



# Historic Rehabilitation Tax Credits, Introduction and Eligibility

Real Places Conference 2020

## Historic places and buildings are an essential and valuable part of our communities.

- Represent our cultural heritage & provide a sense of place
- Stabilize and enhance local property values
- Foster environmental sustainability
- Promote smart development and walkable urban fabric
- Spur tourism and economic growth



James E. Guinn School,  
Fort Worth, 2002

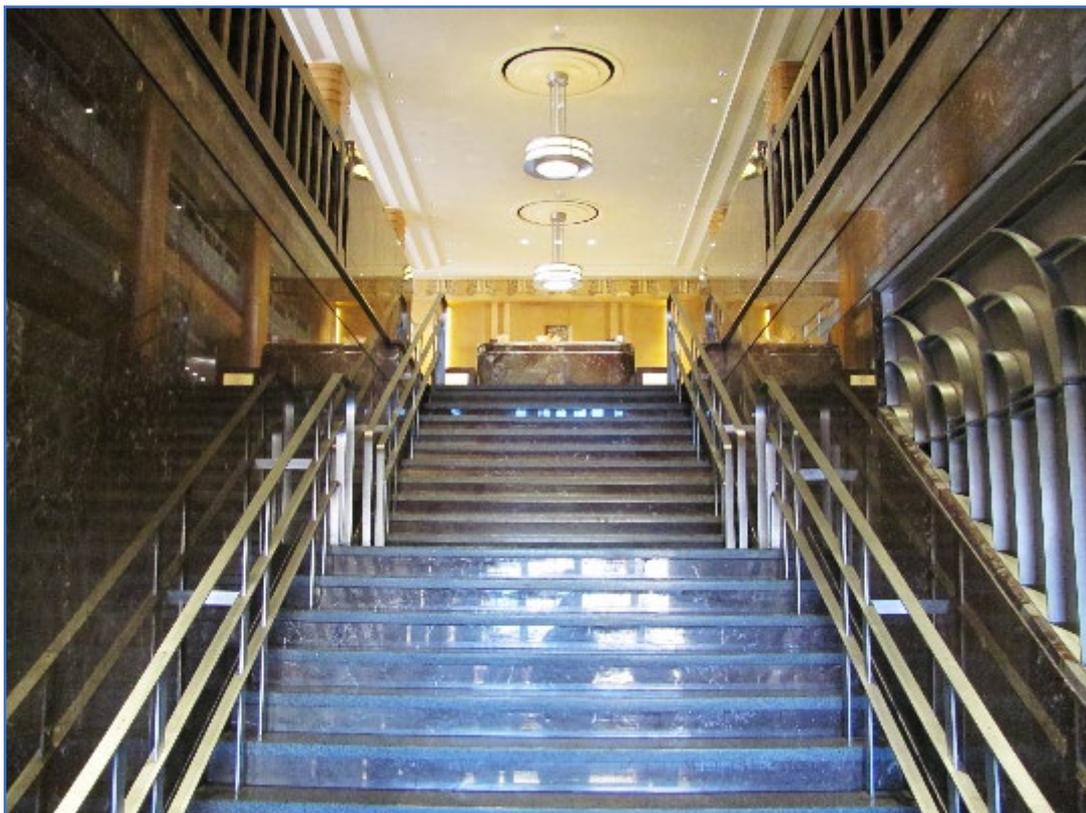


## However, rehabilitation often has financial hurdles for our communities:

- Code issues (ADA, fire, egress, etc)
- Materials abatement (lead, asbestos)
- Proper repair and design often requires hiring experts
- Design and layout may be limiting
- Low square footage on the lot may incentivize demolition



Brooks City Air Force Base, San Antonio



Tax credits provide the *most powerful* financial incentives for historic preservation. They help finance historic preservation by offsetting **income tax or business tax liability** as a *dollar-for-dollar reduction*.

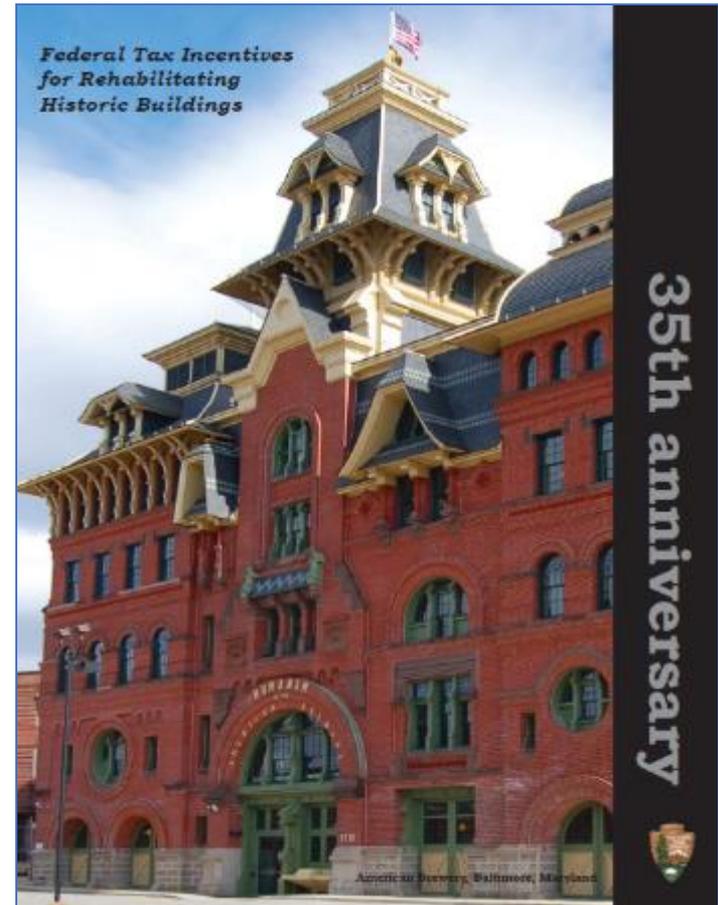
## ***Federal Historic Preservation Tax Incentive Program***

Allows for a credit on federal income tax liability of 20% of qualified expenses on an eligible rehabilitation project.

Administered by the **NPS**, **IRS** and **SHPOs**.

Since 1978, the credit has:

- Revitalized over 41,000 vacant and underutilized buildings
- Created 2.5 million jobs
- And spurred over \$130 billion in private investment.



## Impact of the Federal credit in Texas



Hotel Settles, Big Spring

Certified 2015

From 2002 – 2015:

- **126 rehabilitation projects completed and certified**
- **\$1.1 billion in total rehabilitation costs**
- **\$184 million in tax credits to individuals and businesses**
- **Supported over 16,000 jobs**
- **Generated over \$236 million in local, state, and federal taxes**

# Texas Historic Preservation Tax Credit (THPTC)



Texas was the 36<sup>th</sup> state to create a state tax credit program. Administrative rules were passed by the THC in 2014 and the program went into effect on January 1, 2015.

The program parallels the federal process to allow applicants to pair credits, and is considered one of the strongest credits in the country.

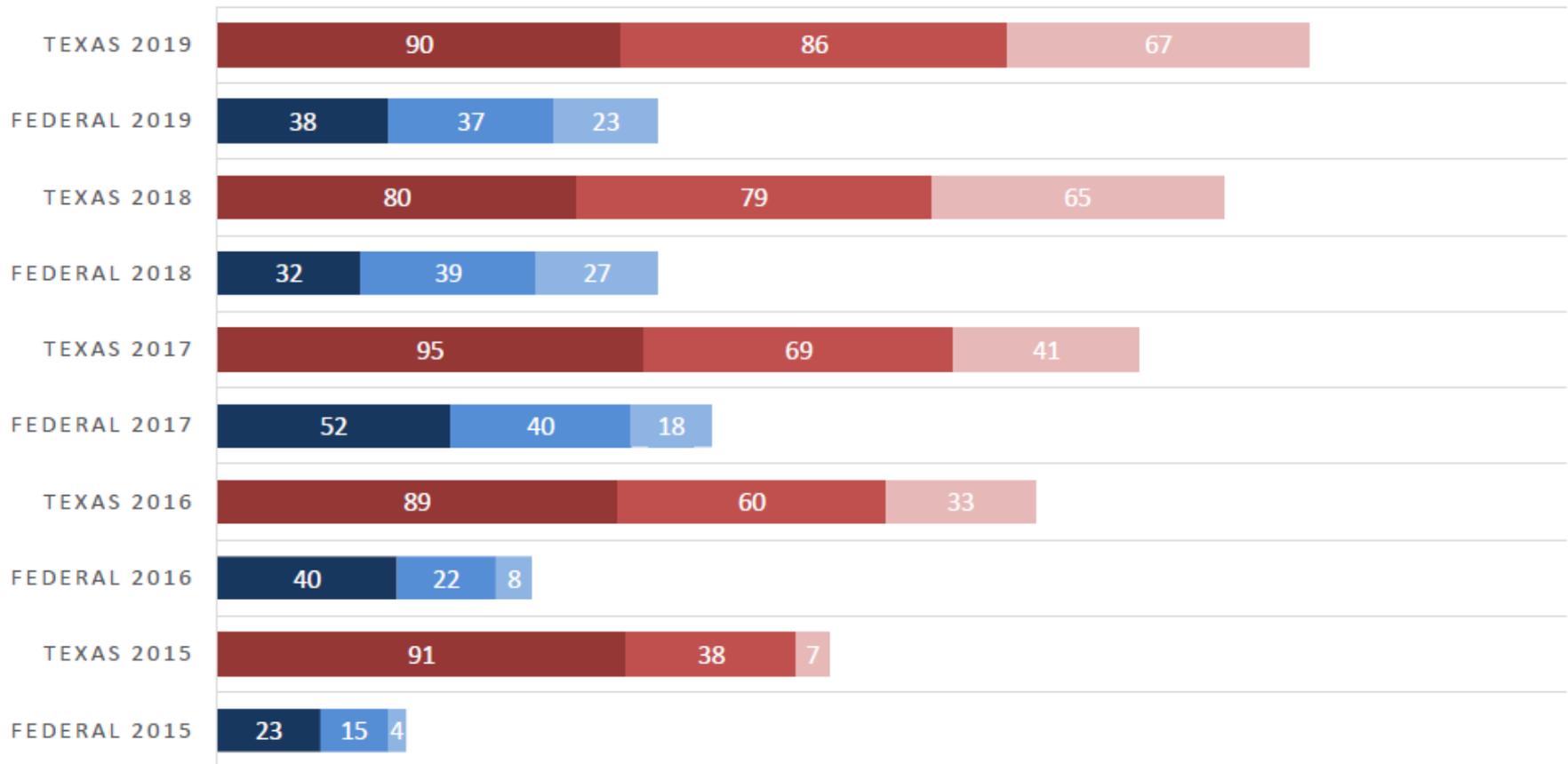
Allows for a credit on the Texas Franchise Tax – or Texas Insurance Premium Tax – of 25% of qualified expenses on an eligible rehabilitation project.

Administered by the **THC** and the **Texas Comptroller**.

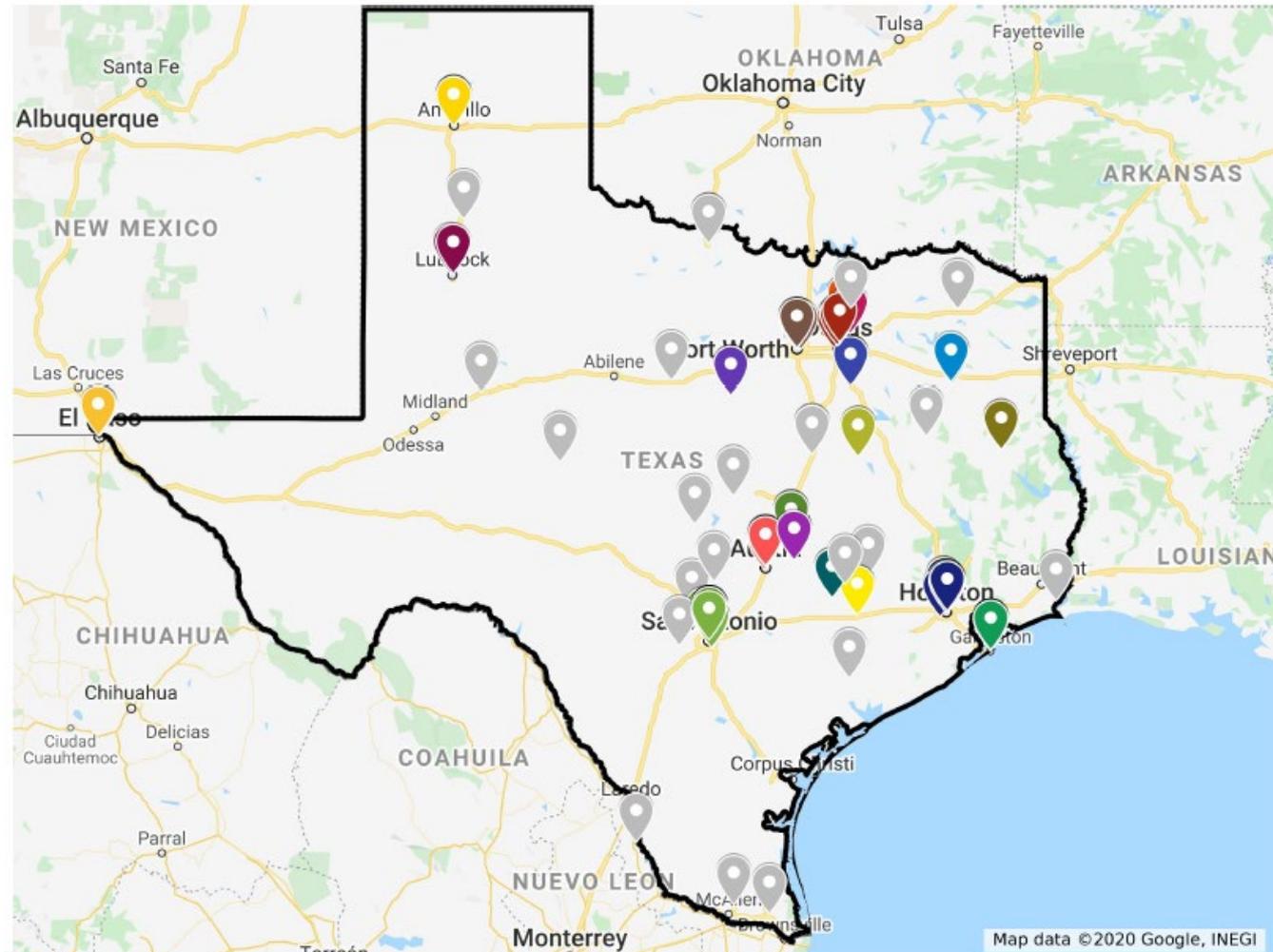
# Impacts of the THPTC

## APPROVED TAX CREDIT APPLICATIONS

■ PART 1 
 ■ PART 2 
 ■ PART 3 
 ■ PART A 
 ■ PART B 
 ■ PART C



# Impacts of the THPTC

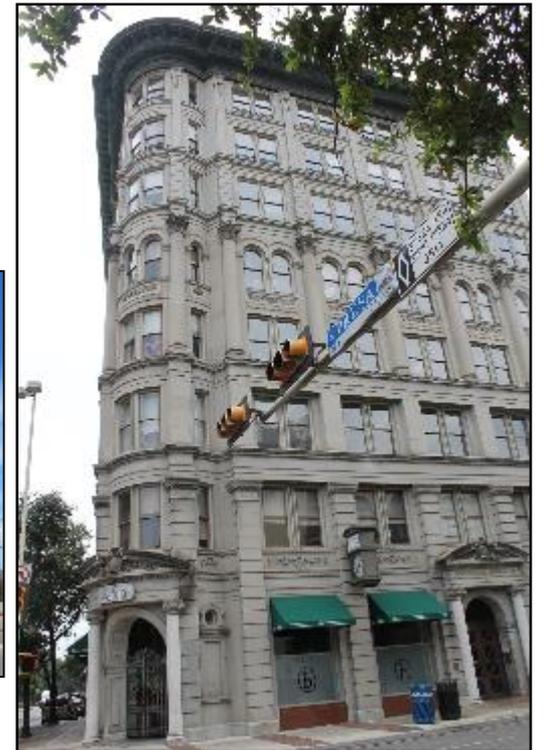


213 certified THPTC projects across the state

## First 5 years of the Texas Historic Preservation Tax Credit:

- Increase in number of applications for federal credit
  - 528 Part A applications received
  - 414 Part B applications received, with over *\$3 billion in estimated costs*
- Increased geographic distribution of projects and increased variety in size of projects
  - Applications received for projects in 93 different cities
  - Project costs range from \$5300 to \$180 million
- ***213 completed projects have been certified, with \$1.5 billion in qualified expenditures***

## Variety of Projects





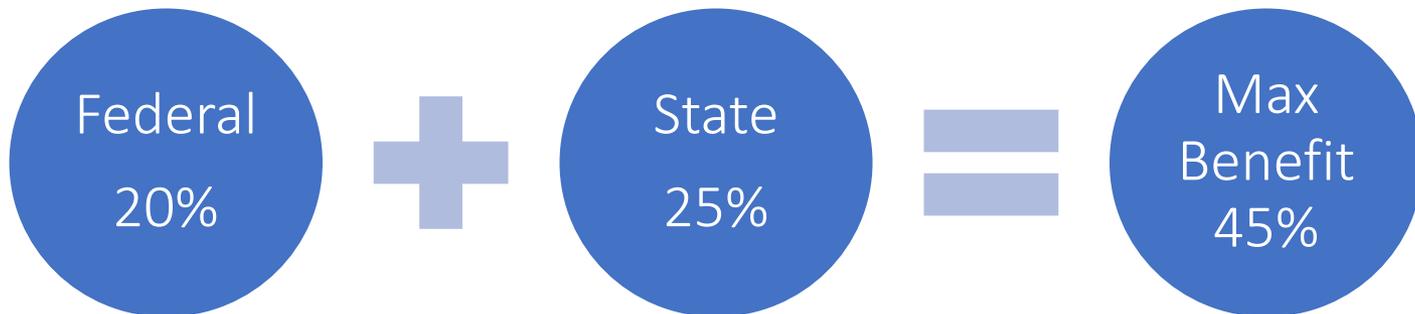
## Who can use preservation tax credits?

- **The federal tax credit applies to federal income tax.** Anyone who pays federal income tax may receive and use the credit. The federal credit is not easily transferable. Non-profits may participate in the federal credit for business properties if they partner with a for-profit investor.
- **The state program offers applies to the Texas Franchise Tax or Insurance Premium Tax.** Anyone may receive the credit certificate, including non-profits; those who do not owe franchise taxes may sell or transfer the credits.

## Combining the state and federal credits:

The state tax credit **may be used separately or in conjunction** with the 20% federal tax credit for rehabilitation.

**Combining the credits** can make many projects possible that were never previously financially feasible.



# Historic Rehabilitation Tax Credits



## Combining both credits: Melrose Building, Houston

- Constructed 1952
- Vacant since 1980s
- First Modern-style office building in Houston
- Underwent conversion for use as a hotel, using both state and federal credit programs, certified in November 2017

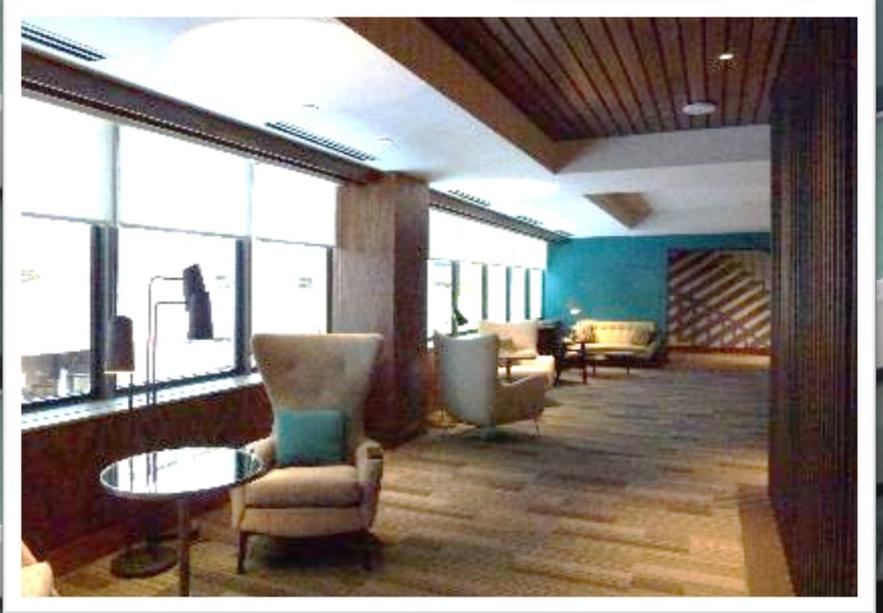
# Historic Rehabilitation Tax Credits



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# Historic Rehabilitation Tax Credits



# Historic Rehabilitation Tax Credits



## Combining both credits: Harbert's Garage, Columbus

- Constructed 1932
- Contributes to Columbus downtown historic district
- Rehabilitated for use as a tenant lease space, certified December 2018

## How do the finances work?

- Credits are awarded to successfully **completed** projects (developer/owner must carry all costs).
- Before credits are realized, financing is often carried out through **bridge loans or capital from investors**. Approval for the program at the beginning of the project can help secure financing or investors.
- **No cap for credits**, for any project or for the program
- The awarded credit amount is a straight percentage of eligible costs – it is “all or nothing.”

# Qualified Rehabilitation Expenditures (QREs)

## Qualified Costs

(examples)

- Structural elements
- Surfaces & finishes
- Systems (plumbing, electrical, HVAC, elevator, sprinklers)
- Architect's fees, etc.
- Interest & taxes

## Non-Qualified Costs

(examples)

- Site work (parking, etc.)
- Additions/new construction
- Signage
- Appliances & furniture
- Acquisition costs
- Payments from insurance or grants

## How does approval work?

- Both programs are **not competitive, but based on whether you qualify.**
- Applications are reviewed on a continuous rolling basis throughout the year
- **The application process starts before work has begun,** and requires an architectural review for your project to be approved.



St. Anthony Hotel, San Antonio  
Certified 2015

# Historic Rehabilitation Tax Credits

## Before work starts

Contact THC to  
discuss project

Plan project,  
photograph  
building

Submit Parts 1  
and 2 of  
application

Receive  
determinations

Rehab  
Work  
Done

## After work ends

Assemble close-  
out  
documentation

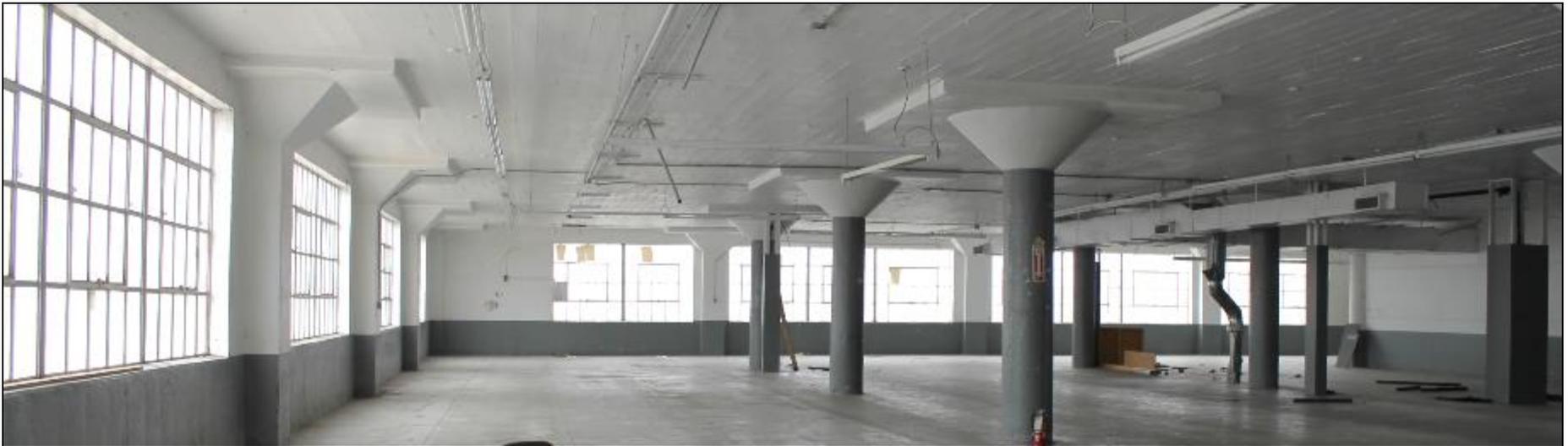
Submit Part 3 of  
application

Receive final  
approval of  
project

Receive tax  
credits

## Two basic program requirements:

- 1) Building must be a *certified historic structure*.
- 2) Project must be a *certified rehabilitation*.
  - a. Eligible property type
  - b. Meets cost threshold
  - c. Work meets Secretary's Standards for Rehabilitation



## What is a Certified Historic Structure?

- **National Register**, individual listing
- **National Register**, district listing – contributing buildings only
- Certified Local historic district – contributing buildings only



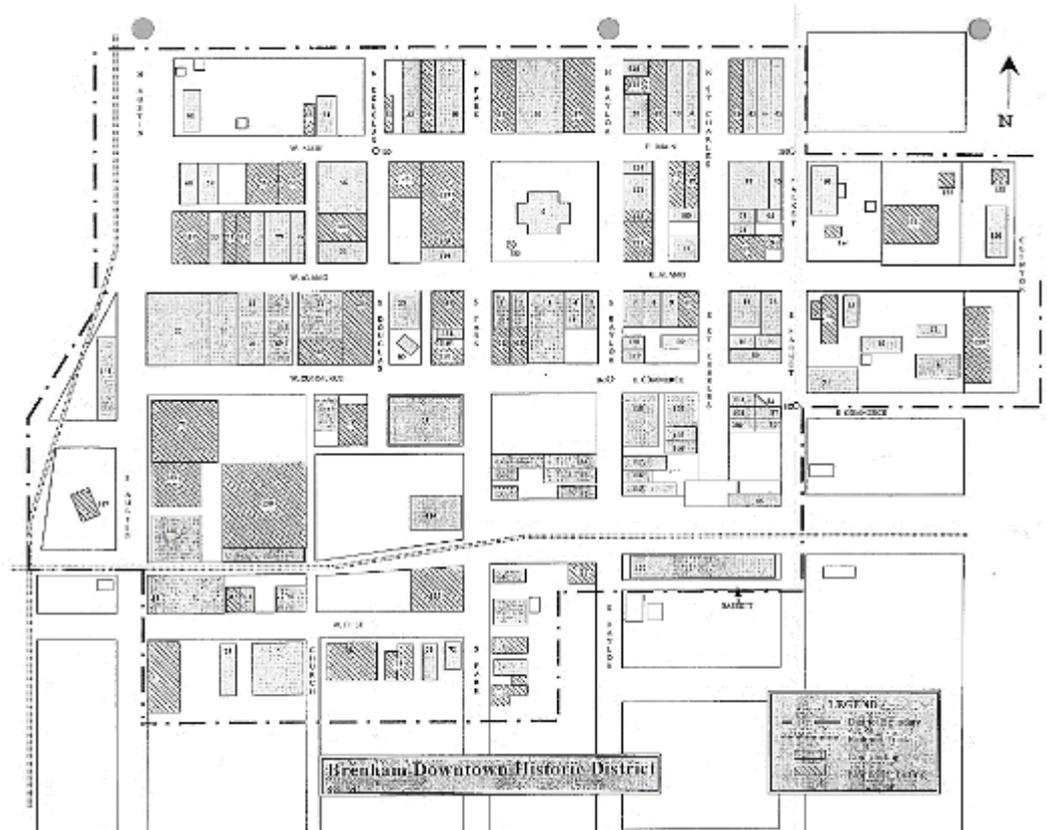
Downtown Elgin Historic District

## State only

- **Recorded Texas Historic Landmark (RTHL)**
- **State Antiquities Landmark (SAL)**

## What is a contributing building?

- Buildings in districts must be considered **contributing** to the district in order to be considered **certified historic structures**.
- These have the same **standing as an individual listing**.
- Buildings not currently identified as contributing may sometimes be able to become contributing.



Does my building have to be historically designated before my project begins?

**No.** The first step of the application process is to assess whether the building is **designated OR eligible** for designation.

If the building is not yet designated but found **eligible** for designation, the **applicant must pursue designation while undertaking the rehabilitation.** Historic designation must be made official in order to receive the tax credits.



O.T. Bassett Tower, El Paso  
Certified 2019



Lundgren Building, Elgin  
Certified 2016

## What is an eligible property use?

Buildings that will have a **business or income-producing use** qualify for both state and federal credits. This includes rental residential.

**Non-profit** use facilities are also eligible for the state program, as well as **state university buildings** (*for a limited time*).

*Owner-occupied residential properties and government-use properties are not eligible for either program.*

## Examples of non-profit use properties using the state tax credit



**St. David's Episcopal Church, Austin**  
*Structural stabilization*  
*Phase 1 certified September 2018*



**Thistle Hill house museum, Fort Worth**  
*Structural and ADA modifications*  
*Certified August 2018*

## What is the minimum cost threshold?

- The federal credit requires a “substantial rehabilitation” equal to the *adjusted basis* of the building or \$5000, whichever is greater.

Adjusted basis = purchase price of property - value of land + improvements – depreciation

Substantial rehabilitation test must generally be met within 24 months.

- The state credit requires expenses of **at least \$5,000** (enables small projects or phased applications for one building).



Jefferson Davis Hospital, Houston  
Certified 2006



Hotel Settles, Big Spring

Certified 2015

## What are typical eligible project types for federal AND state credits?

- Downtown commercial buildings
- Hotels
- Office buildings
- Apartment buildings
- Industrial adaptive re-use

Applying for federal credits typically requires a **whole-building** rehab project (regardless of size).

## What are potential project types for the state credit ONLY?

- Individual floors or portions of a building
- Exterior-only or interior-only “facelifts”
- Roof replacements
- Window repair
- Systems upgrades (HVAC)



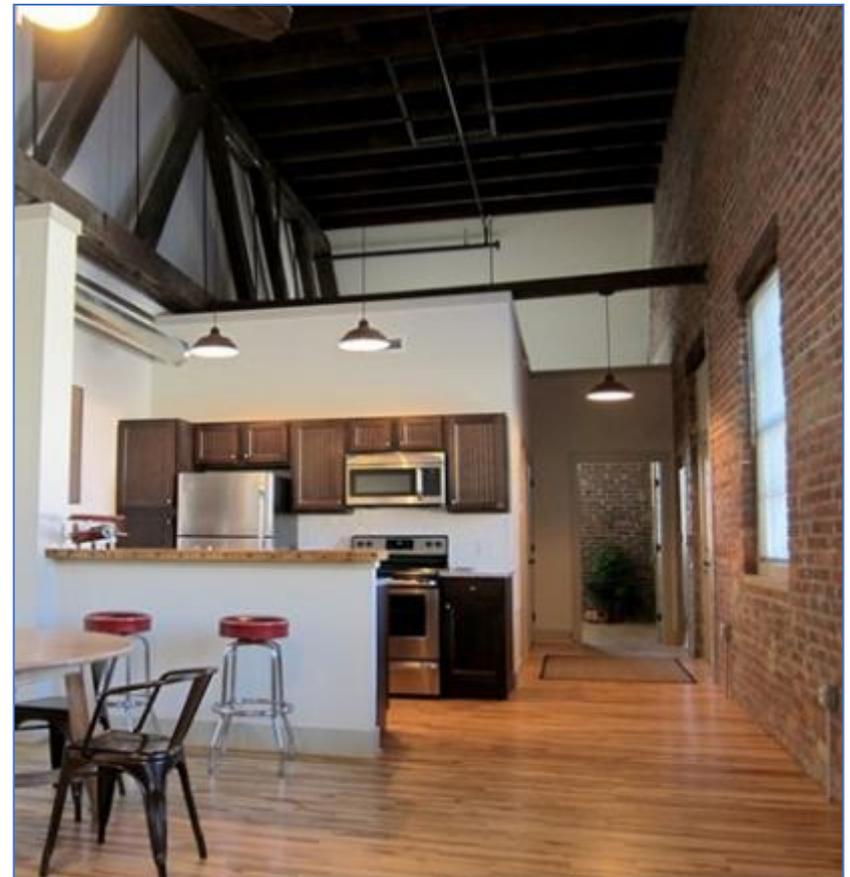
L.T. Wright House, San Antonio

Certified 2016

Applying for state credits requires only a **\$5000** investment (regardless of building size).

## What is a *rehabilitation*?

Rehabilitation makes possible a **compatible use for a property** through repair, alterations, and additions, *while preserving those portions or features which convey its historical, cultural, or architectural values.*



## Architectural Review Considerations

- All projects are reviewed for conformance with the *Secretary's Standards for Rehabilitation*, which are a “building-first” approach.
- Each project is **judged as a whole**.
- The **current condition** is the starting point.
- **All buildings are different** – the Standards are interpreted by THC and NPS to apply to each individual property.
- All work done on the **exterior, interior, and site** is subject to review.

Remember that this is an **earned credit**. Participation is an applicant's choice. It is the applicant's responsibility to ensure they can:



Firestone Building, Amarillo

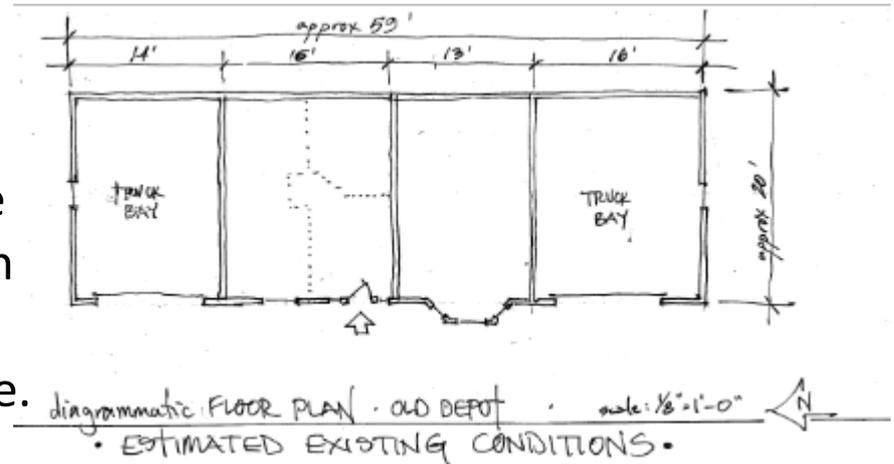
Certified 2018

- Meet their architectural needs AND the Standards. (Anticipate design compromises.)
- Have a financially beneficial outcome.

**Coordinate with THC early and often!**

## Do I need to hire an architect or other professionals?

- In most cases, yes. An **architect** is necessary for a large-scale project or one with major plan changes. Very simple projects can be successful without one, but an architect can guide your design to ensure success. They can also provide the necessary documentation of your completion date.
- A **CPA** will be necessary to provide your audited cost report.
- An **architectural historian** is important if you are looking to get a new historic designation.
- Some people hire a **tax credit consultant** for expert guidance and advice.



## After completion:

There are no “lingering” review requirements after certification

National Register designation does not impose future reviews\*

Apply again at any time, if all eligibility criteria are met

The federal tax credit program has a 5-year *recapture period*, which governs:

- Further alterations or demolition
- Sale or ownership transfer of building

\*Unless required by local ordinance (very unusual)

## How is the state credit sold?

- It is up to the recipient to coordinate with a buyer in a private sale.
- Interested buyers may include capital companies, banks, or local large companies that incur franchise tax.
- When the credit is sold, the buyer and seller record the transfer with the Texas Comptroller.
- Certified applicants are actively selling credits for \$.80 to \$.90 or even more.

## *Application Process*

**Part 1/A**  
Evaluation of  
Significance

*Establishes  
historic  
eligibility*

**Part 2/B**  
Description of  
Rehabilitation

*Presents  
proposed work  
for approval*

**Part 3/C**  
Request for  
Certification of  
Completed Work

*Demonstrates  
completion of  
approved work*

# Part 1/A Evaluation of Significance

30 days at THC  
30 days at NPS  
*\*Estimated\**

Building is  
individually  
designated\*

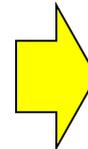
Building  
contributes to a  
district



Part 1/A  
Approved

Building is  
**eligible** to be  
individually  
designated

Building is  
**eligible** to  
contribute to a  
district



Part 1/A  
Approved  
*\*must get  
building  
designated*

Building is **not  
eligible**



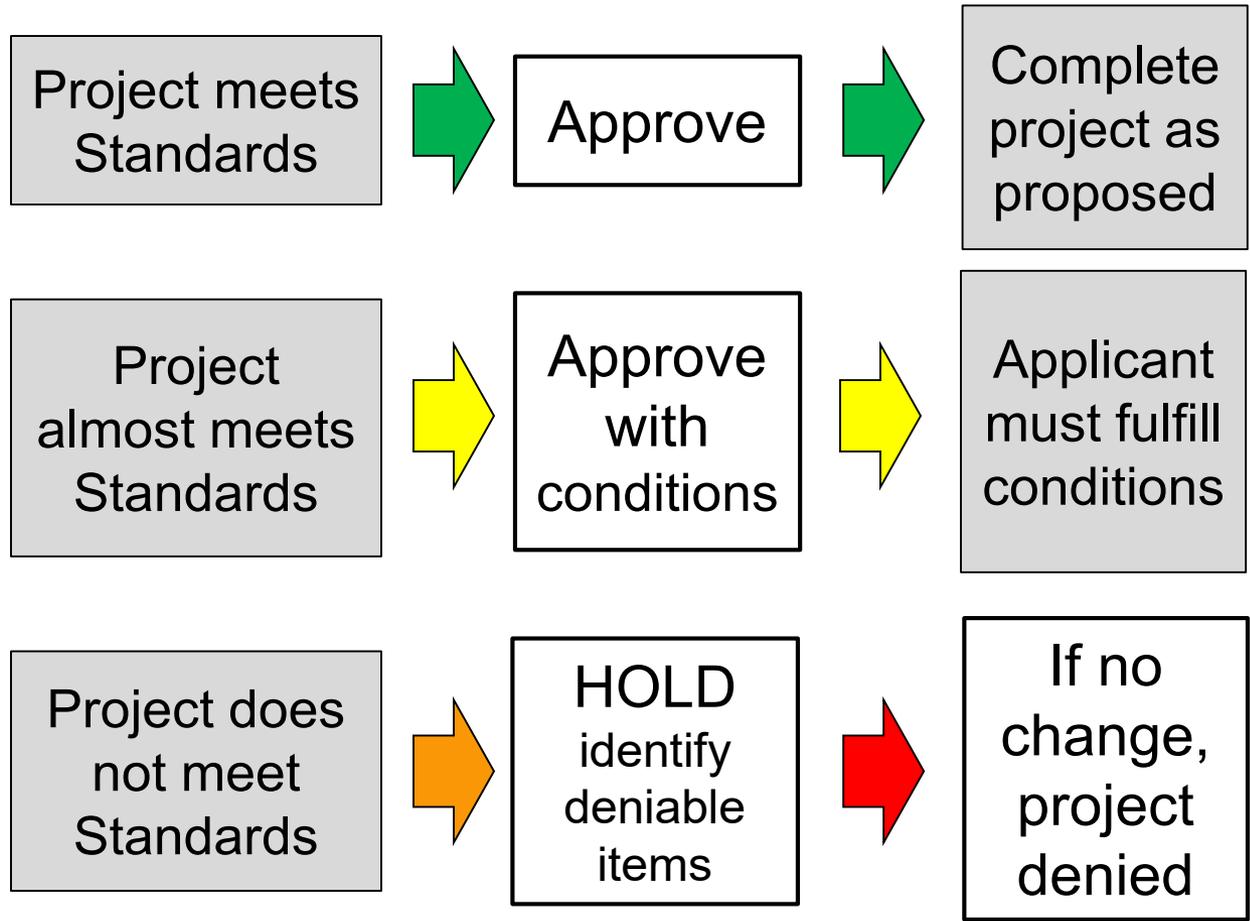
Denial

# Part 2/B

## Description of Rehabilitation

30 days at THC  
30 days at NPS

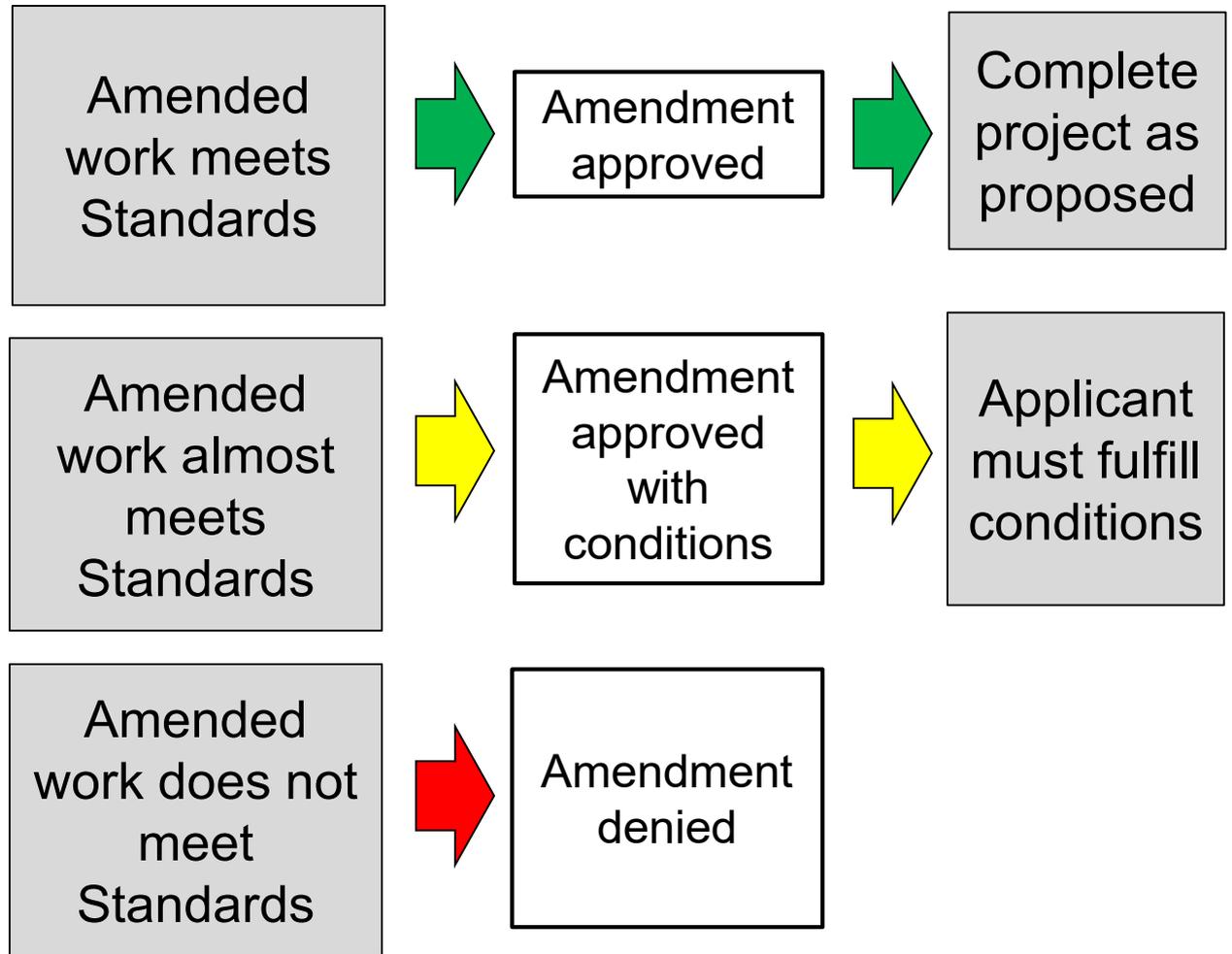
*\*Estimated\**



# Amendments

Present changes  
or more  
information

15-30 days at THC  
30 days at NPS  
*\*Estimated\**



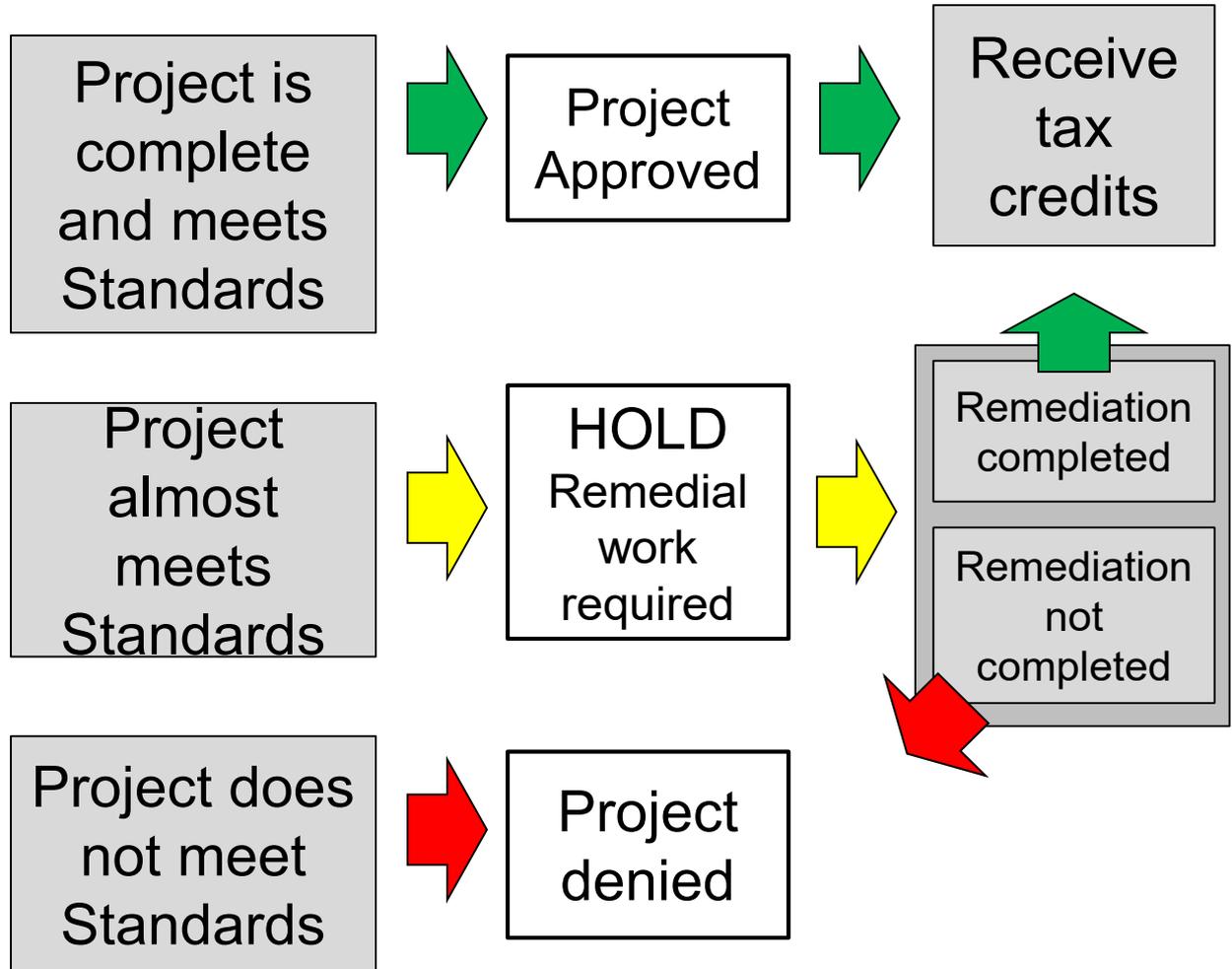
# Part 3/C

Request for  
Certification of  
Completed Work

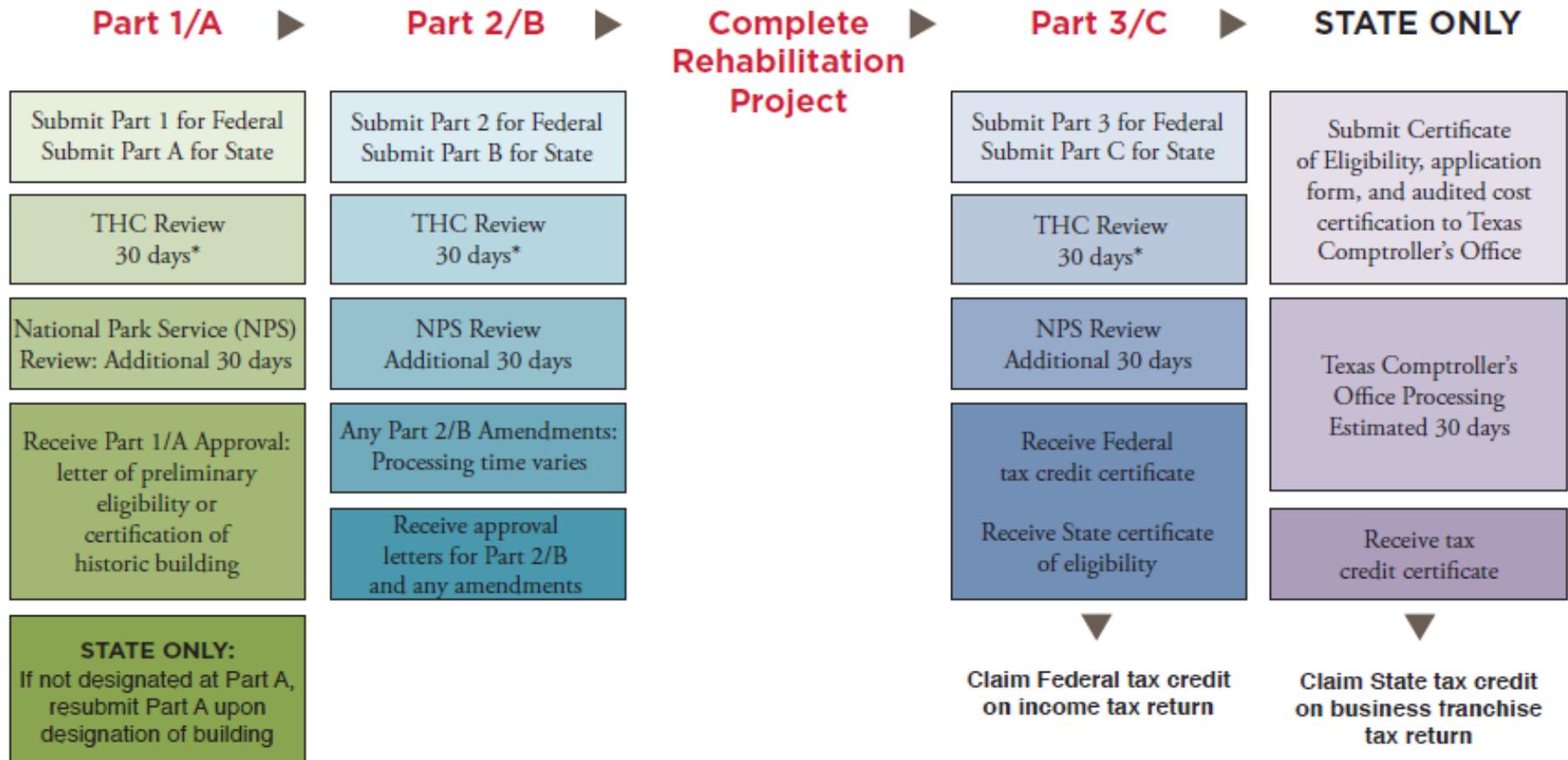
30 days at THC  
(with site visit)

30 days at NPS

*\*Estimated\**



# Application Review Process



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

# Pop Quiz!

When is an applicant for the state tax credit program eligible to receive their tax credits?

- 1: After an approved Part A: Evaluation of Significance
- 2: After an approved Part B: Description of Rehabilitation
- 3: After an approved Part C: Request for Certification of Completed Work

When is an applicant for the state tax credit program eligible to receive their tax credits?

- 1: After an approved Part A: Evaluation of Significance
- 2: After an approved Part B: Description of Rehabilitation
- **3: After an approved Part C: Request for Certification of Completed Work**

True or False: I could receive tax credits for rehabilitating my own historic home that I live in.

True or False: I could receive tax credits for rehabilitating my own historic home that I live in.

False.

Federal historic tax credits are only permitted to income producing properties. The state tax credit may be applied to non-profit owned properties.

Which expenses on this list would NOT count toward the tax credits?

- A) Foundation repair
- B) New air conditioning system
- C) Gold-plated bathtubs
- D) New kitchen appliances
- E) Recreating missing woodwork

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- E) Recreating missing woodwork