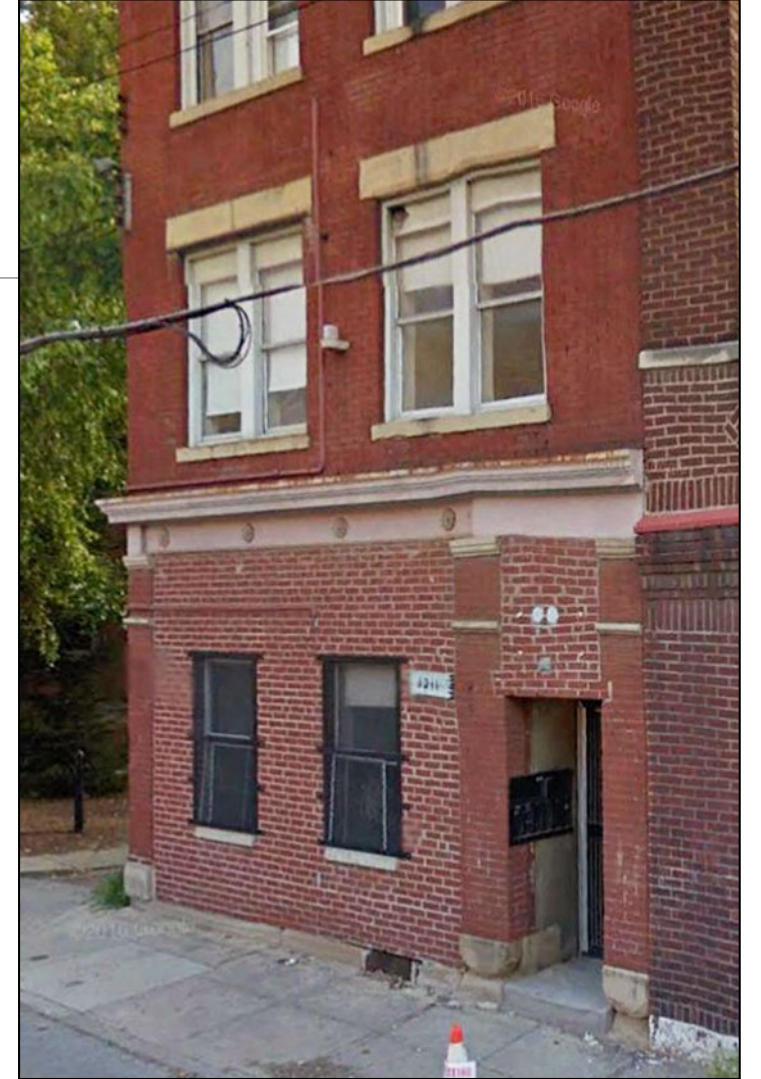
Rehabilitation

Returns a property to a state of utility through repair or alteration

Makes possible a contemporary use

Preserves portions and features that are significant to property's historic, architectural and cultural values





Rehabilitation can include aspects of:
preservation, restoration, and reconstruction
but:
You can keep what you have unchanged



Exterior

Interior



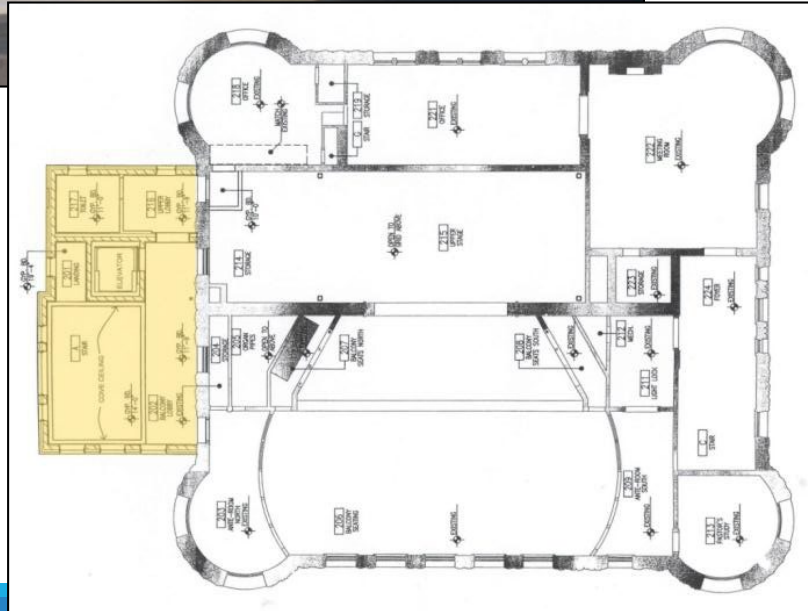


Historic Site





Additions



Removal



Repair and replacement
Modest change to accommodate new use



General Concepts Embodied in the Standards

Preserve historic character.

Keep historic features and spaces.

Repair historic material, don't damage it.

Match what needs replacement.

Don't alter the specific history of a property.

Make what you add compatible.

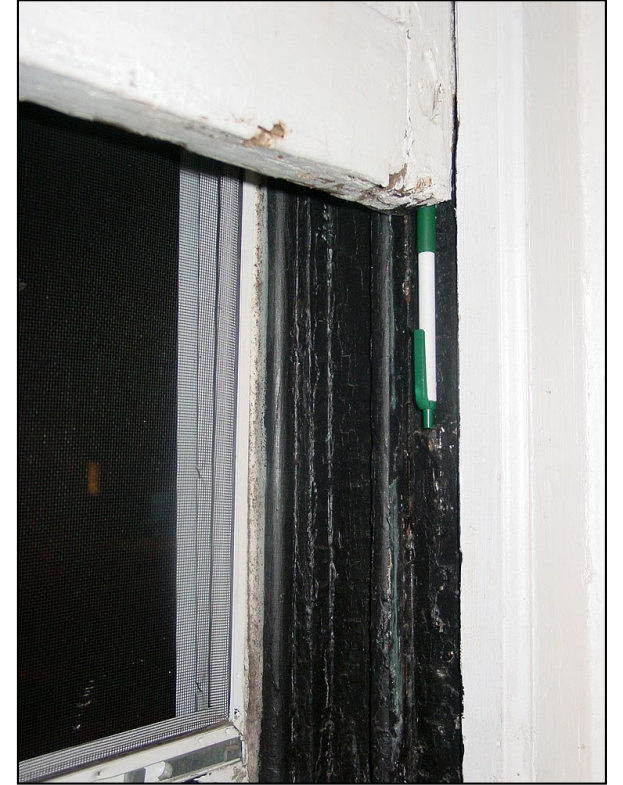




Do not damage materials (7)



Repair deteriorated features (6)



When severe deterioration requires replacement . . .

Replacement must match (6)



Applying the Standards

Hierarchy

Cumulative effect

No significant change in use

2. “. . . features and spaces that *characterize* a property. . .”
5. & 9. also use “characterize the property”
6. “. . . replacement of a *distinctive* feature . . .”

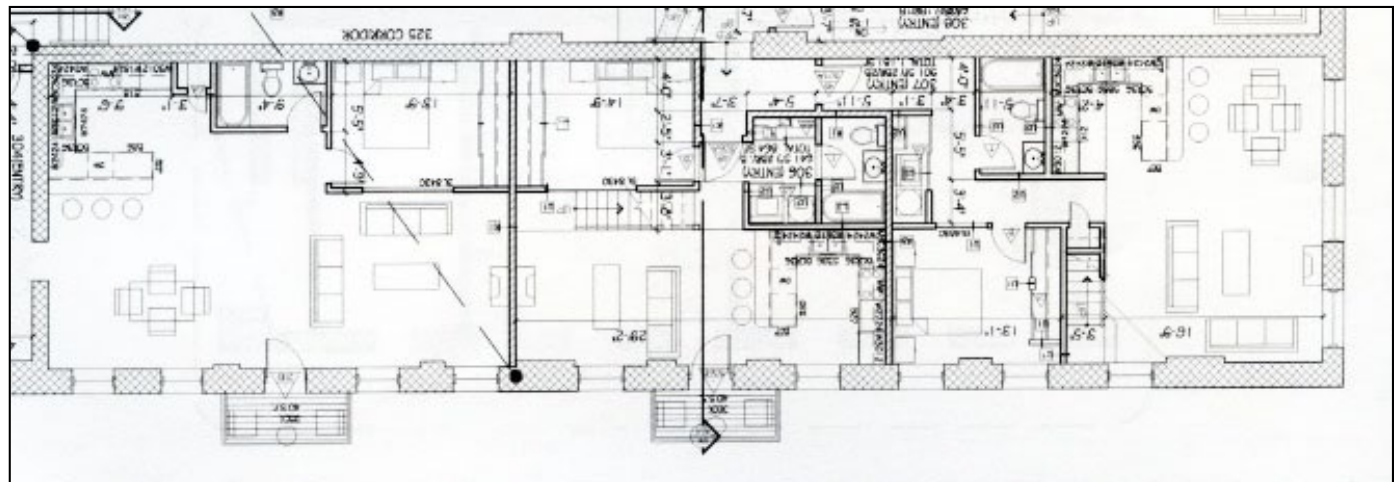


Replacement of *distinctive* feature (6) shall match.
Alteration of features that *characterize* the
property shall be avoided (2)



Small change in important space (2)





Substantial change in secondary space



Cumulative effect





Application Process

Part 1 - Evaluation of Significance

Part 2 - Description of Rehabilitation

Requires fee

Part 3 - Request for Certification of Completed Work

Requires fee

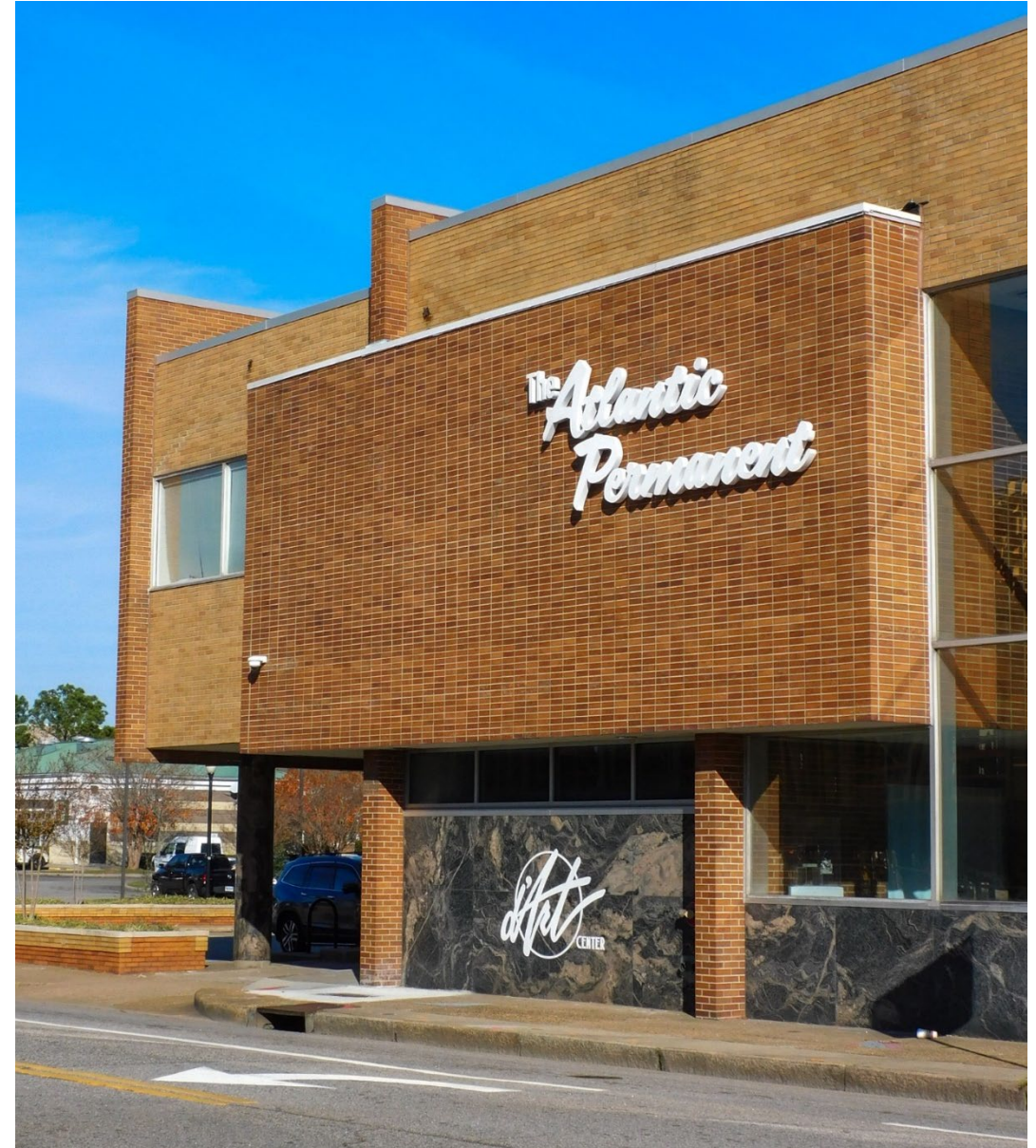
Amendments

Special Circumstances:

Preliminary determinations

Phased projects

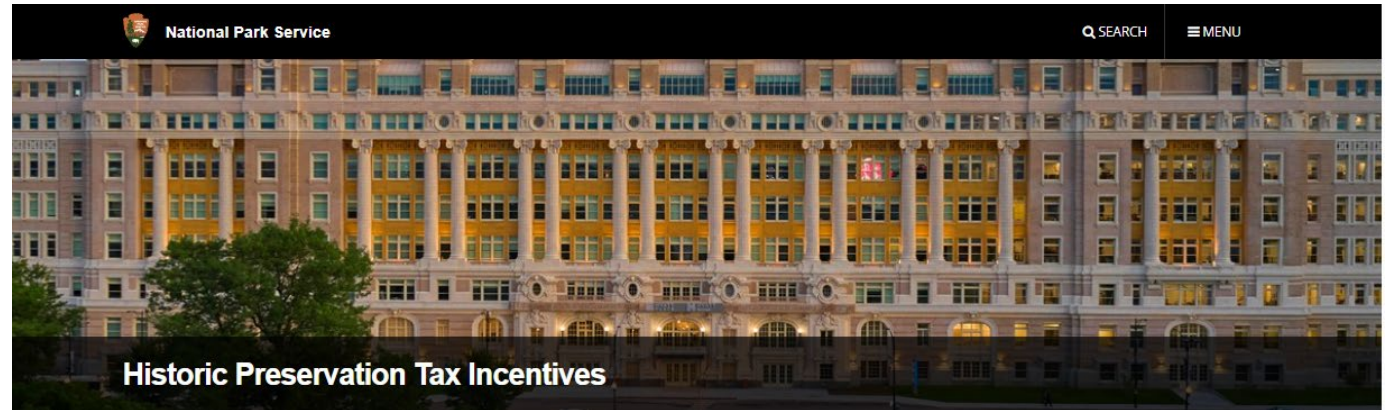
Multiple building projects





www.nps.gov/subjects/taxincentives

- Program basics
- Application form and application process
- NPS regulations, program and interpretive guidance
- Case studies
- IRS FAQs and links to IRS regulations and information
- Check project status 'look-up' feature
- Appeals process



About the Tax Incentives ›

Overview of the tax incentives



Before You Apply ›

Information to review before preparing an application



Application Process ›

Application forms, documentation requirements, and fees



Standards for Rehabilitation ›

Regulatory for the Tax Incentives Program



Planning Successful Rehabilitations ›

Guidance on common rehabilitation treatments



IRS Information ›

Links to program information provided by the IRS

Hawai'i State Tax Historic Credits



Hawai‘i Historic Preservation Tax Credit

- Established during the 2019 legislative cycle.
- Allows for taxpayers to claim a 30% tax credit on their state taxes for a substantial rehabilitation of a certified historic structure.
- A “substantial rehabilitation” is a project where the rehabilitation expenditures are at least 25% of the value of the structure only (not the structure and the land).

Hawai'i Historic Preservation Tax Credit

- Unlike with the federal program, there is a **\$1 million cap** in allowable tax credits that SHPD may certify per taxable year.
- Additionally, **both** Income Producing & Non-Income Producing Properties are Eligible for the Hawaii Historic Preservation Tax Credit.
- Currently, the state tax credit program sunsets at the end of the 2024 tax year, unless the program is reauthorized in the next legislative cycle (which starts in January 2024).





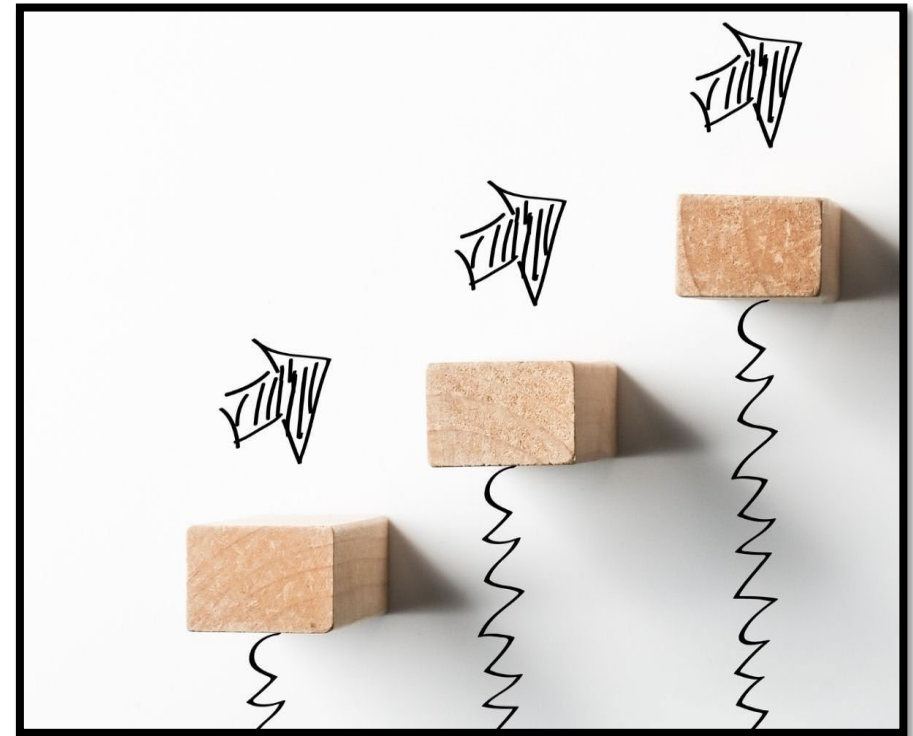
Hawai'i Historic Preservation Tax Credit

- Project the expenditures can be prorated to capture the substantial rehabilitation portion of the project.
- If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until either the credit is exhausted, or for a period of ten years, whichever occurs first.
- Recapture of a claimed tax credit can occur if the project was not actually completed or if the work did not actually comply with the approved plans and expenditures.

How to Apply for the State Credit

3 Steps

1. 3 Part Application Form with itemized expenses and receipts reviewed and approved.
2. Hawai'i Revised Statutes Chapter 6E review completed.
3. Historic Preservation Income Tax Form N-325 certified by the SHPD administrator.



FORM
N-325
(2020)

**HISTORIC PRESERVATION
INCOME TAX CREDIT**

TAX
YEAR
20

Or fiscal year beginning _____, 20____, and ending _____, 20____

ATTACH TO FORM N-11, N-15, N-20, N-30, N-35, N-40, OR N-70NP


Name(s) as shown on tax return

SSN or FEIN

Part I CREDIT CERTIFICATE

HISTORIC PRESERVATION DIVISION CERTIFICATE

(Completed by Historic Preservation Division only)

1. Name of taxpayer		2. SSN/FEIN	
3. Date substantial rehabilitation of a certified historic structure placed into service.....			
4. Amount of qualified rehabilitation expenditures		\$	
5. Amount of tax credit allowed for tax year 20		\$	
This is to certify that the amounts noted above have been verified in accordance with section 235-110.97, Hawaii Revised Statutes.			
Signature of Certifying Officer		Date of Certification	
Type or Print Name and Title			

Part II COMPUTATION OF TAX CREDIT

Note: If you are only claiming your distributive share(s) of a credit distributed from a partnership, an S corporation, an estate, or a trust, skip line 1 and begin on line 2.

1	Total amount of certified credit allowed for the taxable year from Part I, line 5.....	1	
2	Flow through of historic preservation income tax credit received from other entities, if any: <i>Check the applicable box below. Enter the name and Federal Employer I.D. No.</i>		
	<input type="checkbox"/> Partner — enter the appropriate amount from Schedule K-1 (Form N-20)		
	<input type="checkbox"/> S corporation shareholder — enter appropriate amount from Schedule K-1 (Form N-35)		
	<input type="checkbox"/> Beneficiary — enter the appropriate amount from Schedule K-1 (Form N-40)		
	<input type="checkbox"/> Patron — enter the appropriate amount from federal Form 1099-PATR	2	
3	Total New Credit Claimed — Add lines 1 and 2. Also enter this amount on Schedule CR in Column (a) of the appropriate line for this credit	3	
	<i>Note: Form N-20 and N-35 filers, enter the amount on line 3 on the appropriate lines of Form N-20, Schedule K or Form N-35, Schedule K; skip lines 4 through 10 and continue to Parts III and IV. Form N-40 filers, see the instructions.</i>		
4	Carryover of unused historic preservation income tax credit from the prior tax year	4	
5	Tentative current year historic preservation income tax credit — Add lines 3 and 4	5	
6	Adjusted Tax Liability (Not to be completed by Form N-20 and Form N-35 filers) Enter your adjusted tax liability from the applicable Form N-11, N-15, N-30, N-40 or N-70NP	6	
7	If you are claiming other nonrefundable credits, complete the worksheet on page 2 of the instructions and enter the total here. If you are not claiming other nonrefundable credits, enter zero	7	
8	Line 6 minus line 7. This represents your remaining tax liability. If the result is zero or less, enter zero	8	
9	Total Credit Applied — enter the smaller of line 5 or line 8. This is your historic preservation income tax credit to be applied to this tax year. Also, enter this amount on Schedule CR in Column (b) of the appropriate credit line	9	
10	Unused Credit to Carryover — Line 5 minus line 9. This represents your current year's carryover of unused credit. The amount of any unused credit may be carried over and used as a credit against your tax liability in subsequent years until exhausted. If this amount is more than zero, also enter it on Schedule CR in Column (c) of the appropriate line for this credit	10	

Part III RECAPTURE OF THE TAX CREDIT

1	Enter the amount of credit claimed for which recapture is required, including your share of any recapture of the credit reported on Schedule K-1(s) (see instructions)	1	
2	Enter your carryover of the credit from prior years	2	
3	If line 1 is greater than line 2, enter the recapture amount (line 1 minus line 2). Add this amount, rounded to the nearest dollar, to your tax liability for the taxable year in which the recapture occurs	3	
4	If line 2 is greater than line 1, enter your adjusted carryover amount (line 2 minus line 1)	4	

Part IV FLOW-THROUGH ENTITIES ALLOCATING THE CREDIT TO THEIR PARTNERS, SHAREHOLDERS, OR BENEFICIARIES

1. Tax credit allocated to partners, shareholders, or beneficiaries. Enter the amount from Part II, line 3..... \$
2. Allocation of the tax credit to their partners, shareholders, or beneficiaries as follows (if more space is needed, attach additional sheet(s)):

(a) No.	(b) Name and Address of Partner, Shareholder, or Beneficiary	(c) Identifying No. of Partner, Shareholder, or Beneficiary	(d) Amount of Tax Credit Allocated
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
3.	Total from additional sheet(s).....	3	
4.	Total amounts allocated (Must equal Part III, line 1 above.).....	4	

STATE OF HAWAII—DEPARTMENT OF TAXATION

FORM N-325 (2020)	HISTORIC PRESERVATION INCOME TAX CREDIT Or fiscal year beginning _____, 20____, and ending _____, 20____	TAX YEAR 20 ____
--------------------------------	---	-------------------------------

ATTACH TO FORM N-11, N-15, N-20, N-30, N-35, N-40, OR N-70NP

Name(s) as shown on tax return	SSN or FEIN
--------------------------------	-------------

Part I CREDIT CERTIFICATE

HISTORIC PRESERVATION DIVISION CERTIFICATE (Completed by Historic Preservation Division only)	
1. Name of taxpayer	2. SSN/FEIN
3. Date substantial rehabilitation of a certified historic structure placed into service.....	
4. Amount of qualified rehabilitation expenditures	\$
5. Amount of tax credit allowed for tax year 20	\$
This is to certify that the amounts noted above have been verified in accordance with section 235-110.97, Hawaii Revised Statutes.	
_____ Signature of Certifying Officer	_____ Date of Certification
_____ Type or Print Name and Title	

Part II COMPUTATION OF TAX CREDIT

Note: If you are only claiming your distributive share(s) of a credit distributed from a partnership, an

Case Study: Dearborn Building

Dearborn Chemical Company Building

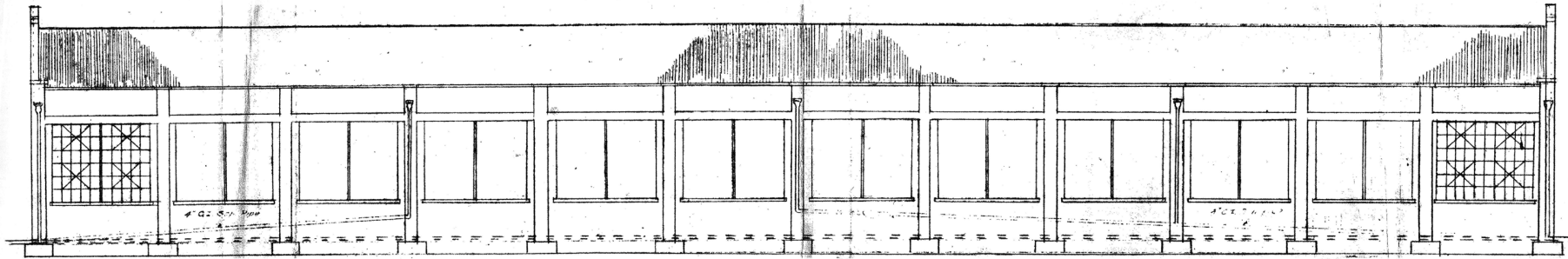




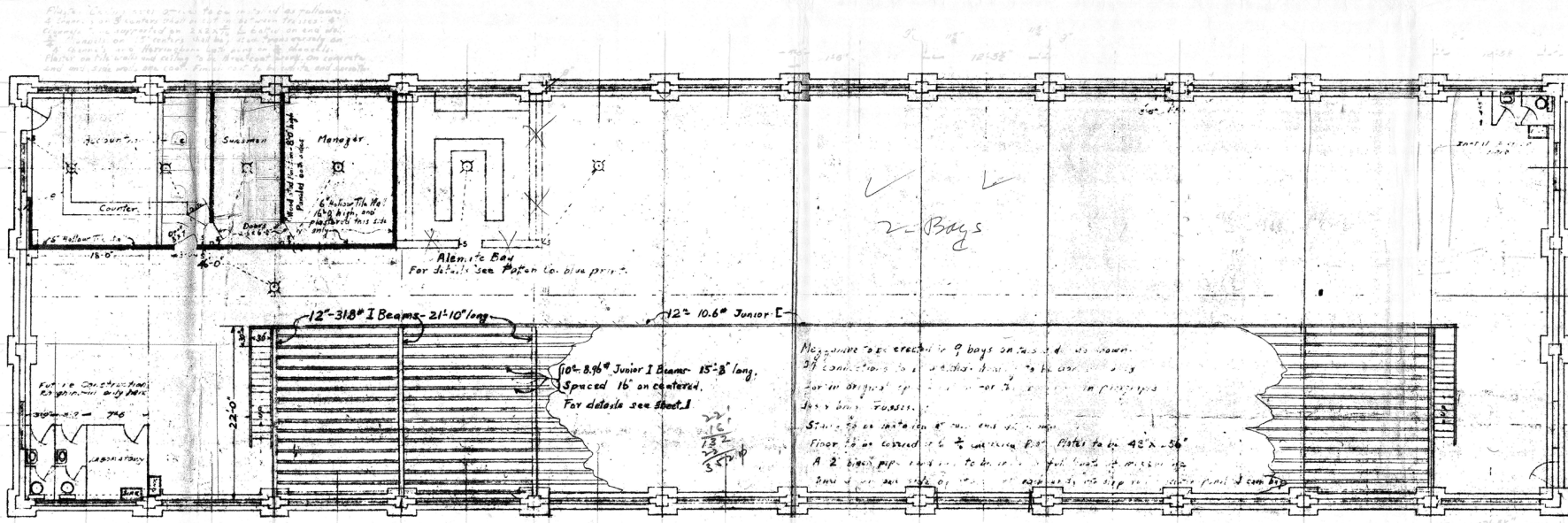
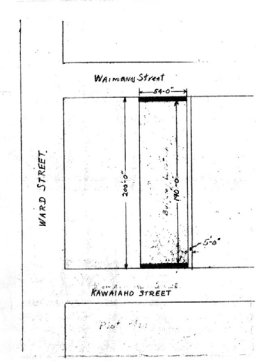
Kaka'ako context map, 1952



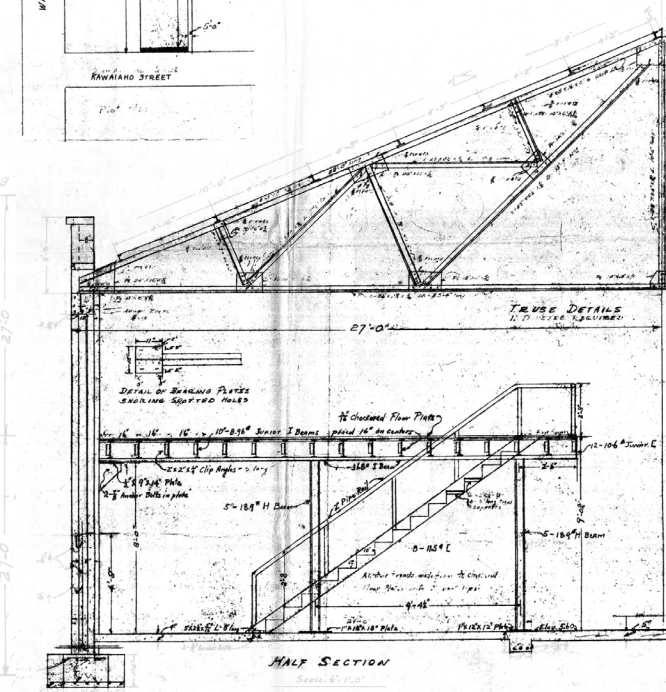
Kaka'ako context map, 2019

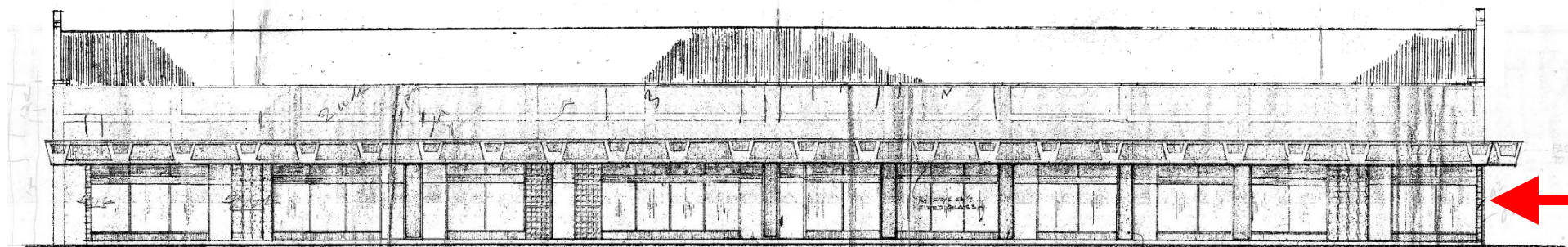


SIDE ELEVATION



PLAN FLOOR

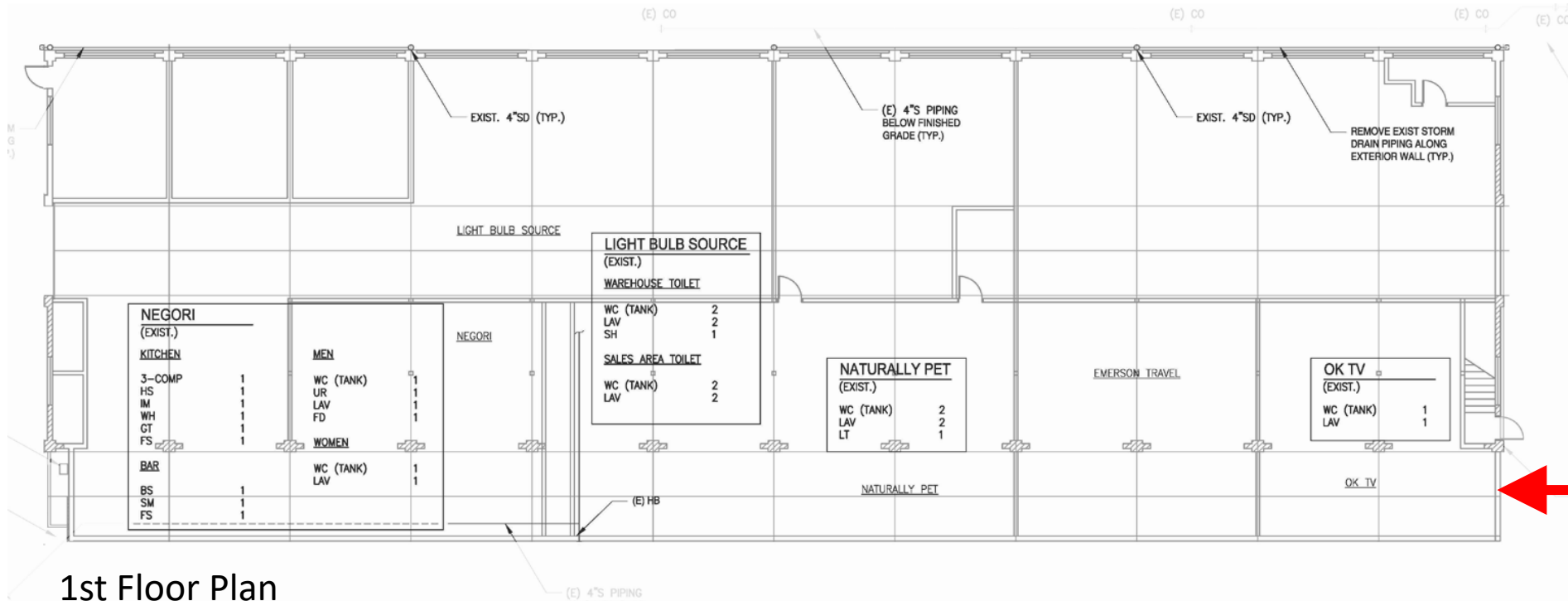




FRONT ELEVATION

Universal Building

Front addition

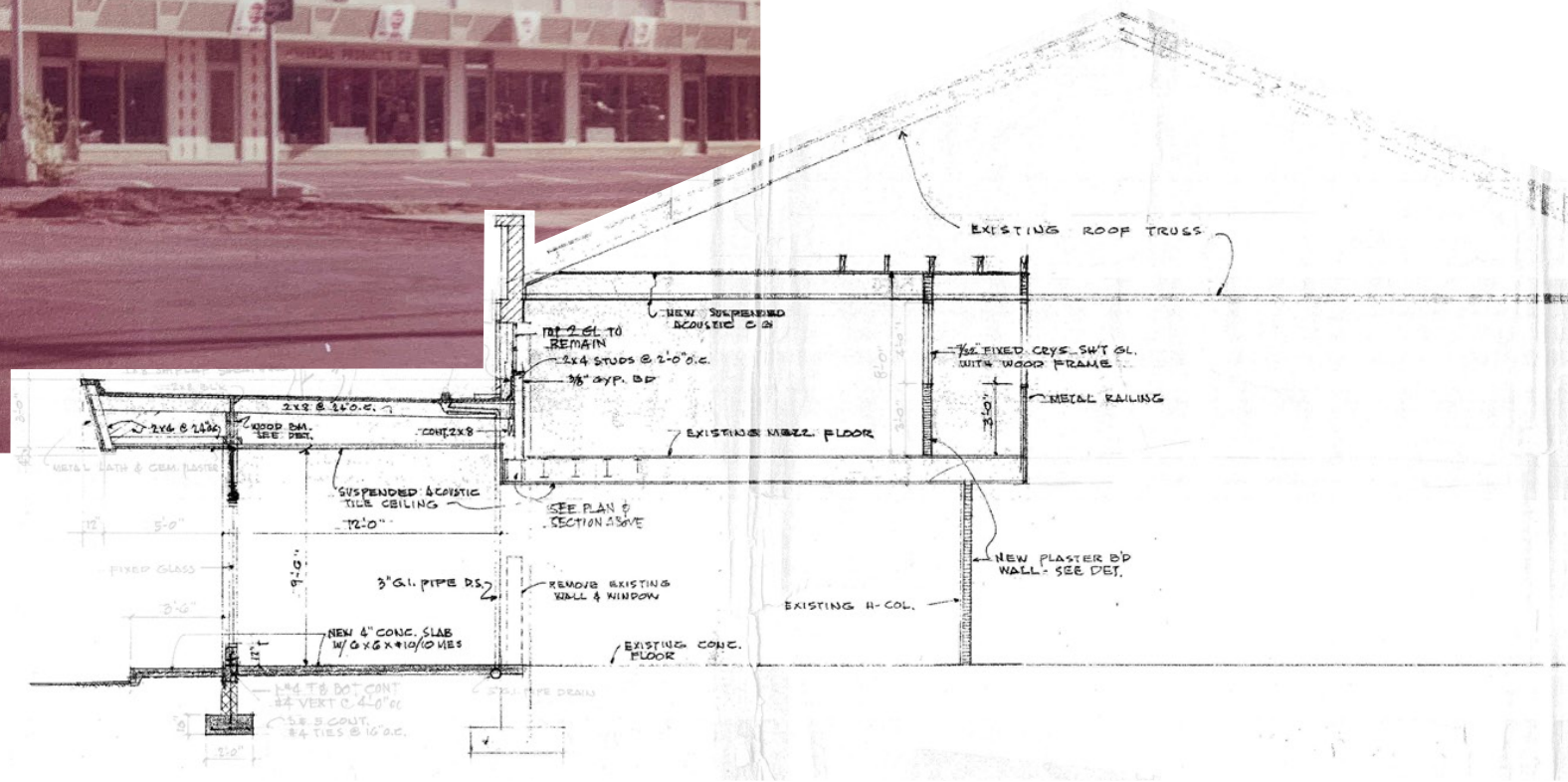


1st Floor Plan

Front addition

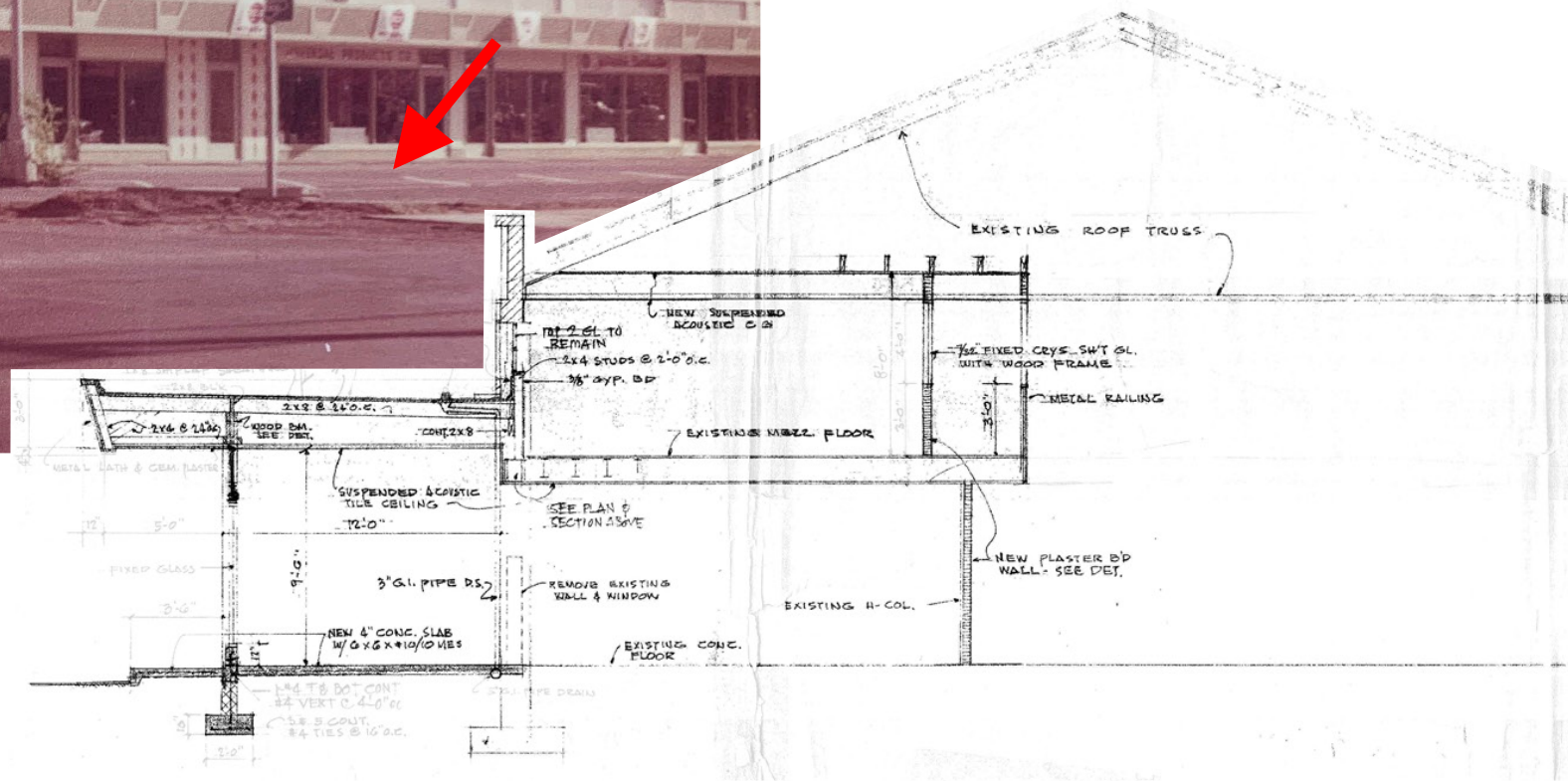


Universal Building, 1960s-70s



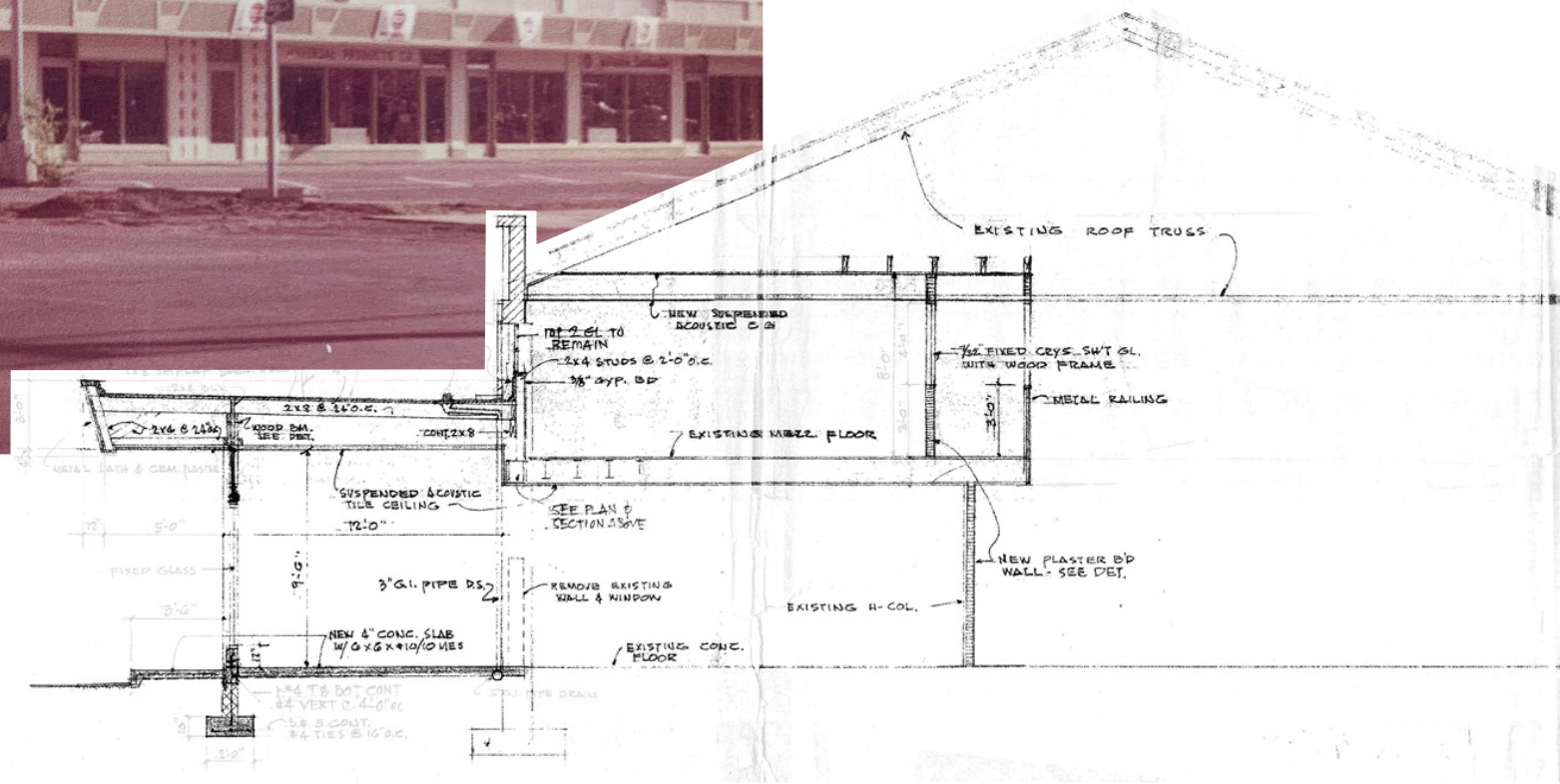


Universal Building, 1960s-70s



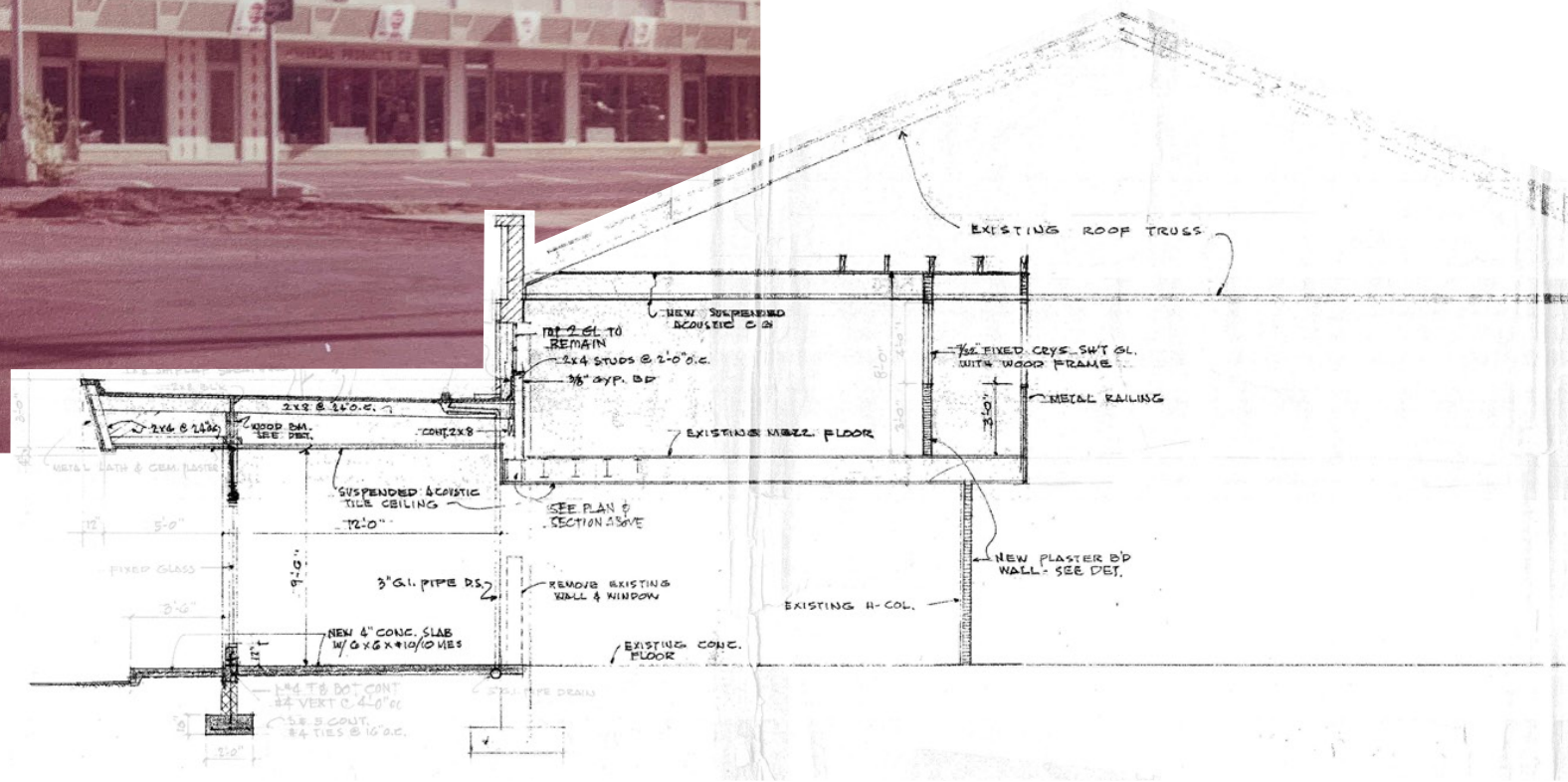


Universal Building, 1960s-70s





Universal Building, 1960s-70s



Certified Rehabilitation

Kawaiaha'o
elevation
before



Kawaiaha'o
elevation
after





Rear windows before



Rear windows after



Façade before demolition



Façade after demolition



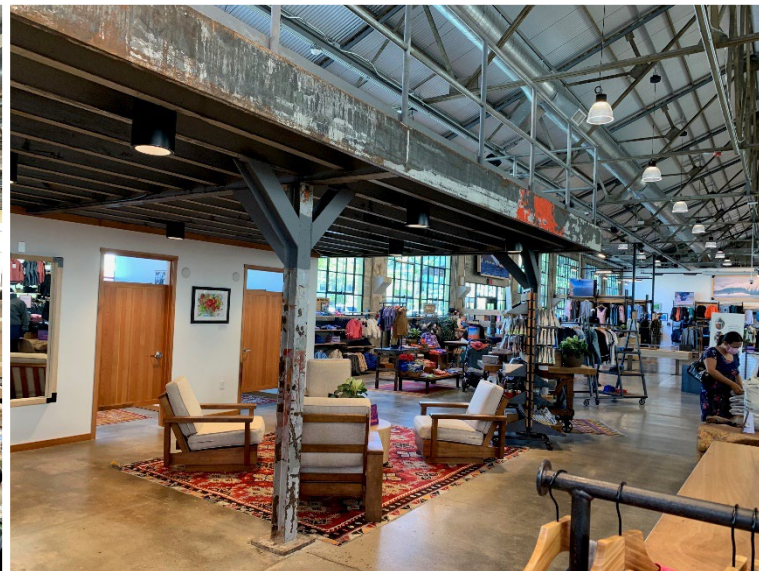
Rear wall interior before



Façade wall interior before







Historic Rehabilitation Tax Credits







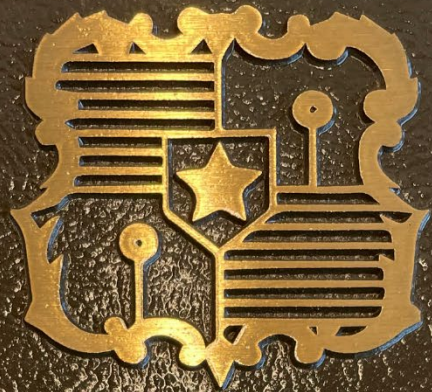
Issues, Challenges, Outcomes...



Previous owner's renovation project







DEARBORN BUILDING

1928

THE DEARBORN CHEMICAL COMPANY WAREHOUSE WAS ERECTED IN 1928. DESIGNED BY ARCHITECT-ENGINEER E. W. ELLIS, THIS WAS THE MOST SUBSTANTIAL STRUCTURE IN THE AREA AT THE TIME, WITH ITS FIREPROOF MASONRY CONSTRUCTION. IT IS THE ONLY EXAMPLE OF PRE-WORLD WAR II MASONRY IN THE KAKA'AKO NEIGHBORHOOD THAT STILL STANDS TODAY.

IN 2018, DEARBORN 535 LLC DONATED THE PRESERVATION EASEMENT TO THE HISTORIC HAWAI'I FOUNDATION, ENSURING THE BUILDING'S PERPETUAL PROTECTION. IN 2019, THE PROPERTY WAS DESIGNATED ON THE NATIONAL REGISTER OF HISTORIC PLACES AND THE HAWAI'I REGISTER OF HISTORIC PLACES.

1928

DEARBORN CO. PLANS BUILDING
Will Erect New \$150,000 Structure On Site In Ward 53.

The Dearborn Chemical Company Warehouse was one of the earliest industrial buildings erected in Kaka'ako. Designed with classical undertones by architect-engineer E. W. Ellis in the 1920s, it's the only example of pre-World War II masonry that still stands in this Honolulu neighborhood.

In 1916, Bruce Waring & Company acquired the lands made up of Kaka'ako from Kamehameha IV, including the Kaka'ako Tract area with Kawa'ahu'i, Waiwani, and Queen Streets as the principal arteries. Much of Kaka'ako was marshland and farmland, but after a small outbreak of the bubonic plague, the area's sanitation was called into question and the territorial legislature appropriated money to hydraulically grade and fill the low-lying area in 1915.

In addition to portions of the West plantation, only single family vacation dwellings, a lumbaryard and a few light industrial structures dotted the Kaka'ako landscape through the early 1920s. With the anticipated construction of Kapi'olani Boulevard and other road widening projects, the Dearborn Chemical Company (established in 1887 in Chicago, Illinois) purchased the property and opened for business in December of 1928. With offices worldwide, the company treated water for locomotive engines, and as the use of steam engines diminished, for wastewater cooling systems and industrial uses. (The Oahu Railway & Land Company operated steam locomotives from 1889 to 1947, hauling passengers, pineapple, sugar and more around the island.)

Water treatment operations continued out of the warehouse until 1965, when it was purchased by Universal Electric Co., Ltd. and Universal Products Co., Ltd., operated by the Tuakamoa family. The family renovated the facility for commercial use, adding a single-story, second-floor addition with 11 retail bays on the west (West Avenue) side of the building.

Replacing old industrial edifices with sleek condominium towers has been a trend in Kaka'ako since the 1980s, hence re-emphasizing the structure as part of Hawaii's rich history. Dearborn 535 LLC purchased the building in 2014 and removed the retail addition, restoring its original 1928 footprint. The owner donated a preservation easement to the Historic Hawaii Foundation in 2018, and the next year, the House's Register of Historic Places and the National Register of Historic Places added the Dearborn Chemical Company Warehouse to their lists.

Dearborn Chemical Warehouse Not Open To Tour
It's One Day In 1942 With Dearborn 535 Company Has
In This Area and Dearborn 535
11 Street, Honolulu

NURSEYMEN, FLORISTS, FARMERS
Big Quality Products Available
Dearborn 535 LLC
429' Dearborn



The Dearborn Chemical Company Warehouse was one of the earliest industrial buildings erected in Kaka'ako. Designed with classical undertones by architect-engineer E. W. Ellis in the 1920s, it's the only example of pre-World War II masonry that still stands in this Honolulu neighborhood.



WHERE WE STAND

Advice and Lessons Learned

Understand the factors for tax credit eligibility

Advice and Lessons Learned

Understand the factors for tax credit eligibility

Plan ahead & early consultation

Advice and Lessons Learned

Understand the factors for tax credit eligibility

Plan ahead & early consultation

Spend money to “save” money

Advice and Lessons Learned

Understand the factors for tax credit eligibility

Plan ahead & early consultation

Spend money to “save” money

Good things take some time

Combining Historic Rehabilitation & Low Income Housing Tax Credits

Historic Rehabilitation Tax Credits (HTCs) can be an effective tool to create affordable housing

Qualified Rehab Expenditures (**QREs**) = Development cost in connection with the rehab of a qualified rehabilitated building that is certified by the NPS as consistent with the historic character of the building or the district in which the property is located.

Most development cost that **are eligible for Low-Income Housing Tax Credits (LIHTCs) are also classified as QREs**. Eligible Basis for **LIHTCs** are reduced by the amount of **HTCs**.



Hocking Building
Originally Built in 1914.

Blue Flame Apartments
Originally Built in 1954.



Capitol Lofts
Originally Built in 1915.

Low-Income Housing Tax Credits

Federal Level

9% LIHTCs

- Designed to subsidize 70% of the low-income unit costs.
- Generally for new construction and substantial rehabilitation

4% LIHTCs

- Designed to subsidize 30% of the low-income unit costs.
- Generally for acquisition of existing buildings for rehabilitation and new construction.

State Level

- Hawai'i established state low-income housing tax credit program in 2011
- **Credit amount is equal to 50%** of the Federal LIHTCs
- Reduces Hawai'i state income tax liability and insurance premium tax

Characteristics of Tax Credits

	HTCs	LIHTCs	Hawai'i State LIHTCs
Credit Delivery	Evenly over 5 years beginning in the year Placed in Service	10 years beginning in the year the building is fully occupied with qualified tenants	5 years beginning in the year the building is fully occupied with qualified tenants
Credit Calculation	20% of QREs; generally hard & soft cost expenses, but not acquisition	4% or 9% of Eligible Basis for 10 years	Equals to 50% of the federal LIHTCs
Qualifications	Must meet rehabilitation standards and be approved by SHPO/NPS.	Must meet rent and income limits/restrictions	Must meet rent and income limits/restrictions
Recapture Period	5 Years	15 Years	15 Years

Syndicating Tax Credits

Tax Credits

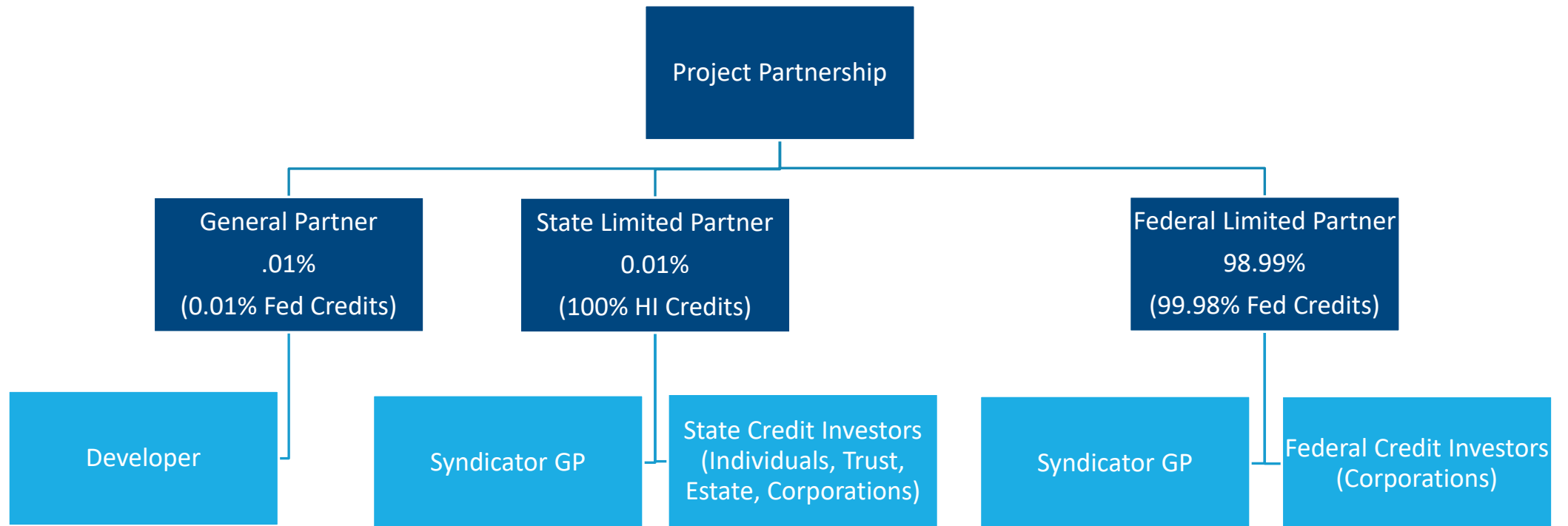
Federal Level

- Federal HTC and LIHTC are allocated to the owners of the project based on ownership percentage.
- Federal HTC and LIHTC can be claimed by individual taxpayers, but are **subject to the passive activity loss and credit limitations**. Individual taxpayers are limited to credits equivalent to the deduction of up to a \$25,000 of loss, unless the taxpayer is filing as a real estate professional.

State Level

- Hawai'i LIHTCs can be **specialy allocated to any owner in the tax year**.
- Exempts taxpayers from the passive activity loss and credit limitations

Tax Credit Fund Flow Chart



Tax Credit Calculation

HTCs	QREs	\$1,000,000
	Tax Credit %	20%
	Total (5 yr) HTCs	\$200,000
LIHTCs	Eligible Basis	\$1,000,000
	Reduction from HTCs	(\$200,000)
	Difficult to Develop Area	130%
	Tax Credit %	9% / 4%
	Annual LIHTCs	\$93,600 / \$41,600
	Total (10 yr) LIHTCs	\$936,600 / \$416,000
Hawai'i State LIHTCs	Total (5 yr) LIHTCs	\$468,000 / \$208,000
Total Tax Credits		\$1,604,600 / \$824,000
<p>---Pricing---</p> <p>\$0.80-\$0.85 for federal HTCs and LIHTCs \$0.50-\$0.55 for Hawai'i LIHTCs</p> <p>Every \$1 of qualified cost will generate \$1.14 to \$1.22 in equity on 9% LIHTCs transaction and \$0.60 to \$0.64 on 4% LIHTCs transaction.</p>		

Key Points

- Property owners must complete Part 1 (Evaluation of Significance), Part 2 (Description of Rehabilitation) and Part 3 (Request for Certification of Completed Work) of the **HTCs** application.
- Tax Credit Investors **require Part 2 approval** prior to close
- Tax Credit Compliance Period is 15 years, but properties generally have **an extended use period that requires the property to remain affordable for up to 60 years.**

Underwriting Considerations

- 15% hard cost contingency
- Utility Costs
- Unit Configurations
- Impact with Schedule Delays
- Energy Efficient
- Replacement Reserves

Case Study: Hocking Building

THE HOCKING BUILDING

ADAPTIVE REUSE FOR AFFORDABLE HOUSING AND
COMMUNITY CENTER

APPLICANT:
HOCKING BUILDING LLC
2 North King Street
Honolulu, Hawaii 96817
TMK: (1) 7-003:001



PROJECT PROFILE

Proposed Action: 40 unit rental apartment with a community center on the ground floor.

Location: 2 North King Street
Honolulu, Hawaii 96813

Land Area: 14,980 square feet

Building Area, Gross SF:	First Floor	12,492
	Second Floor	12,886
	Third Floor	8,525
	<u>Basement</u>	<u>8,525</u>
	Total	42,428

PROJECT PROFILE

Existing Use: Commercial Bank, Office Space, Vacant

State Land Use Designation: Urban Primary Urban Center

Zoning: BMX-4, Central Business Mixed Use

Special Design District: Chinatown Special Management Area

Flood Zone: Zone X (Beyond 500 Year Flood Plain)

Elevation: 20 Feet, Outside of Tsunami zone, and

Sea Level Rise

FIGURE 1

PROJECT LOCATION

Project Location:
2 North King Street
Honolulu, HI 96817



FIGURE 2

CHINATOWN SPECIAL DISTRICT

Chinatown Special District Map

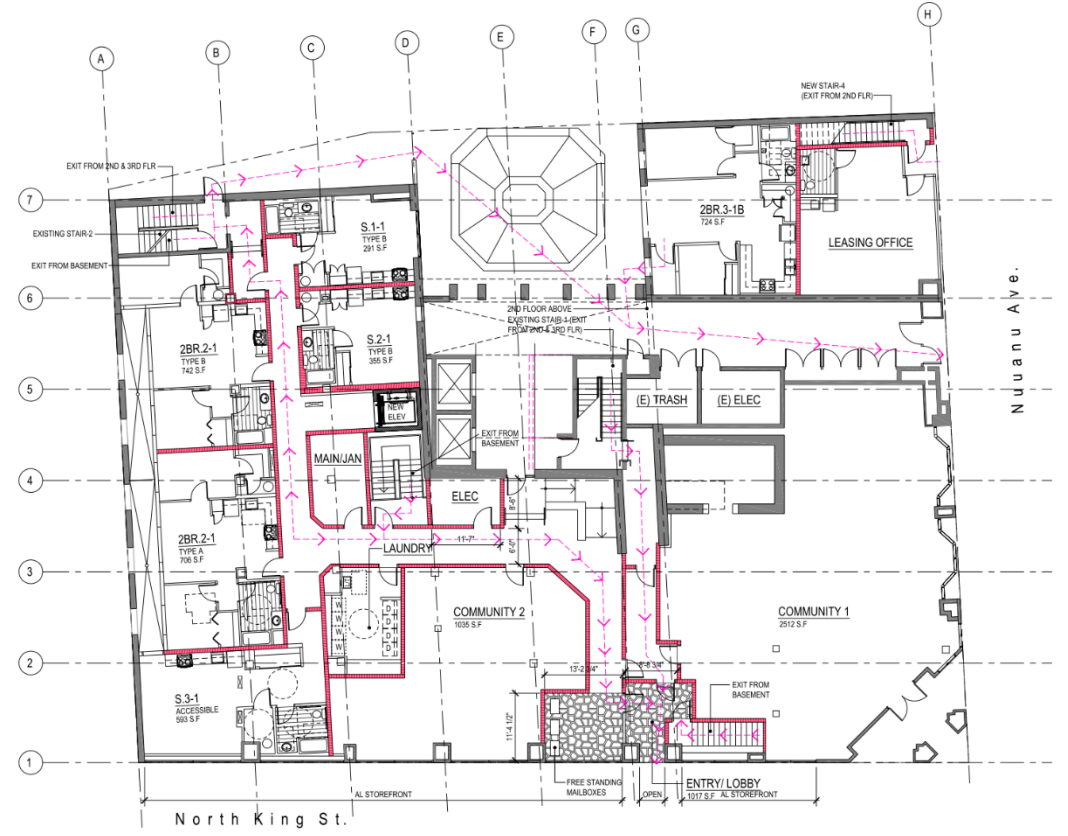
- Historic Core Precinct
- Makai Precinct
- Mauka Precinct



SAMPLE UNIT MIX

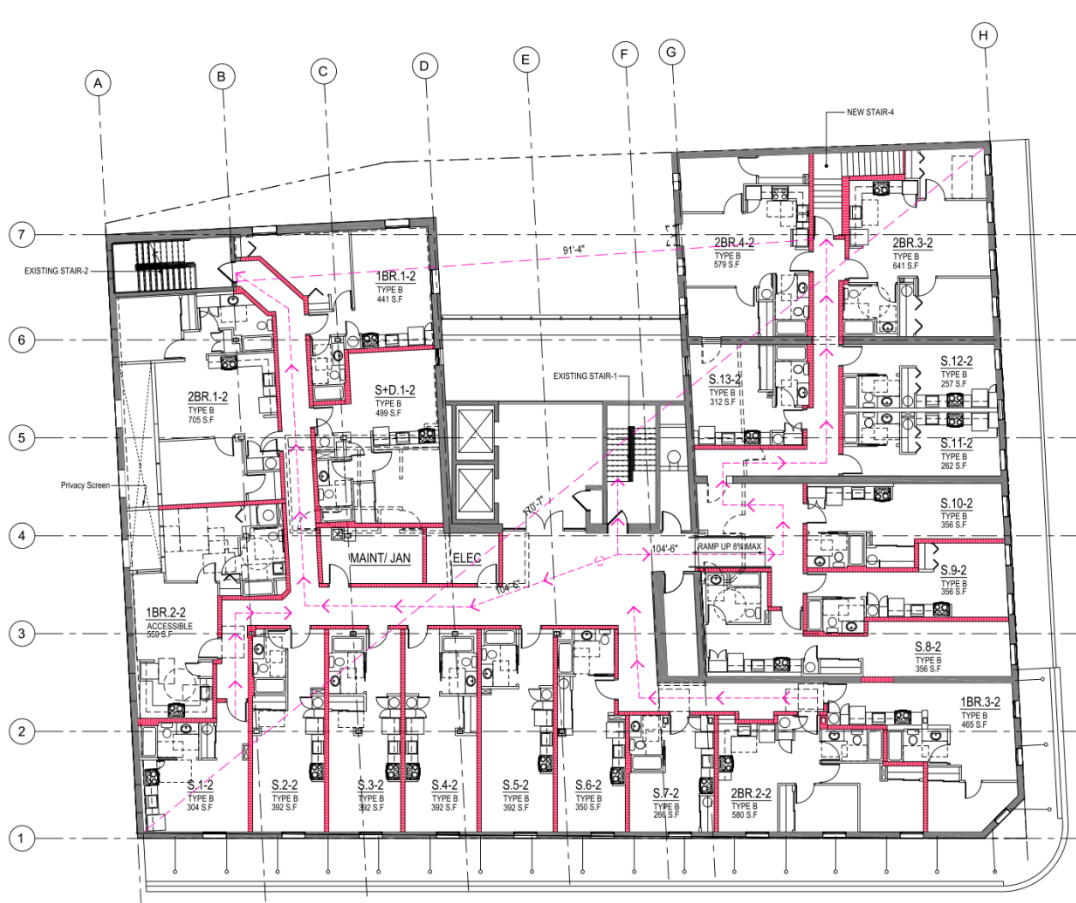
LAYOUT - 1ST FLOOR

LEVEL	STUDIO	1 BR	2BR	TOTAL
1	3		3	6
2	13	4	4	21
3	7	4	2	13
TOTAL	23	8	9	40



FIRST FLOOR OVERALL PLAN

2ND & 3RD FLOORS



SECOND FLOOR OVERALL PLAN



THIRD FLOOR OVERALL PLAN

UNIT RENTS

Units: 40 Total

- 4 units@ 30% AMI
- Restrictions: 35 units@ 50% AMI
- 1 Manager's unit

Rent Range:

- Approximately \$650 (studio) – \$1350 (2bd)

TAX CREDIT EQUITY

	Tax Credit	Cash
LIHTC - Tax Credit Equity Total	10,504,470	8,227,682
- Federal .85%	7,002,980	5,951,941
- State .65%	3,501,490	2,275,741
Historic Federal Tax Credit Equity	4,375,318	3,719,020
Historic Tax Credit – State	0	0

STATE HISTORIC TAX CREDIT

HRS §235-110.97(b) Historic preservation income tax credit.

"... The cost upon which the credit is computed shall be determined at the entity level and the distribution and share of the tax credit shall be determined pursuant to section 704(b) of the Internal Revenue Code."

CHALLENGES

- Remnant Parcel on King Street
- Covid Shut Down
- IRS Regulations – Timeline
- Budget Overruns

EXTERIOR PHOTOS



Tips and Recommendations

Historic Preservation Tax Incentives

Technical Preservation Service
National Park Service
U.S. Department of the Interior



Federal Historic Rehabilitation Tax Credits

Keys to Successful Use of the Program



Apply as early as possible

A Part 1 is needed unless a building is individually listed.

Use a Part 1 for determination of eligibility if not already listed.

- Establish a context and criteria for significance
- Justify a period of significance and a boundary

Utilize preliminary consultation if there are major issues that are critical to your proposed plan but may not obviously meet the Standards.

Take ample photos of existing conditions before doing even emergency work if you think there is any chance you will apply.

Key photos to a plan.

Keys to Successful Use of the Program

Use plans to supplement written description of work.

Focus documentation on those aspects of the building that are being changed.

Use Amendments when something needs to change from the initial proposal.

Distinguish between restoring known features and adding compatible new ones.





Integrity can be uncovered or revealed, but not recreated

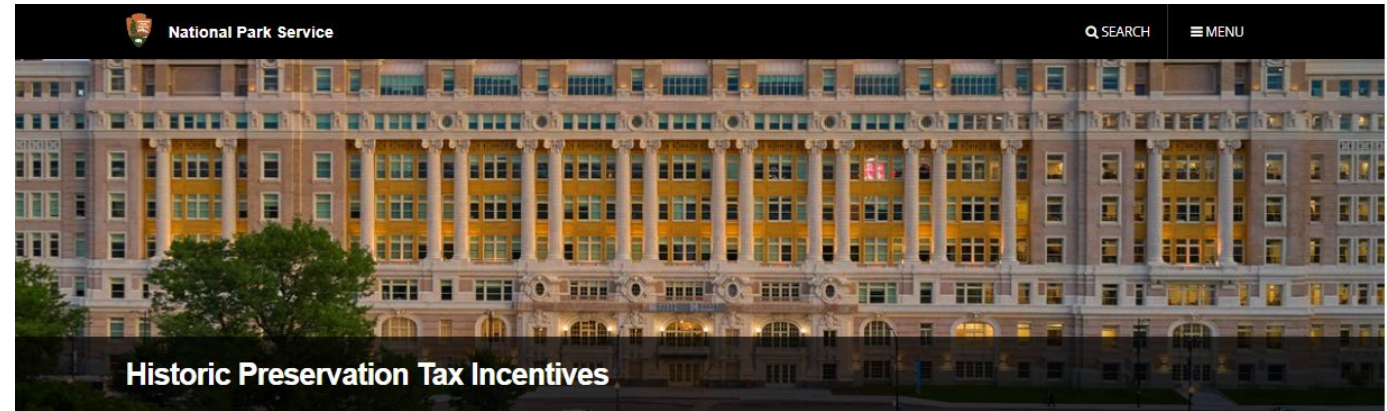


Changes may have acquired significance. . . (4)



www.nsp.gov/subjects/taxincentives

- Program basics
- Application form and application process
- NPS regulations, program and interpretive guidance
- Case studies
- IRS FAQs and links to IRS regulations and information
- Check project status 'look-up' feature
- Appeals process



About the Tax Incentives ›

Overview of the tax incentives



Before You Apply ›

Information to review before preparing an application



Application Process ›

Application forms, documentation requirements, and fees



Standards for Rehabilitation ›

Regulatory for the Tax Incentives Program



Planning Successful Rehabilitations ›

Guidance on common rehabilitation treatments



IRS Information ›

Links to program information provided by the IRS

Audience Questions

RESOURCES

Further Reading and Reference Materials

- National Register Bulletin 15: How to Apply the Criteria for Evaluation
- NPS Technical Preservation Services: <https://www.nps.gov/subjects/taxincentives/index.htm>
- NPS Guidance Before You Apply: <https://www.nps.gov/subjects/taxincentives/before-apply.htm>
- Internal Revenue Service: <https://www.irs.gov/businesses/small-businesses-self-employed/rehabilitation-tax-credit-real-estate-tax-tips>
- Public Law No. 115-97 <https://www.congress.gov/bill/115th-congress/house-bill/1>
- Tax Benefits for Historic Preservation Easements: <https://www.nps.gov/orgs/1739/upload/brochure-easements-historic-properties.pdf>
- Hawai'i State Tax Credit for Historic Rehabilitation: <https://historichawaii.org/2021/02/17/hawaii-state-tax-credit-for-historic-rehabilitation/>
- National Trust for Historic Preservation: <https://savingplaces.org/historic-tax-credits>

MAHALO FOR
SUPPORTING THE
PROGRAMS AND
ACTIVITIES OF
HISTORIC HAWAI‘I
FOUNDATION

E-NEWSLETTER SIGN-UP

<https://historichawaii.org/newsletter-signup/>

JOIN

<https://historichawaii.org/join-us/>

GIVE

<https://www.paypal.com/paypalme/historichi>

CONTACT

Member@historichawaii.org

808-523-2900
