Historic Tax Credits Guide

For Robbins, NC Building Rehabilitation Project

Prepared for: Moore County Economic Development Partnership
Project Context: Town of Robbins working with local developer to rehabilitate historic building
Date: November 2025

Executive Summary

Historic tax credits provide powerful financing tools for rehabilitation projects, offering up to 40% of project costs through combined federal (20%) and North Carolina state (15-20%) tax credits. For a municipality like Robbins working with a private developer, these credits can make otherwise unfeasible projects financially viable. The credits are dollar-for-dollar reductions in tax liability and can be sold/syndicated to generate upfront capital.

Basic Requirements

Federal Historic Tax Credit (20% of Qualified Rehabilitation Expenditures)
Eligibility Requirements:

- Building must be listed individually on the National Register of Historic Places OR be a contributing structure within a National Register Historic District
- Must be income-producing after rehabilitation (cannot be a personal residence, but can be rental housing or commercial use)
- Rehabilitation must be "substantial":
  - Costs must exceed the adjusted basis of the building, OR
  - Costs must be at least $5,000

North Carolina State Historic Tax Credit (15-20% of Qualified Rehabilitation Expenditures)
Key Features:

- Can be combined with federal credits (stacks on top)
- Similar eligibility requirements to federal program
- More flexible transfer/sale provisions than federal credits
- Administered through NC State Historic Preservation Office (SHPO)

The Application Process

Step 1: Determine Eligibility

Action Items:

- Check if building is listed on National Register
- Contact: NC State Historic Preservation Office (SHPO) at (919) 807-6570
- If not listed, pursue National Register nomination or establish historic district in downtown Robbins

Step 2: Structure Developer Ownership

Critical Requirement: The private developer must own the building to claim credits

Possible Ownership Structures:

- Ground lease arrangement
- Public-private partnership with private entity ownership
- Developer acquires property independently

Step 3: Three-Part Federal Application Process

PART 1: Evaluation of Significance

- Submit to National Park Service (NPS) through NC SHPO
- Establishes the building's historic significance
- Required materials: photos, building history, architectural description

PART 2: Description of Rehabilitation (MOST CRITICAL)

- **Must be submitted BEFORE rehabilitation work begins**
- Detailed plans showing all proposed work
- Must demonstrate compliance with Secretary of the Interior's Standards for Rehabilitation
- Reviewed by NC SHPO and forwarded to National Park Service
- Review timeline: typically 60-90 days
- **WARNING:** Starting work before Part 2 approval will disqualify the entire project from receiving credits

PART 3: Request for Certification of Completed Work

- Submit after project completion

- Photos documenting completed work
- Final project costs and expenditures
- Certification that work matches approved plans

Step 4: State Credit Application

Process:

- Parallel application through NC SHPO
- North Carolina has separate application forms
- Can be submitted simultaneously with federal application
- Similar review process and standards

Town of Robbins' Role

What the Municipality Can Do:

1. **Facilitate Regulatory Process**
   - Streamline zoning and permitting
   - Support historic district designation if needed
   - Coordinate with local planning boards
2. **Provide Financial Support**
   - Local Incentive Policy
   - Fee waivers or deferrals
   - Infrastructure improvements
3. **Technical Assistance**
   - Assist with National Register nomination process
   - Connect developer with NC SHPO resources
   - Identify preservation architects
   - Recommend tax credit consultants
4. **Leverage Additional Funding**
   - Community Development Block Grants (CDBG)
   - USDA Rural Development grants

- Historic preservation grants

How Tax Credits Are Used or Sold

Understanding Tax Credits

Historic tax credits are **dollar-for-dollar reductions** in tax liability (not deductions).

Example:

- $1,000,000 rehabilitation project
- 20% federal historic tax credit = $200,000
- 20% NC state historic tax credit = $200,000
- **Total: $400,000 reduction in taxes owed**

The Financial Challenge

Most small developers don't have $400,000 in annual tax liability to use these credits immediately. This is where selling or syndicating credits becomes essential.

Methods for Monetizing Tax Credits

Federal Historic Tax Credits

Option 1: Direct Use by Developer

- Developer claims credits on personal/corporate tax return
- Credits can be carried back 1 year or forward 20 years
- Best for developers with substantial ongoing tax liability
- No transaction costs or fees

Option 2: Sale/Syndication to Investors

How It Works:

1. Developer forms partnership or LLC structure
2. Investors purchase equity in the project (become limited partners)
3. Investors receive tax credits when project is certified complete
4. Developer receives upfront cash to finance construction

Market Value:

- Credits typically sell for **$0.85 to $0.95 per dollar of credit**
- $400,000 in credits might generate $340,000 to $380,000 in cash
- Provides crucial upfront capital to reduce financing needs

Who Buys Federal Credits:

- Banks (especially those with Community Reinvestment Act obligations)
- Insurance companies
- Large corporations seeking tax benefits
- Tax credit syndication funds

Transaction Process:

- Work with tax credit syndicator/intermediary
- Requires experienced legal counsel
- Complex partnership structures
- Transaction costs typically 5-15% of credit value
- Timeline: 3-6 months to structure and close

North Carolina State Historic Tax Credits

Much Simpler Transfer Process

Key Advantages:

- NC credits are **fully transferable** without complex structures
- Can be sold directly to any individual or entity
- No partnership formation required
- Active marketplace within North Carolina

Market Value:

- Typically sell for **$0.85 to $0.90 per dollar of credit**
- $200,000 NC credit might generate $170,000 to $180,000 in cash

Sale Process:

- Can work directly with buyers or through brokers
- Much simpler legal documentation
- Lower transaction costs (typically 5-10%)

- Faster closing timeline

Who Buys NC Credits:

- North Carolina taxpayers (individuals or businesses)
- NC-based corporations
- Local and regional banks
- Real estate investors with NC tax liability

Tax Credit Syndication Companies & Resources

National Syndicators (Federal Credits)

- **National Trust Community Investment Corporation (NTCIC)**
- **Enterprise Community Partners**
- **Boston Capital**
- **National Development Council**
- **PNC Historic Tax Credit Fund**
- **U.S. Bancorp Community Development Corporation**

Regional Resources (NC State Credits)

- **First Citizens Bank** (active NC credit buyer)
- **Truist/BB&T** (historic preservation lending)
- **Preservation North Carolina** (technical assistance)
- **NC State Historic Preservation Office** (can provide buyer referrals)

Consulting Services

- **Tax credit consultant/advisor:** $15,000 - $30,000
  - Highly recommended for first-time users
  - Handles application process, structures deal, finds buyers
- **Preservation architect:** Required for compliance with Secretary of Interior's Standards
- **Tax attorney:** For complex syndication structures

Project Financing Example

Scenario: $1,000,000 Rehabilitation Project
Traditional Approach (No Tax Credits):

- Total project cost: $1,000,000
- Developer needs to finance: $1,000,000
- Typical debt/equity split: 70/30
  - Bank loan: $700,000
  - Developer equity: $300,000

With Historic Tax Credits:

Tax Credits Generated:

- Federal credit (20%): $200,000
- NC state credit (20%): $200,000
- Total credits: $400,000

Credits Sold/Syndicated (at $0.90 per dollar):

- Cash from credits: $360,000

Adjusted Financing Needs:

- Total project cost: $1,000,000
- Less: Credit proceeds: $360,000
- **Net financing needed: $640,000**

New Debt/Equity Split:

- Bank loan: $450,000
- Developer equity: $190,000
- Tax credit proceeds: $360,000

Impact:

- Developer equity reduced from $300,000 to $190,000 (37% reduction)
- Total debt reduced from $700,000 to $450,000 (36% reduction)
- **Tax credits provide 36% of total project costs**

Strategies for Small Developers

Recommended Approach

1. **Hire Tax Credit Consultant Early**
   - Cost: $15,000-$30,000
   - Value: Ensures proper structuring, maximizes credits, avoids disqualification
   - Can help identify buyers and structure deals
2. **Pre-Sell Credits Before Construction**
   - Line up credit buyers during planning phase
   - Use commitment letters to secure bank financing
   - Reduces developer risk and capital requirements
3. **Use Credits as Loan Collateral**
   - Banks will lend more aggressively knowing credits are coming
   - "Bridge" financing until credits are sold post-completion
   - Lower interest rates due to reduced risk
4. **Consider Partnership with Experienced Developer**
   - Joint venture with developer who has tax credit experience
   - Share equity and risk
   - Accelerates learning curve
5. **Layer Multiple Funding Sources**
   - Historic tax credits (federal + state)
   - New Markets Tax Credits (if project is in qualifying area)
   - USDA Rural Development loans
   - CDBG grants
   - Local incentives from Town of Robbins but property must not be exempt

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Critical Rules & Compliance Requirements

The Five-Year Rule

- Property must be held for **5 years after project completion**
- If sold before 5 years, credits are "recaptured" (must be repaid)

- Penalty: Proportional recapture based on years held

Secretary of the Interior's Standards for Rehabilitation

10 Standards That Must Be Met:

1. Property used for historic purpose or compatible new use
2. Historic character must be retained
3. Each property recognized as physical record of its time
4. Changes to create false historical appearance prohibited
5. Distinctive features must be preserved
6. Deteriorated features repaired rather than replaced
7. Chemical or physical treatments done gently
8. New additions/alterations must be compatible but differentiated
9. New work must be removable if needed
10. Archaeological resources must be protected

Common Compliance Issues:

- Replacing original windows unnecessarily
- Installing inappropriate modern materials
- Altering significant architectural features
- Improper exterior paint colors or materials
- Additions that overwhelm historic building

Documentation Requirements

Must Maintain Records:

- All construction invoices and receipts
- Before, during, and after photographs
- Architectural plans and specifications
- Proof of expenditures
- Project timeline documentation

Retain for Audit:

- Keep all records for 3 years after filing tax return

- IRS may audit tax credit claims

Project Timeline

Realistic Schedule for Historic Tax Credit Project

Month 1-2: Pre-Development

- Confirm National Register eligibility
- Engage tax credit consultant
- Hire preservation architect
- Preliminary cost estimates

Month 3-4: Part 1 Application

- Submit Part 1 (if needed)
- Review: 30-60 days

Month 4-6: Part 2 Application & Review

- Develop detailed rehabilitation plans
- Submit Part 2
- **Review: 60-90 days**
- **DO NOT START WORK until Part 2 approval**

Month 7-18: Construction

- Execute rehabilitation per approved plans
- Document all work with photographs
- Maintain budget and invoice records
- Make any amendments if plans change

Month 19: Part 3 Application

- Submit Part 3 with completion documentation
- Review: 30-60 days

Month 20-21: Credit Certification & Sale

- Receive final certification
- Close on credit sale/syndication

- Receive credit proceeds
- File tax returns claiming credits (if using directly)

Total Timeline: 20-24 months from initial application to credit monetization

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The Five-Year Holding Period: Critical Compliance Requirement

Overview of the Holding Period Rule

After the rehabilitated building is **placed in service** (completed and ready for occupancy/operations), the owner must hold the property for **five full years** or face significant recapture penalties. This is one of the most important and often misunderstood aspects of historic tax credits.

What "Placed in Service" Means

The 5-year clock starts when:

- The building is ready for its intended use
- Certificate of occupancy is issued
- Tenants move in or business operations begin
- NOT when construction finishes if building isn't yet operational

Example: Construction completes in December 2025, but first tenant doesn't move in until March 2026. The 5-year holding period begins March 2026 and runs through March 2031.

Recapture Schedule

If the property is sold or disposed of before the 5-year period ends, the IRS requires repayment of credits on a sliding scale:

Time Period After Placed in Service	Percentage of Credits Recaptured
Year 1 (0-12 months)	100%
Year 2 (13-24 months)	80%
Year 3 (25-36 months)	60%
Year 4 (37-48 months)	40%
Year 5 (49-60 months)	20%
After 60 months	0% (no recapture)

Financial Impact Example:

- Developer received $400,000 in tax credits (federal + state)
- Sells property 32 months after placed in service (Year 3)
- Must repay: $400,000 × 60% = **$240,000**

- Plus interest and potential penalties
- Destroys the project economics

What Triggers Recapture ("Disposition Events")

The following actions trigger recapture penalties:

1. **Outright sale** of the property to any buyer
2. **Transfer of majority ownership** (more than 50% of ownership interests)
3. **Foreclosure or repossession** by lender
4. **Conversion to personal use** (if property was income-producing)
5. **Certain partnership restructurings** that change control
6. **Gift of the property** to another party
7. **Sale to tax-exempt entity** (nonprofit, government, etc.)

What Does NOT Trigger Recapture

Some transactions are safe and don't affect the holding period:

- **Death of owner** - heirs receive stepped-up basis, no recapture
- **Like-kind exchange (Section 1031)** - if properly structured
- **Transfer to wholly-owned entity** - as long as you maintain control
- **Refinancing** - doesn't affect ownership or holding period
- **Leasing the property** - you can lease to tenants, just can't sell
- **Minority ownership transfers** - selling less than 50% interest
- **Adding non-controlling partners** - as long as original owner maintains majority

Special Considerations for Partnership/LLC Structures

When property is held in a partnership or LLC (common with syndicated tax credits):

- The **entity itself** must hold property for 5 years
- Individual partners can change without triggering recapture
- Tax credit investors can exit their partnership interests
- BUT if the partnership/LLC sells the building, all partners face recapture proportionate to their credits
- Transfer of majority control to new partners can trigger recapture

Casualty Losses and Force Majeure

- Building destroyed by fire, flood, or natural disaster doesn't trigger automatic recapture
- Owner has "reasonable period" to rebuild (typically 2-3 years)
- If you collect insurance proceeds and don't rebuild, that triggers recapture
- Must notify IRS and document rebuilding timeline

North Carolina State Credits

NC state historic tax credits have parallel holding period requirements:

- Same 5-year holding period as federal credits
- Same recapture schedule (100% down to 0%)
- Both federal AND state credits are recaptured if you sell early
- Cannot selectively give back one and keep the other
- Penalties apply independently to each credit type

Planning Strategies to Manage the Holding Period

Strategy 1: Plan Your Exit Timeline Early

- If you anticipate needing to sell in 3-4 years, factor potential recapture into pro forma
- Some developers build recapture costs into exit strategy if appreciation is significant
- Calculate break-even: does property appreciation offset recapture penalty?

Strategy 2: Refinance Instead of Selling

- If you need capital before year 5, refinance rather than sell
- Cash-out refinancing pulls equity without triggering recapture
- Common strategy in years 3-5 when property has appreciated
- Maintains ownership while accessing capital

Example Refinancing Strategy:

- Year 4: Building worth $1.5M, current mortgage $500K
- Refinance for $1M (cash-out refinance)
- Extract $500K equity for other investments
- Keep building, avoid recapture
- Sell after year 5 with no penalties

Strategy 3: Use Section 1031 Exchange After Year 5

- After holding period ends, use tax-deferred exchange
- Move capital to next project without capital gains tax
- Preserves all tax benefits from historic credits
- Requires careful planning and qualified intermediary

Strategy 4: Structure Partnership to Allow Investor Exits

- Set up LLC so tax credit investors (limited partners) can exit
- Original developer maintains controlling interest (general partner)
- Investors who purchased credits can sell their partnership interests
- Doesn't affect property holding period as long as LLC maintains ownership

Strategy 5: Long-Term Lease Arrangements

- Lease property to tenant with option to purchase after 5 years
- Provides flexibility without triggering recapture
- Common with nonprofit or government tenants
- Locks in purchase price while maintaining ownership

Documentation Requirements During Holding Period

Maintain comprehensive records showing:

- **Placed in service date** - certificate of occupancy, lease agreements, first rent payment
- **Continuous ownership** - deeds, partnership agreements, tax returns
- **Income-producing status** - lease agreements, rent rolls, financial statements
- **Partnership changes** - amended operating agreements, ownership transfers
- **Refinancing documents** - to demonstrate ownership didn't change

Retention Period: Keep all records for minimum of **8 years** (5-year holding + 3-year IRS audit window after filing tax return claiming credits)

CRITICAL ISSUE: Sale to Nonprofit Organizations

The Problem with Nonprofit Sales

If developer plans to sell or transfer the rehabilitated building to a nonprofit organization, this creates a major conflict with historic tax credit requirements.

Why Nonprofit Sales Are Problematic

Issue #1: Recapture Penalties Before Year 5

Selling to a nonprofit **before the 5-year holding period ends** triggers:

- Full or partial recapture of all tax credits (60-100% depending on timing)
- Loss of the entire financial benefit that makes the project feasible
- Interest and penalties on recaptured amounts
- Potential destruction of project economics

Financial Impact Example:

- Original project: $1M rehab with $400K in tax credits
- Credits sold for $360K cash, reducing financing needs to $640K
- Sale to nonprofit in Year 2 triggers 80% recapture = $320K owed
- Plus loss of the $360K upfront cash benefit
- Net negative impact: ~$680K - makes project financially impossible

Issue #2: Problems Even After Year 5

Even if developer waits the full 5 years, selling to a nonprofit creates challenges:

Tax-Exempt Entities Can't Benefit from Credits:

- Nonprofits don't pay income taxes
- They can't use or monetize tax credits
- This makes nonprofits undesirable buyers in the tax credit marketplace
- May reduce property value or create financing difficulties

IRS "At-Risk" Scrutiny:

- Sales to tax-exempt entities receive special IRS scrutiny
- IRS wants to ensure credits weren't just mechanism to subsidize nonprofit acquisition
- Could trigger audits even if holding period is properly met
- Requires extensive documentation of arm's-length transaction

Issue #3: What Likely Won't Work

❌ Immediate Sale to Nonprofit

- Triggers 100% recapture
- Loses all $400K in tax credits
- Project economics collapse entirely

❌ Gift to Nonprofit

- Still considered a "disposition event"
- Full recapture penalty applies
- IRS treats gifts same as sales for recapture purposes

❌ Form Nonprofit to Own Building

- Nonprofits can't claim tax credits (tax-exempt status)
- Defeats entire purpose of using historic tax credits

❌ Lease-to-Own Under 5 Years

- If structured so nonprofit effectively controls property, could trigger recapture
- IRS examines substance over form
- Risk of IRS recharacterizing as sale

Alternative Structures That Could Work

If the end goal is nonprofit ownership or use of the building, consider these alternatives:

OPTION 1: Long-Term Lease to Nonprofit (RECOMMENDED)

Structure:

- Developer owns building for 5+ years (satisfies holding period)
- Nonprofit leases building immediately after rehabilitation
- Long-term lease (10-20 years) with option to purchase after year 5
- Nonprofit gets use of space, developer maintains ownership through holding period

Timeline:

- Year 1: Complete rehab, obtain tax credits
- Years 1-5: Nonprofit operates as tenant, pays rent
- Year 6+: Nonprofit exercises option to purchase property

- Developer exits, nonprofit becomes owner, no recapture penalties

Benefits:

- No recapture penalty - holding period satisfied
- Nonprofit can occupy and use building immediately
- Developer can sell after 5 years as planned
- All tax credits remain intact
- Purchase price can be locked in at beginning

Rent Structure Options:

- Below-market rent (property taxes + insurance + minimal return)
- Rent credits toward eventual purchase price
- Triple-net lease (nonprofit pays all operating costs)
- Graduated rent increasing over 5 years

OPTION 2: Developer as Permanent Mission-Aligned Landlord

Structure:

- Developer owns building permanently (or for extended period)
- Nonprofit operates as long-term tenant with secure lease
- Developer becomes "mission-aligned landlord"
- Nonprofit never takes ownership

Benefits:

- No recapture issues whatsoever
- Nonprofit gets exactly what they need (space for operations)
- Many nonprofits actually prefer leasing to ownership
- Eliminates nonprofit's maintenance, insurance, property tax burden
- Nonprofit can focus on mission, not building management
- Developer has long-term stable asset with reliable tenant

Why This Often Works:

- Nonprofits frequently prefer operational flexibility of leasing
- Building ownership diverts resources from mission
- Property management is outside nonprofit's expertise

- Long-term lease provides security without ownership burden

OPTION 3: Delayed Closing Structure
Structure:

- Establish legally binding purchase agreement NOW with nonprofit
- Closing date set for 5+ years in future (after holding period)
- Nonprofit leases property in interim period
- Purchase price locked in today

Benefits:

- Nonprofit has certainty of eventual ownership
- Developer holds through entire recapture period
- Can structure rent to credit toward purchase price
- Both parties achieve their goals on compliant timeline
- Reduces nonprofit's risk about future property availability

Legal Requirements:

- Proper purchase and sale agreement
- Clear closing timeline (e.g., "60 months after placed in service")
- Interim lease terms defined
- Financing contingencies for nonprofit's eventual purchase
- Right of first refusal if developer wants to sell earlier

OPTION 4: Two-Entity Partial Ownership Structure

Structure:

- Developer forms LLC that owns building
- After rehab, sells **minority interest** (49% or less) to nonprofit
- Developer maintains majority control (51%+)
- After 5 years, developer sells remaining interest to nonprofit

Cautions:

- Complex partnership between for-profit and nonprofit entities
- Partnership governance can be challenging

- Transfer of majority control still triggers recapture
- Dissolution planning after 5 years must be detailed
- **NOT recommended without experienced legal counsel**

Potential Issues:

- Nonprofit board may not want minority partnership role
- Different missions and priorities can create conflicts
- Tax implications for both parties
- Exit strategy must be carefully documented

Alternative Financing if Nonprofit Needs Immediate Ownership

If nonprofit ownership from day one is absolutely essential, historic tax credits may not be the appropriate financing tool. Consider alternative approaches:

Alternative Funding Sources:

- **Traditional financing** without tax credits
- **Grant funding** from foundations or government
- **USDA Rural Development** loans and grants for community facilities
- **CDBG funds** for public facilities and nonprofits
- **State/local economic development grants**
- **Philanthropic capital** campaigns
- **Program-related investments (PRIs)** from foundations

Critical Questions for the Developer

Before proceeding with any structure, ask the developer:

1. **Why does the nonprofit need ownership vs. lease?**
    - Mission requirements? Grant conditions?
    - Board expectations? Donor requirements?
    - Many nonprofits actually prefer leasing
2. **What is the nonprofit's timeline?**
    - Do they need occupancy immediately? (Lease works perfectly)
    - Do they need ownership immediately? (Creates major problem)
    - Can they wait 5 years for ownership? (Makes everything work)

3. **Is there a mission-critical reason for nonprofit ownership?**
    - Specific grant requirements mandating ownership?
    - Financing only available to property owners?
    - Community expectations about stewardship?
4. **Has the developer done tax credit deals before?**
    - If not, they may not understand 5-year holding requirement
    - Need education on how this actually works
    - Should engage tax credit consultant immediately
5. **What's the nonprofit's capacity to purchase in year 5?**
    - Will they have financing available then?
    - Can purchase price be locked in now?
    - What if nonprofit's circumstances change?

Recommended Immediate Action Steps

Step 1: Emergency Education Meeting

Schedule meeting with:

- Developer
- Nonprofit organization representatives

Meeting Agenda:

- Explain 5-year holding period requirement in detail
- Calculate financial impact of various timing scenarios
- Review recapture penalties and consequences
- Present alternative structures
- Determine nonprofit's true requirements (space vs. ownership)

Step 2: Determine Nonprofit's Real Needs

If Nonprofit Needs SPACE:

- Long-term lease solves everything
- Can occupy immediately after rehab
- No ownership burden

- Developer complies with holding period

If Nonprofit Needs OWNERSHIP:

- Must be willing to wait 5+ years, OR
- Must pursue different financing without tax credits

If Nonprofit Needs Immediate Ownership:

- Historic tax credits are wrong tool for this project
- Explore alternative financing structures
- May need significantly more Town/grant support

Step 3: Engage Tax Credit Consultant Immediately

Before going any further with applications, bring in qualified consultant to:

- Explain rules clearly to all parties
- Model different scenarios financially
- Structure deal properly from the start
- Provide written analysis of options
- Save everyone from very expensive mistake

Cost: $15,000-$30,000 for consultant **Value:** Prevents potential $240,000-$400,000 recapture penalty

Step 4: Consider Alternative Financing

If nonprofit ownership is essential from day one:

- Abandon historic tax credit strategy
- Structure as traditional development

- Pursue grant funding for nonprofit
- Town of Robbins provides direct support/gap financing
- Explore New Markets Tax Credits (different structure)

The Bottom Line: This is a Deal-Killer if Not Addressed

The developer's plan to flip to a nonprofit after rehabilitation is fundamentally incompatible with historic tax credit requirements unless structured as a long-term lease with delayed purchase option.

Critical Timeline:

- If developer sells in Year 1-2: Loses 80-100% of credits (~$320K-$400K)
- If developer sells in Year 3: Loses 60% of credits (~$240K)
- If developer sells in Year 4: Loses 40% of credits (~$160K)
- If developer sells in Year 5+: No recapture, but must wait full 5 years

This conversation must happen NOW, before:

- Any applications are submitted
- Any consultant fees are paid
- Any work begins on the building
- Anyone invests time and money in wrong structure

Most Likely Successful Path Forward

Recommended: Lease-to-Own Structure

1. Developer completes rehab with historic tax credits
2. Nonprofit signs 5-year lease with purchase option
3. Nonprofit occupies immediately after completion
4. Rent set at reasonable rate (covering property taxes, insurance, minimal return)
5. Year 6: Nonprofit purchases at predetermined price
6. Everyone achieves their goals, no recapture penalties
7. Project economics remain intact

This structure:

- Preserves all $400K in tax credit benefits
- Gives nonprofit immediate use of space

- Allows developer to exit as planned (just on longer timeline)
- Complies with all IRS requirements
- Has been successfully used on many similar projects nationwide

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Red Flags & Common Mistakes to Avoid

Project Killers

1. **Starting Work Before Part 2 Approval**
   - Most common mistake
   - Results in complete disqualification
   - No exceptions or appeals
2. **Poor Documentation**
   - Inadequate before/during/after photos
   - Missing invoices or receipts
   - Can result in reduced or denied credits
3. **Deviation from Approved Plans**
   - Making changes without amendments
   - Can require re-review or disqualification
   - Always get changes approved in writing
4. **Using Ineligible Costs**
   - New additions (unless specific exceptions)
   - Site work, landscaping, parking lots
   - Furniture, fixtures, equipment
   - Only rehabilitation of historic structure counts
5. **Improper Ownership Structure**
   - Municipality trying to claim credits directly
   - Not establishing proper entity before work begins
   - Changing ownership during project
6. **Missing the Substantial Rehabilitation Test**
   - Not spending enough to qualify

- Including ineligible costs in calculation
- Get cost projections reviewed early

7. **PLANNING TO SELL BEFORE 5-YEAR HOLDING PERIOD ENDS**
    - **Especially problematic: planning to sell to nonprofit**
    - Triggers recapture penalties
    - Destroys entire project economics
    - Must be addressed in initial planning phase

Warning Signs That You Need Help

- Developer has never done a tax credit project
- Complex ownership structures being considered
- Project involves multiple buildings or phases
- Budget is extremely tight
- Aggressive timeline pressures
- **Developer plans to sell or transfer property within 5 years**
- **Nonprofit is intended end user/owner**

When in doubt: Hire experienced consultant

Key Contacts & Resources

North Carolina State Resources

NC State Historic Preservation Office (SHPO)

- Phone: (919) 807-6570
- Website: https://www.ncdcr.gov/about/history/division-historical-resources/nc-state-historic-preservation-office
- Services: Application review, technical assistance, buyer referrals

Preservation North Carolina

- Statewide nonprofit preservation organization
- Technical assistance for tax credit projects
- Can provide consulting referrals

Federal Resources

National Park Service - Technical Preservation Services

- Website: https://www.nps.gov/subjects/taxincentives/index.htm
- Final review authority for federal credits
- Publishes guidance documents and case studies

National Trust for Historic Preservation

- Website: https://savingplaces.org
- Technical resources and best practices
- List of qualified consultants

Next Steps for Robbins Project

Immediate Actions (Weeks 1-4)

1. **Confirm Building Eligibility**
    - Contact NC SHPO to verify National Register status
    - If not listed, initiate nomination process
    - Estimated time: 1-2 weeks for initial consultation
2. **Engage Developer**
    - Clarify ownership structure
    - Discuss tax credit opportunity
    - Gauge developer's experience level
3. **Preliminary Cost Estimate**
    - Rough estimate of rehabilitation costs
    - Determine if project meets substantial rehabilitation test
    - Calculate potential credit value

Short-Term Actions (Months 2-3)

4. **Structure the Deal**

- Finalize ownership entity
- Identify gap financing needs

5. **Begin Part 1 & Part 2 Applications**
    - Preservation architect develops plans
    - Consultant prepares application packages
    - Submit to NC SHPO
6. **Identify Credit Buyers**
    - Consultant shops credits to potential buyers
    - Obtain indication of interest letters
    - Use for bank financing discussions

Medium-Term Actions (Months 4-6)

7. **Secure Financing**
    - Approach banks with credit commitment
    - Layer in additional funding sources
    - Close on construction financing
8. **Wait for Part 2 Approval**
    - Respond to any SHPO/NPS questions
    - Make plan revisions if needed
    - Receive approval before starting work
9. **Final Pre-Construction**
    - Hire contractor experienced with historic buildings
    - Establish photo documentation protocol
    - Set up accounting system for tracking qualified expenses

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Frequently Asked Questions

Q: How long does the entire process take?

A: From initial application to receiving credit proceeds: typically 20-24 months. Construction timeline depends on project scope.

Q: Can we start work while waiting for approval?
A: Absolutely not. Starting work before Part 2 approval disqualifies the entire project from receiving credits. This is the most common and costly mistake.

Q: What if we need to change plans during construction?
A: Any changes to approved plans must be submitted as amendments to Part 2 and approved before executing the changes.

Q: Are there size limits on projects?
A: No maximum. Minimum is $5,000 in qualified rehabilitation expenditures, but realistically need much more to justify the process complexity.

Q: Can we do the work ourselves to save money?
A: Yes, but only the actual costs (materials, contractor labor) count toward qualified expenditures. Your own labor/sweat equity doesn't count.

Q: What if the building isn't on the National Register?
A: You can pursue individual listing or establish a historic district. NC SHPO can guide this process. Timeline adds 6-12 months.

Q: Do we need to restore the building to original condition?
A: No. The standards allow for compatible modern uses and systems. You must preserve historic character but can adapt the building for contemporary use.

Q: Can we combine historic tax credits with other incentives?
A: Yes! Historic credits can be layered with New Markets Tax Credits, opportunity zone benefits, USDA loans, CDBG grants, and local incentives.

Q: What happens if we sell the building within five years?
A: Credits are "recaptured" on a sliding scale. If you sell after 3 years, you must repay 60% of credits received. This is a significant penalty that can destroy project economics.

Q: Can we sell or transfer the building to a nonprofit organization?
A: Not before the 5-year holding period ends without facing massive recapture penalties. If a nonprofit is the intended end user, structure as a long-term lease with purchase option after year 5. Selling to a nonprofit in years 1-3 could trigger recapture of $240K-$400K.

Q: What if the nonprofit needs to occupy the building immediately?
A: A nonprofit can lease and occupy the building immediately after rehabilitation. The developer maintains ownership for the 5-year holding period, then the nonprofit can purchase. This is the recommended structure.

Q: Can we gift the building to a nonprofit instead of selling it?

A: No. The IRS treats gifts the same as sales for recapture purposes. A gift triggers the same recapture penalties as a sale.

Q: What if we really need to sell before 5 years?
A: Calculate whether the property appreciation and sale price offset the recapture penalty. Sometimes it makes financial sense, but often it doesn't. Consider refinancing instead to access equity without selling.

Conclusion

Historic tax credits represent one of the most powerful tools available for downtown revitalization and historic building rehabilitation. For a project in Robbins, NC, these credits could provide 36-40% of total project costs, dramatically improving financial feasibility.

Keys to Success:

- Start with proper planning and consultant engagement
- Never begin work before Part 2 approval
- Maintain meticulous documentation throughout
- Structure ownership appropriately from the beginning
- **Plan for the five-year holding period - this is non-negotiable**
- **If nonprofit is end user, structure as lease-to-own from the beginning**
- Pre-sell credits to secure financing

Critical Warning for Project: If the developer plans to sell or transfer the building to a nonprofit organization before the 5-year holding period ends, this will trigger significant recapture penalties that will destroy the project economics. The ONLY viable path forward if a nonprofit is the intended end user is to structure the deal as a long-term lease with purchase option after year 5.

This document provides general guidance on historic tax credit processes and should not be considered legal, tax, or financial advice. Consult with qualified professionals for project-specific guidance.