

FEDERAL HISTORIC PRESERVATION TAX INCENTIVE PROGRAM



Policy Description:

Described in Title 36 of the Code of Federal Regulations, part 67, the Department of the Interior provides regulations governing procedures for obtaining historic preservation certifications. The Federal Historic Preservation Tax Incentives Program is one of the Federal government's most successful and cost-effective community revitalization programs. The Preservation Tax Incentives reward private investment in rehabilitating historic properties such as offices, rental housing, and retail stores.

The National Park Service administers the program with the Internal Revenue Service in partnership with State Historic Preservation Offices. The tax incentives promote the rehabilitation of historic structures of every period, size, style and type. They are instrumental in preserving the historic places that give cities, towns and rural areas their special character. The tax incentives for preservation attract private investment to the historic cores of cities and towns. They also generate jobs, enhance property values, and augment revenues for State and local governments through increased property, business and income taxes. The Preservation Tax Incentives also help create moderate and low-income housing in historic buildings. Through this program, abandoned or under used schools, warehouses, factories, churches, retail stores, apartments, hotels, houses, and offices throughout the country have been restored to life in a manner that maintains their historic character.

Eligibility Criteria:

- 20% Tax Credit:
 - (1) The historic building must be listed in the National Register of Historic Places or be certified as contributing to the significance of a "registered historic district."
 - (2) After rehabilitation, the historic building must be used for an income-producing purpose for at least five years. Owner-occupied residential properties do not qualify for the federal rehabilitation tax credit.
 - (3) The project must meet the "substantial rehabilitation test." In brief, this means that the cost of rehabilitation must exceed the pre-rehabilitation cost of the building. Generally, this test must be met within two years or within five years for a project completed in multiple phases.

- (4) The 20% tax credit for historic preservation is meant to preserve *historic* buildings, and not to create buildings that look old, but that are in effect *new* buildings. Thus, the Preservation Tax Incentives are not available where there is insufficient historic material to preserve at the outset of the rehabilitation. Once the integrity of a building has been lost due to deterioration, damage, or previous alterations, it can never be regained. While new material can exactly copy significant features, material integrity itself can never be re-created. It is important to select a building for rehabilitation that retains its basic physical integrity *before* rehabilitation.
- (5) The 20% rehabilitation tax credit applies to any project that the Secretary of the Interior designates a *certified rehabilitation* of a *certified historic structure*. The 20% credit is available for properties rehabilitated for commercial, industrial, agricultural, or rental residential purposes,
 - 10% Tax Credit:
 - (1) The 10% rehabilitation tax credit is available for the rehabilitation of *non-historic buildings* placed in service before 1936.
 - (2) As with the 20% rehabilitation tax credit, the 10% credit applies only to buildings-not to ships, bridges or other structures. The rehabilitation must be *substantial*, exceeding either \$5,000 or the adjusted basis of the property, whichever is greater. And the property must be *depreciable*.
 - (3) The 10% credit applies only to buildings rehabilitated for *non-residential* uses. Rental housing would thus not qualify. Hotels, however, would qualify. They are considered to be in commercial use, not residential.
 - (4) Projects undertaken for the 10% credit must meet a specific physical test for retention of external walls and internal structural framework:
 - A. At least 50% of the building's external walls existing at the time the rehabilitation began must remain in place as external walls at the work's conclusion, and
 - B. At least 75% of the building's existing external walls must remain in place as either external or internal walls, and
 - C. At least 75% of the building's internal structural framework must remain in place.

The 10% rehabilitation tax credit applies only to non-historic buildings first placed in service before 1936 and rehabilitated for non-residential uses. The 20% rehabilitation tax credit applies only to certified historic structures, and may include buildings built after 1936. The two credits are mutually exclusive.

Buildings listed in the National Register of Historic Places are not eligible for the 10% credit. Buildings located in National Register listed historic districts or certified State or local historic districts are presumed to be historic and are therefore not eligible for the 10% credit. In general, owners of buildings in these historic districts may claim the 10% credit *only* if they file Part 1 of the Historic Preservation Certification Application with the National Park Service before the physical work begins and receive a determination that the building does *not* contribute to the district and is *not* a certified historic structure.

How to Apply:

Owners seeking certification of rehabilitation work must complete Part 2 of the [Historic Preservation Certification Application](#) - Description of Rehabilitation. Long-term lessees may also apply if their remaining lease is 27.5 years for residential property or 39 years for nonresidential property. The owner submits the application to the State Historic Preservation Office (SHPO). The SHPO provides technical assistance and literature on appropriate rehabilitation treatments, advises owners on their applications, makes site visits when possible, and forwards the application to the National Park Service (NPS), with a recommendation.

The NPS reviews the rehabilitation project for conformance with the [Secretary of the Interior's Standards for Rehabilitation](#), and issues a certification decision. The entire project is reviewed, including related demolition and new construction, and is certified, or approved, only if the overall rehabilitation project meets the Standards. Both the NPS and the IRS strongly encourage owners to apply *before* they start work.

After the rehabilitation work is completed, the owner submits Part 3 of the Historic Preservation Certification Application-Request for Certification of Completed Work to the SHPO. The SHPO forwards the application to the NPS, with a recommendation as to certification. The NPS then evaluates the completed project against the work proposed in the Part 2-Description of Rehabilitation. Only completed projects that meet the Standards for Rehabilitation are approved as "certified rehabilitations" for purposes of the 20% rehabilitation tax credit.

The NPS charges a fee for reviewing applications, except where the total rehabilitation cost is under \$20,000. Fees are charged according to a two-tiered system: a preliminary fee and a final fee. The \$250 preliminary fee covers NPS

review of proposed work. The final fee covers NPS review of completed projects. The final fee depends on the rehabilitation costs, according to the fee schedule below. The preliminary fee is deducted from the final fee. Payment should not be sent until requested by NPS. The NPS will not issue a certification decision until payment has been received.

Fee	Size of Rehabilitation
\$500	\$20,000 to \$99,000
\$800	\$100,000 to \$499,999
\$1,500	\$500,000 to \$999,999
\$2,500	\$1,000,000 or more

For more information please contact Heritage Preservation Services National Park Service at (202) 513-7270 or visit www.nps.gov/history/hps/TPS/tax/.

Additional Resources:

Economic Development
www.cctexas.com/economicdevelopment

Corpus Christi Regional Economic Development Corporation
www.ccredc.com

Development Services
www.cctexas.com/developmentservices