



PRESERVATION TAX INCENTIVES

The Federal Historic Rehabilitation Tax Credit program provides a 20% income tax credit for the rehabilitation of historic, income-producing buildings. As of 2018, over \$2.7 billion has been reinvested into the Texas economy through the federal tax credit program. The Texas Historic Preservation Tax Credit, first effective in 2015, provides a parallel tax credit for the rehabilitation of historic buildings in the state of Texas. Income-producing buildings, non-profits, and public universities are eligible to receive a transferrable 25% credit that can be applied to either the state franchise tax or state insurance premium tax.



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

During the 83rd legislative session, the Texas Legislature passed House Bill 500 to establish 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 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 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, or starting in 2017, Insurance Premium Tax. These tax credits may be freely sold and transferred. Many projects pair this tax credit with the federal 20% tax credit for rehabilitation (see below).

The Texas Historic Preservation Tax Credit Program became effective 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 were adopted in 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 determined 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.

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 Landmark or State Antiquities Landmark at the time the credit is awarded.
- The qualified rehabilitation costs must exceed \$5,000 for any single application. Applications may be submitted in consecutive years for new projects.
- Buildings with a nonprofit use, as well as buildings with a for-profit use, can qualify for the state credit. Buildings owned and operated by public university systems may also participate.
- Documentation of the Placed in Service Date (project completion date) must be provided by means of a Certificate of Occupancy, or an architect's Certificate of Substantial Completion.

The Application Process

Applications for Federal and state tax credits may be submitted simultaneously or separately if the applicant's intention is to apply for one of the credits, but not for the other. 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 has 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.

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.

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.

For More Information

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



TEXAS HISTORICAL COMMISSION
real places telling real stories

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