

## Economic Development Incentives

Successful economic development requires cities and towns to be able to understand and communicate information about the available incentives and how federal, state and local tools can turn a financially infeasible or impossible project into a worthwhile venture. Tax credits and special assessments are commonly used economic development incentives to encourage the redevelopment of historic buildings, unoccupied textile mills and abandoned buildings. Each incentive is a valuable resource on its own; however, combining multiple incentives yields the biggest benefit. This document summarizes frequently used development incentives in South Carolina.



*Before photo Cotton Loft*



*After photo Cotton Loft*

- Available for costs incurred when rehabilitating historic buildings for income-producing uses.
- The credit is equal to 20% of Qualified Rehabilitation Expenses, and can be used to offset a corporate investor's federal income tax liability.
- QREs do not include acquisition costs for land and building.
- The corporate investor "purchases" credits by buying an equity interest in the entity that owns the building. Credits are generally allocated to the owners in accordance with their allocation of profits. However, cash flows are allocated differently than profits through the use of various fees and other structuring methods.

### **Requirements**

- Property is listed on National Register of Historic Places.
- Property is not tax-exempt.
- Taxpayer completes a Historic Tax Credit Application.
- QREs undertaken during a 24-month measurement period.
- Project is not an enlargement of current structure.
- Development fees must be "reasonable."

### **Benefits**

- 20% income tax credit is based on QREs undertaken in the measurement period.
- 100% becomes available the year property is placed in service.
- Can be carried back one year and carried forward for 20 years.
- A five-year recapture period applies for the credits, in which the investor must keep its interest in the project. After the recapture period expires, the developer or general partner usually has the option to purchase the investor's interest for a fraction of the investor's initial investment.

## **SC State Historic Tax Credit**

- Piggybacks on the Federal Historic Tax Credit for purposes of qualifying projects, defining Qualified Rehabilitation Expenses, calculating credit amount.
- The credit can be used to offset any SC tax imposed under Title 12 of the SC Code of Law. Generally, it is used to offset the state corporate income tax.
- Credit must be used to equal installments over a three-year period. Any unused portion may be carried forward for a five-year period.

### **Requirements**

- Taxpayer applies using the federal application for the Historic Tax Credit.
- Minimum investment for owner-occupied residential is \$15,000 and is limited to one structure every 10 years.

### **Benefits**

- Credit is equal to 10% of QRE's or an election can be made to take a credit based upon 25% of QRE's. If the developer chooses the 25% option, the credits are limited to \$1,000,000.
- Credit is applicable against state income and insurance premium taxes
- May offset 100% of taxpayer's liability
- Extra credits carry forward for five years
- One-year credits taxed as transferrable credits.

**First National Bank of Clinton, Clinton, SC**

**Converted into a mixed-use space with three market-rate apartments upstairs and three commercial spaces on the ground floor.**



101 East Main Before Photo



101 East Main After Photo

## **New Market Tax Credit**

- Available to investors in Community Development Entities for qualifying investment the CDEs make in those businesses that are located in low-income communities.
- The best way to utilize this credit is to find an existing CDE that already has an allocation and convince them to loan the developer funds for a project, likely at a low interest rate

### **Requirements**

- Commercial real estate qualifies as a business for the purposes of CDE investments.
- Investment by the CDE can be in the form of a loan or equity.
- The CDE must receive allocation from the federal government for the credits.
- The CDE can provide the owner/developer an interest-only loan for 20% of the project cost which loan is “forgiven” after five years.

### **Benefits**

- Credit is equal to 39% of the amount of the CDE’s investment.
- 5% for each of the first three years.
- 6% for years four to seven.

## SC State Abandoned Building Credit

- SC State Abandoned Building Credit is available for rehabilitation of abandoned buildings and the surrounding site.
- Incentive provides either an income tax credit or property tax credit for the renovation, redevelopment or improvement of abandoned building sites operated for income-producing purposes.
- Legislative repeal of ABC is expected to become effective on December 31, 2021.

### Requirements

- Taxpayer must send a Notice of Intent to Rehabilitate the site to the municipality (or county of an unincorporated area) where the site is located.
- Site must be at least 66% abandoned (the space has been closed continuously to business or otherwise nonoperational for income-producing purposes) for the five-years preceding the Taxpayer's Rehab Notice.
- Taxpayer must incur certain required expenses at the site, as determined by the population of the municipality or unincorporated area.

Population	Required Expense
>25,000	\$250,000
1,000 – 25,000	\$150,000
< 1,000	\$75,000

- Taxpayer may apply to the governing body for certification that the site is abandoned.

## Benefits

- ABC is equal to 25% of expenses incurred at the site, taken in equal installments over a three-year period (maximum of \$500,000 per site).
- The ABC can either act as:
  1. A credit against taxpayer's income taxes or corporate license fees, or
  2. A credit against real property taxes at the site (equal to 75% of the Site's real property taxes for up to eight years, by ordinance).
- ABC amount is based on actual or estimated expenses as follows:
  1. 25% of the actual rehabilitation expenses if such expenses are between 80% to 125% of the estimated rehabilitation expenses listed in the rehab notice.
  2. 25% of 125% of the estimated expenses if the actual expenses exceed 125% of the estimated expenses.
  3. No credit if actual expenses fall below 80% of estimated expenses.

## Bailey Bill Property Tax Incentive

- The governing body of a county or municipality may grant by ordinance certain special property tax assessments to real property qualifying as “rehabilitated historic property” or as “low and moderate income rental property.”

### Requirements

- Upon preliminary certification by the taxing entity, the owner-occupied property is assessed for two years based on a special valuation equal to the fair market value of the property at the time.
- Property is eligible for preliminary certification if:
  1. Owner applies for and is granted a historic designation by the taxing entity; and
  2. The proposed rehabilitation receives approval by the appropriate reviewing authority.
- Depending on the property’s location, the appropriate reviewing authority could be:
  1. The county board of architectural review;
  2. Another qualified entity with historic preservation expertise; or
  3. The South Carolina Department of Archives and History.
- Upon completion of the project, the property must receive final certification from the taxing-Entity to obtain its final special valuation.
- Property is eligible for final certification if:
  1. It has received its historic designation;
  2. The completed rehabilitation has been approved by the appropriate authority; and
  3. The project has incurred the “minimum expenditures for rehabilitation” established by ordinance.
- To be qualified as low-moderate income rental property, the property must also meet requirements of SC Code Section 4-9-195(C) in order to receive the final certification.
- Upon the final certification, the property’s final valuation will equal to its fair market value at the time of preliminary certification (or equal to the fair market value at the time of final certification, if no preliminary certification was obtained).



## Benefits

- The property is assessed at its final valuation for the lesser of either 20 years, the period established by ordinance, or the year of the property's disqualification.
- Disqualifying events are given in SC Code Section 4-9-195(E).



202 West Main before (left) and after (right)

