

# PRESERVE THE PAST, REDUCE TAXES IN THE PRESENT

## GET THE FACTS ON HISTORIC PRESERVATION TAX INCENTIVES

BY SCOTT TRACY

**A**merica has rebuilt and reinvented itself repeatedly over the years, but some structures from the past—concert halls, churches, roadside diners, hotels, and warehouses—merit preservation.

There are many reasons to rescue these buildings from destruction. One that stands out for the construction industry is the economic benefit offered by Historic Preservation Tax Incentives (HPTI) from federal, state, and local governments.

According to the National Trust for Historic Preservation, the HPTI program generated more than \$50 billion in renovation and revitalization dollars since it was enacted in 1976. In 2008 alone, it produced \$5.64 billion in private investment and created more than 67,000 jobs.

But to qualify for the tax breaks, these projects must entail more than new windows and a fresh coat of paint. With specialized training, experience, and promotion, contractors can position themselves as experts in this construction niche. An understanding of federal HPTI can act as a guideline for success in the historic preservation market.

### BRINGING THE PAST INTO THE PRESENT

The federal HPTI program was created to entice private investment in rehabilitating properties that have recognized historic significance. It applies to the private investment of “qualified rehabilitation expenditures” in a “qualified rehabilitated building.” A maximum 20% credit can be claimed for certified historic structures, or 10% for other structures placed in service before 1936.

Claiming this credit requires careful planning and major investments in both restoring and preserving the character, architectural features, and environment of historically significant structures. In fact, to qualify for the credit, more must be spent on rehabilitation than on the acquisition of the property.

Following is a simplified example that illustrates the potential financial benefits of the incentive. An investor purchases a turn-of-the-century warehouse in a city’s historic district. The plan is to turn the space into income-generating residential and retail space while restoring and preserving many of the building’s exterior architectural features.

Cost of land and building: **\$80,000**  
Direct rehabilitation costs: **\$1.2 million**  
Architectural and engineering fees: **\$125,000**  
Tax credit: **\$265,000**  
( $\$1,200,000 + \$125,000 \times 20\%$ )

Note that only the direct rehabilitation costs, including architectural and engineering fees, can be used in calculating the credit. The original cost of acquiring the property is not added. Items that may be eligible as qualified expenditures include walls, partitions, floors, ceilings, windows and doors, components of central air-conditioning or heating systems, plumbing and fixtures, chimneys, and stairs.

### DOES THE PROPERTY QUALIFY?

To qualify, a structure must typically be listed individually on the National Register of Historic Places or included in a National Register historic district. Structures also must have been originally placed in service before 1936.

The National Park Service (NPS) offers a checklist to help property owners decide whether a rehabilitation project proposal will meet the basic application requirements for the 20% tax credit.

1. The historic building must be listed on the National Register of Historic Places or be certified as contributing to the significance of a “registered historic district.”
2. After rehabilitation, the historic property must be used for an income-producing purpose for at least 5 years. Owner-occupied residential properties do not qualify.
3. The project must meet the “substantial rehabilitation test.” This means the cost of rehabilitation must exceed the pre-rehabilitation cost of the building. Generally, this test must be met within 2 years, or within 5 years for a project completed in multiple phases.
4. The rehabilitation work must be done in accordance with the Secretary of the Interior’s Standards for Rehabilitation—10 principles that ensure the historic character of the building has been preserved (refer to sidebar, top of next page).

## SECRETARY OF THE INTERIOR'S STANDARDS FOR REHABILITATION

1. A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building, its site, and environment.
2. The historic character of a property shall be retained and preserved. The removal of historic materials, or alteration of features and spaces that characterize a property, shall be avoided.
3. Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development shall not be undertaken.
4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
5. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a property shall be preserved.
6. Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities, and if possible, materials.
7. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used.
8. Significant archeological resources affected by a project shall be protected and preserved.
9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property.
10. New additions and adjacent or related new construction shall be undertaken in such a manner that, if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

Source: [www.nps.gov](http://www.nps.gov)

One of the most critical steps in claiming the Rehabilitation Tax Credit is planning and approval by the NPS. If the owner or investor begins rehabilitation work before getting approval, NPS may deny the application (eliminating any possibility of claiming the tax credit) or require remedial work at the owner's expense. Submitting a complete and accurate application early in the process is crucial.

Although it hasn't yet passed, federal legislation introduced in 2009 would make historic rehabilitation even more attractive. Among the provisions of the Community Restoration and Revitalization Act of 2009 is an increase in the credit to 30% for projects involving \$7.5 million or less in qualified costs, making the credit transferrable, and increasing the energy-efficiency tax credit allowed for rehabilitated buildings.

Individual states also offer credits and incentives for the rehabilitation of historic buildings. Minnesota became the 31st state to do so in April 2010. Not all state programs are created equal, so it's a good idea to understand local benefits and requirements.

### GETTING STARTED

Historic preservation is not a niche that any general contractor can jump into and find success overnight. Knowledge and specialized skills are needed to be both credible and competitive.

- Work with architects, designers, and other builders in joint ventures.

- Make services known to local and regional historical societies.
- Register with a state historic preservation office.
- Become active in local historic preservation groups.
- Showcase completed projects online.
- Use testimonials from satisfied customers.

Once these networking practices become habit, a contractor can bring its specialized construction methods and materials to the attention of investors in historic preservation.

Ultimately, historic preservation offers a mixture of economic incentives and cultural significance that is hard to beat. Being aware of these current opportunities can put any construction company in a more competitive position.

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### RESOURCES ON HISTORIC REHABILITATION TAX INCENTIVES

National Trust for Historic Preservation: [www.preservationnation.org](http://www.preservationnation.org)  
National Park Service: [www.nps.gov/history/hps/tps/tax/index.htm](http://www.nps.gov/history/hps/tps/tax/index.htm)  
Internal Revenue Service: [www.irs.gov](http://www.irs.gov)  
Advisory Council on Historic Preservation: [www.achp.gov](http://www.achp.gov)  
International Preservation Trades Network: [www.iptw.org](http://www.iptw.org)  
American Institute of Architects: [www.aia.org](http://www.aia.org)