



PRESERVATION TAX INCENTIVES

The Federal Historic Rehabilitation Tax Credit Program provides a 20 percent income tax credit for the rehabilitation of historic, income-producing buildings. Since 2015, the Texas Historic Preservation Tax Credit provides a parallel tax credit for the rehabilitation of historic buildings. Income-producing buildings, non-profits, and public universities are eligible to receive a transferrable 25 percent credit that can be applied to either the state franchise tax or state insurance premium tax. From 2015 to 2020 the historic tax credits have been utilized on over 200 completed projects in Texas to help fund vital preservation work.



The M.L. Edwards Building in Mount Vernon (1916) once housed a hardware and general store. Through the state and federal tax credits, it has been rehabilitated into a retail shop and events venue.

TEXAS HISTORIC PRESERVATION TAX CREDIT PROGRAM

Established in 2015, this state program provides a credit equal to 25 percent of qualified rehabilitation costs, for work completed on qualified historic buildings, against the Texas Business Franchise Tax or Insurance Premium Tax. Because these credits may be freely sold and transferred, the program is open to income-producing properties and properties used by non-profits. Public universities may also apply for the program for work completed through December 31, 2021. The Texas Historical Commission (THC) certifies that buildings are historic and reviews proposed and completed architectural work to ensure that projects comply with the Secretary of the Interior's Standards for Rehabilitation (the Standards). The THC administers the state credit alongside the Texas Comptroller of Public Accounts.

FEDERAL HISTORIC PRESERVATION TAX INCENTIVES

A 20-percent federal income tax credit is available for the rehabilitation of historic, income-producing buildings.

Established in 1976, the Federal Historic Rehabilitation Tax Credit Program is administered in Texas by the National Park Service (NPS) in partnership with the Internal Revenue Service (IRS) and the 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. Projects that qualify for both the state and federal credit may apply for both.

ELIGIBLE BUILDINGS AND COSTS FOR THE FEDERAL CREDIT

- **Buildings must be historically designated or determined eligible for designation at the beginning of the project.** Buildings that are not already designated must pursue designation as part of the certification process. The federal program requires listing in the National Register of Historic Places, either as an individual property or part of a district. The state program requires listing in the National Register, or designation as a Recorded Texas Historic Landmark or State Antiquities Landmark.

- **Only buildings qualify for the tax credit.** Structures such as bridges, ships, railroad cars, grain silos, and dams are not eligible for the credit.

- **To qualify for the federal program, buildings 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.

To qualify for the state program, buildings can be income-producing, or owned or operated by a non-profit. Public universities may also apply for the state credit for work completed through December 31, 2021. Other government entities are not eligible for the programs.

- **To qualify for the federal program an applicant must spend the greater of \$5,000 or the adjusted basis of the building, not including the land.** To qualify for the state program an applicant must only spend a minimum of \$5,000. The federal program typically requires a whole-building rehabilitation, while the state program can be used to fund projects with more limited scopes of work, such as on-going maintenance.

- **Architectural and construction work undertaken as part of the project, under both the federal and state programs, must meet the Standards for Rehabilitation.**

Staff in THC's Division of Architecture review proposed and completed projects, working closely with National Park Service staff for those projects pursuing the federal credit. Staff are available for preliminary consultation as well as formal application reviews.

QUALIFIED REHABILITATION EXPENSES

- **Most rehabilitation costs count towards the value of the credits.** These are known as Qualified Rehabilitation Expenses or QREs and are defined by the IRS. QREs include most work undertaken on the historic building, such as structural work, general repairs, upgrades to HVAC and other systems, and some interior finishes. Architectural and engineering fees, legal expenses, development fees, and other construction-related costs can also count as QREs. Some costs are not eligible for the credit, such as property acquisition, new additions, landscaping and site work. Although they are not QREs, these types of work items must still be reviewed as part of the overall project.

THE APPLICATION PROCESS

An application for 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 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 has a historic designation or if the property is eligible for a historic designation. This Part 1 or A describes the building's appearance and its history.

Part 2 or B of the application, the Description of Rehabilitation, describes the existing condition of the building and the proposed work. This is done through a specific narrative format, thorough photographs of the building and any professional plans that have been completed for the project. Most applications are approved with conditions intended to ensure that the completed project will fully meet the Standards.

Even though the Part 2 or B are not required to be approved before work begins, applicants are strongly encouraged to contact THC as early as possible if they are considering applying for tax credits. Work that does not meet the Standards can result in a denial of tax credits for the entire project.

Part 3 or C of the application, the Request for Certification of Completed Work, is submitted upon project completion and documents that the work was completed as proposed and meets any conditions placed on the Part 2/B of the application. Once the NPS or THC 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.

After the completed project is certified, applicants must work with the IRS and the Texas Comptroller of Public Accounts to establish, claim, and/or sell their credits. The THC does not review project costs and is not involved in claiming or selling credits. THC staff cannot give tax advice. Consult a tax advisor regarding tax regulations and their implications for your particular tax situation.

FOR MORE INFORMATION

Visit thc.texas.gov/preserve/projects-and-programs/preservation-tax-incentives for more information about the federal and state rehabilitation tax credit programs.



thc.texas.gov