



Tax Incentives for Federal Historic Rehabilitation

Updated 12-9-09

For more information, contact Heather Deiningner, CPA, CFE, CIA[®], director, at hdeiningner@honkamp.com or 888-556-0123. Also, visit the State Historical Society of Iowa Web site at <http://www.iowahistory.org/historic-preservation/tax-incentives-for-rehabilitation/federal-tax-credits.html>.

What is the tax credit for Federal Historic Rehabilitation?

- A preservation tax incentive administered collectively by the National Park Service (NPS), the Internal Revenue Service (IRS), and State Historic Preservation Offices (SHPO) awarded to taxpayers rehabilitating historic properties.
- A reduction of federal income tax (dollar for dollar) in the form of a credit equal to 20% of the amount spent for the certified rehabilitation of certified historic structures.
- Occasionally, Congress will increase the credit for rehabilitating buildings located in areas that have been affected by natural disasters.

Who is eligible to apply?

- Owners of buildings that have been identified as “certified historic structures” in the National Register of Historic Places.
- Long-term lessees with a remaining lease of 27.5 years for residential property or 39 years for non-residential property.

What buildings are eligible?

- Individually listed, or eligible to be listed, buildings in the National Register of Historic Places.
- Buildings located in a “registered historic district” that the NPS considers as contributing to the district’s historic significance.
- Depreciable buildings i.e. used for the production of income, such as, a trade or business.
- Buildings that the NPS certifies as a historic structure through the “Historic Preservation Certification Application Part 1 – Evaluation of Significance.”

What are the rehabilitation requirements?

- Must be a substantial rehabilitation involving a depreciable building. That is, the rehabilitation expenditures made within a selected 24 month period (or 60 months for phased projects), must exceed the greater of \$5,000 or the building’s adjusted basis.
- Owners must complete the “Historic Preservation Certification Application Part 2 – Description of Rehabilitation.”

- As determined by the NPS, the rehabilitation must be in keeping with the historic character of the building and, where applicable, the district in which it is located.

What expenditures qualify?

- All expenditures toward the cost of the work on the certified historic building that can be added to the building's basis and are deemed to be related to the work performed.
- Such as: Construction costs; engineering and architectural fees; legal and professional expenses; site survey and development fees; and administrative fees.
- Does not include: cost of acquiring the building; furnishings; expansions or new additions to the building; parking lots; sidewalks and landscaping; or sales and marketing costs.
- The project cannot destroy, damage, or cover materials or features, interior or exterior, that help define the building's historical character.

When can this credit be claimed?

- Generally, the tax year in which the rehabilitated building is placed in service. If rehabilitating occurs while building is in service, then the credit can be claimed once the substantial rehabilitation test is met.
- If the entire credit is not used, the excess can be carried back one year and then carried forward for 20 years.
- It is required by the IRS that the "Historic Preservation Certification Application – Request for Certification of Completed Work" be filed with the tax return claiming the credit.
- The credit will be disallowed if the NPS denies certification to a rehabilitation project.

Is the credit subject to recapture?

- It is not subject to recapture if the qualified rehabilitated building is held by the owner for five full years after it is placed in service.
- If the building is disposed of within one year, 100% of the credit is recaptured. If the building is held between one and five years, the amount recaptured is reduced by 20% each year.

What is the cost for processing rehabilitation requests?

- A fee, ranging from \$500 to \$2,500 for projects with rehabilitation cost of \$20,000 to \$1,000,000 plus, is charged by the NPS for reviewing applications.

Is there a credit for non-historic buildings?

- A reduction of federal income tax (dollar for dollar) in the form of a credit equal to 10% of the amount spent for the rehabilitation of non-historic, non-residential buildings built before 1936. (Historic Preservation Certification Application not required.)