



PRESERVATION TAX INCENTIVES

The Federal Historic Preservation Tax Incentives program includes a 20% income tax credit for the rehabilitation of historic, income-producing buildings and a 10% income tax credit for rehabilitation of non-historic buildings. Recently, the Texas Legislature established a state tax credit for the rehabilitation of historic buildings. Each year, an average of over \$85 million is reinvested in the Texas economy from participation in the federal program and we expect an even greater impact once the state credit is available.



The 1910 building that once housed the Dallas Coffin Company has been rehabilitated into the Nylo Southside Boutique Hotel.

Texas Historic Preservation Tax Credit Program

During the 83rd legislative session, the Texas Legislature passed House Bill 500, which establishes a state tax credit for the certified rehabilitation of certified historic structures. This incentive requires that work to a historic property meet the Secretary of the Interior's Standards for Rehabilitation (Standards) to qualify for the credit. Certified historic structures can include properties that are currently listed in the National Register of Historic Places, either individually or as part of a historic district, or designated as Recorded Texas Historic Landmarks, or State Antiquities Landmarks. The credit is worth 25% of the eligible rehabilitation costs for the project which must be at least \$5,000 in value to qualify. In the absence of a state income tax, the credit is applied against a business's franchise tax liability. It is anticipated that many projects will seek to pair this tax credit with the federal 20% tax credit for rehabilitation (see below).

The Texas Historic Preservation Tax Credit Program goes into effect on January 1, 2015 for properties placed in service on or after September 1, 2013. Administrative rules for implementation of the Texas Historic Preservation Tax Credit Program have been adopted as Sections 13.1–13.8 of Chapter 13 (Title 13, Part II of the Texas Administrative Code).

Federal Historic Preservation Tax Incentives

A 20% federal income tax credit is available for the rehabilitation of historic, income-producing buildings that are listed in or determine eligible for listing in the National Register of Historic Places. Established in 1976, the federal rehabilitation tax credit program is administered in Texas by the National Park Service (NPS) in partnership with the Internal Revenue Service (IRS) and the Texas Historical Commission (THC). As the State Historic Preservation Office for Texas, the THC works in conjunction with the NPS to review proposed work to ensure it complies with the Standards.

Eligible Buildings and Costs for the Federal Credit

- The building must be listed individually in the National Register of Historic Places, contributing to the significance of a historic district, or determined to be eligible for listing in the National Register. A building determined eligible for National Register listing does not need to be officially listed at the time the tax credit is claimed but must be listed within 30 months of claiming the credit.
- Only buildings qualify for the tax credit. Structures such as bridges, ships, railroad cars, grain silos, and dams are not eligible for the credit.

- **The building must be income-producing.** For example, it may be used as a hotel or for offices; commercial, industrial, or agricultural purposes; or for rental housing. Owner-occupied residential properties are not eligible for the credit.
- **The work to the building must be a substantial rehabilitation** and not a small remodeling project. In general, the rehabilitation costs must exceed the greater of \$5,000 or the adjusted basis of the building. The adjusted basis is the purchase price, minus the cost of the land, plus improvements already made, minus depreciation already taken.
- **The work undertaken as part of the project must meet the Standards for Rehabilitation.** The entire project is reviewed, including related demolition and new construction, and is certified, or approved, only if the overall rehabilitation project is determined to meet the Standards.
- **Most rehabilitation costs qualify for the credits,** such as structural work, building repairs, electrical, plumbing, heating and air conditioning, roof work, and painting. Architectural and engineering fees, site survey fees, legal expenses, development fees, and other construction-related costs are also qualified expenditures if such costs are reasonable and added to the property basis. Some costs are not eligible for the credit, such as property acquisition, new additions, furniture, parking lots, sidewalks, and landscaping.
- **The building must be placed in service (returned to use) after the rehabilitation.** The tax credit is generally allowed in the taxable year that the rehabilitated property is placed in service.

The Application Process

An application for the tax credits must be submitted before the project is completed, although work may begin prior to the application or approval. Ideally, the application should be submitted during the planning stages of the work so the owner can receive the necessary guidance to ensure that the project meets the Standards for Rehabilitation and therefore may qualify for the credits. The application process consists of three parts:

Part 1 or A of the application, the Evaluation of Significance, determines if the building already as a historic designation or if the property is eligible for the National Register or contributes to the significance of a National Register historic district.

Part 2 or B of the application, the Description of Rehabilitation, describes the existing condition of the building and the proposed work. Photographs are required showing the major character-defining features of the building prior to the start of work.

Eligible Buildings and Costs for the State Credit, in Addition to the Qualifications Listed Above:

- The building must be listed in the National Register of Historic Places, either individually, or as part of a historic district, or designated as Recorded Texas Historic Landmarks or State Antiquities Landmarks at the time the credit is taken, that is, when taxes are filed for work completed in the previous year.
- The qualified rehabilitation costs must exceed \$5,000 for any single application. Applications may be submitted in consecutive years for new projects.

Part 2 or B of the application, the Description of Rehabilitation, describes the existing condition of the building and the proposed work. Photographs are required showing the major character-defining features of the building prior to the start of work.

Part 3 or C of the application, the Request for Certification of Completed Work, is submitted upon completion of the work and documents that the work was completed as proposed and in keeping with any conditions required at the review of Part 2/B of the application. Once the NPS (federal credit) or THC (state credit) certifies that the completed work meets the Standards and approves Part 3/C of the application, the project is a "certified rehabilitation" and qualifies for tax credits.

For More Information

Please note that THC staff cannot give tax advice. Consult a tax advisor regarding the IRS regulations or Texas franchise tax rules and their implications for your particular tax situation.

Visit www.thc.state.tx.us for more information about the federal and state rehabilitation tax credit programs.



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real places telling real stories

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COMPARISON OF FEDERAL AND STATE HISTORIC TAX CREDIT PROGRAMS

Federal Historic Preservation Tax Incentives Program

Credit applies to: Federal Income Tax

Percent credit offered: 20% of qualified expenditures

Credit recipient: Current owner(s)

Eligible applicants: Individuals, companies, partnerships

Eligible building uses: Income-producing only

Required historic designation: National Register (individual or district) Required within 30 months of claiming credit

Minimum project: \$5000/value of building (whichever is greater)

Application structure: 3-part Federal application (1, 2, 3)

Recapture period: 5 years

Time limit for use of credits: 20 years

Architectural oversight: National Park Service (NPS) certifies with THC's recommendation

Financial oversight: Credit managed by IRS

Application deadline: Must apply before project completion

Applications accepted: Any time

Texas Historic Preservation Tax Credit Program

Credit applies to: Texas Franchise Tax

Percent credit offered: 25% of qualified expenditures*

Credit recipient: Current owner(s)
May transfer whole or partial credit to others

Eligible applicants: Individuals, companies, partnerships, non profits and government entities

Eligible building uses: Income-producing only

Required historic designation: National Register (individual or district), Registered Texas Historic Landmark, or State Antiquities Landmark
Required when credit is claimed

Minimum project: \$5000

Application structure: 3-part application that mirrors Federal (A, B, C)

Recapture period: No recapture period

Time limit for use of credits: 5 years

Architectural oversight: Texas Historical Commission (THC) certifies projects NPS reviews first if applying for Federal & State

Financial oversight: Credit managed by Texas Comptroller

Application deadline: Projects completed between September 1, 2013 and January 1, 2015 may apply retroactively
All others must apply before project completion

Applications accepted: Beginning January 1, 2015

*Federal and State programs use the same definition for Qualified Rehabilitation Expenditures



REVIEW PROCESS FOR FEDERAL AND STATE HISTORIC TAX CREDIT PROJECTS

Part 1/A

- Submit Part 1 for Federal
Submit Part A for State
- THC Review
30 days*
- National Park Service (NPS)
Review: Additional 30 days
- Receive Part 1/A Approval:
letter of preliminary
eligibility or
certification of
historic building

STATE ONLY:
If not designated at Part A,
resubmit Part A upon
designation of building

Part 2/B

- Submit Part 2 for Federal
Submit Part B for State
- THC Review
30 days*
- NPS Review
Additional 30 days
- Any Part 2/B Amendments:
Processing time varies
- Receive approval
letters for Part 2/B
and any amendments

Complete

Rehabilitation Project

Part 3/C

- Submit Part 3 for Federal
Submit Part C for State
- THC Review
30 days*
- NPS Review
Additional 30 days
- Receive Federal
tax credit certificate
- Receive State certificate
of eligibility

STATE ONLY

- Submit Certificate
of Eligibility, audited cost
certification to Texas
Comptroller's Office
- Texas Comptroller's
Office Processing
Estimated 30 days
- Receive tax
credit certificate

**Claim Federal tax credit
on income tax return**

**Claim State tax credit
on business franchise
tax return**

*State review periods listed here are estimates, intended for planning purposes.