

State and Federal Rehabilitation Tax Credits

Kansas Historical Society

www.kshs.org

<http://www.kshs.org/14673/> - State Tax Credit Website

<http://www.nps.gov/tps/tax-incentives.htm> - Federal Tax Credit Website

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Introduction

What is a tax credit?

A tax credit is different from a tax deduction. A deduction is taken after figuring your income and causes you to pay a lower amount of taxes. A credit is taken off the income taxes you owe to the federal or state government. **For example:** A taxpayer figures their taxes, taking all their normal deductions, and the bottom line says they owe \$3,000. If that taxpayer has \$2,000 in tax credits, they would only owe \$1,000 in taxes.

Why should I be interested in federal and state rehabilitation tax credits?

- They provide incentives to improve and maintain historic buildings and districts.
- They provide the opportunity to save up to 45% on qualified rehabilitation expenses for qualified properties.
- They provide the opportunity to use historic preservation as an economic development tool. Historic preservation attracts tourism and can revitalize a community or neighborhood.
- Property owners can capitalize on “history” to enhance commerce, encourage re-development, and promote tourism while also utilizing the tax credits as part of an income tax reduction strategy.
- They provide an opportunity to use historic preservation as a business development tool for real estate and construction related professions.

Who can benefit from the rehabilitation tax credits?

- Anyone who owns a building listed in the state or National Register of Historic Places or whose building is a “contributor” to a registered historic district and who is willing to follow the Secretary of the Interior’s *Standards for Rehabilitation* during any rehabilitation, renovation, or redevelopment project.
- The entire community will benefit from properly maintained buildings, increased tourism and commerce, and preservation of culture and history.

Federal Rehabilitation Tax Credits

- The federal income tax credit is equal to 20% of qualified rehabilitation expenses associated with a certified rehabilitation on any certified historic structure.
 - A certified historic structure is:
 - Any building on the National Register of Historic Places
 - A “contributor” to a National Register-listed district
 - A building that has been determined eligible for the National Register through Part 1 of the application and will be placed on the National Register within 30 months of project completion.
- Rehabilitations must be "substantial". The IRS requires that the expense of the project must exceed the greater of \$5,000 or the adjusted basis of the building (purchase price, minus land value, minus depreciation, plus any improvements done since purchase).
- Buildings must be income-producing: retail, office space, rental, bed & breakfast, hotel, etc. Private residences do not qualify for the federal tax credit program.
- The credit must be taken over the course of 5 years following project closeout.
- Owners taking the credit are required to maintain ownership of the building for five years to avoid recapture of the credit. The recapture amount is reduced by 20% each year the building continues in your ownership.
- All work must meet the Secretary of the Interior's *Standards for Rehabilitation*. Plans and specifications are reviewed by the State Historic Preservation Office then are forwarded to the National Park Service for final approval. These reviews should take place before work begins to ensure the plans will meet the *Standards*.
- Projects that are approved for the Federal tax credit may also receive the state tax credit with additional state closeout paperwork.

Kansas State Rehabilitation Tax Credits

- Buildings may be income producing or non-income producing. Private residences **do** qualify for the state tax credit.
- Buildings must be listed on the National Register of Historic Places, the Register of Historic Kansas Places (state register) or be a “contributor” to a state or nationally listed historic district **before** you apply.
- All projects must be reviewed and approved **before** work begins. The state tax credit cannot be used retroactively.
- The state income tax credit is equal to 25% of qualified rehabilitation expenses.
- **Certified 501(c)3 organizations receive credits equal to 30% of their qualifying expenses.**
- Project expenses must exceed \$5,000.
- There is no cap on project expenses nor is there a limit to the number of times you may apply and take the state tax credit.
- The credit may be carried forward for 10 years
- The credits may be transferred to other taxpayers at the property owner's request (please contact the SHPO to find out how).
- Tax credits may be distributed among multiple owners based on ownership percentage or as the property owners agree.
- There is no recapture provision for the state tax credits.
- All work must meet the Secretary of the Interior's *Standards for Rehabilitation*. The State Historic Preservation Office reviews plans and specifications.

Eligible Rehabilitation Expenses

- Building components such as walls, partitions, floors, ceilings, doors, windows, stairs, chimneys, roofing, and fire escapes.
- Permanent coverings such as paneling, tile, and glued down carpeting.
- Building and mechanical systems such as electrical wiring, lighting fixtures, central air and heating, plumbing, fire suppression systems, escalators, and elevators.
- Engineering fees, architect fees, and reasonable developer fees.
- Construction management costs.

❖ Taxpayers wishing to claim **insurance proceeds** used in a certified rehabilitation as qualifying expenses for purposes of the tax credits must claim those insurance proceeds as income on their income tax returns. If a taxpayer does not report the insurance proceeds as income, any expenditures made to the qualified historic structure with the insurance proceeds will not be used to compute the state or federal historic rehabilitation tax credit.

Tax Credit Application Process

- Part 1 – Qualified Historic Structure Certification
 - Required for the State Tax Credit only if the building is within a registered historic district. Application is reviewed by the State Historic Preservation Office (SHPO) to certify that the property is a contributing structure to a district
 - Required for the Federal Tax Credit if the building is within a historic district or is not yet listed in the National Register. The SHPO and the National Park Service (NPS) review applications to certify that the property is a contributing structure to a district or is eligible for listing in the National Register individually.
- Part 2 – Qualified Rehabilitation Certification
 - Applicant outlines the building's condition and all proposed work. This will include photographic documentation of areas to be rehabilitated and plans/drawings for proposed work.
 - The SHPO reviews all Part 2s and advises applicants on ways to meet the Secretary of the Interior's *Standards for Rehabilitation*. The SHPO may also provide technical assistance if needed.
 - Federal tax credit projects are then forwarded to the NPS for final approval.
 - State tax credit projects are approved at the SHPO. Work may not begin until the SHPO has approved this part of the application.
 - Both agencies require a processing fee to review applications.
- Part 3 – Rehabilitation Completion Certification
 - Once work is complete, the applicant submits this document with photos of the finished project to the SHPO for review to ensure all work meets the Secretary of the Interior's *Standards for Rehabilitation*
 - State tax credit projects are approved at the SHPO and Kansas Dept. of Revenue.
 - Federal tax credit projects must be forwarded to the NPS by the SHPO for final approval.
 - Applicants may then claim their tax credits.

Please contact the Internal Revenue Service or the Kansas Department of Revenue with any questions related to taxation.

We strongly recommend that applicants consult a tax professional before applying for, claiming, or selling state or federal rehabilitation tax credits. Certain laws may limit your ability to claim the credits and other tax implications may apply.

IRS Contacts

IRS national coordinator for federal rehabilitation tax credit program
651-726-1480

Kansas Dept. of Revenue contacts

Audit Services

Kansas Department of Revenue
785-291-3288