

Federal Historic Building Rehabilitation Tax Credit

<https://ushpo.utah.gov/shpo/financial-incentives>
<https://www.nps.gov/subjects/taxincentives/index.htm>



Utah State Historic
Preservation Office



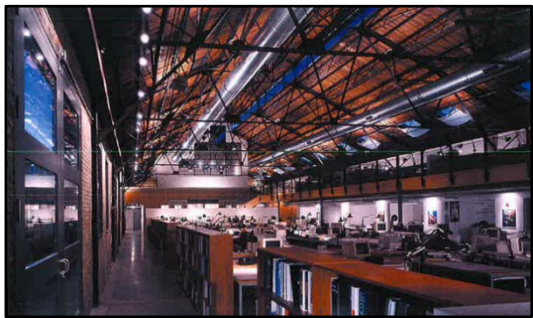
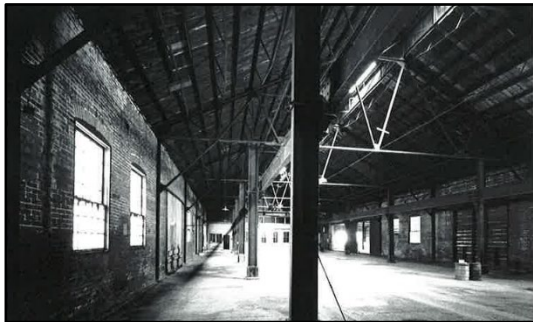
What is the Federal Historic Building Rehabilitation Tax Credit?

A 20% non-refundable federal income tax credit for the rehabilitation of historic buildings that are used as income-producing properties, including commercial or residential rental use. Twenty percent of all qualified rehabilitation costs may be subtracted from taxes owed on your federal income or corporate franchise tax.

Example: \$75,000 in qualified rehabilitation costs = \$15,000 federal income tax *credit* (not just a deduction)

Does my building qualify?

Buildings listed in the National Register of Historic Places, which, after rehabilitation, are used as a business or other income-producing purpose qualify. The building does not need to be listed in the National Register at the beginning of the project, but a *preliminary determination of significance* must be issued by the National Park Service (NPS) prior to project approval and a complete National Register nomination must be submitted in a timely manner. Staff of the State Historic Preservation Office can evaluate the eligibility of your building and provide instructions on nomination requirements.



before (top) and after (bottom)

What rehabilitation work qualifies?

The work may include interior and/or exterior repair, rehabilitation or restoration, including historic, decorative, and structural elements as well as mechanical systems. All of the proposed, on-going or completed work must meet the Secretary of the Interior's Standards for Rehabilitation (Standards) and be approved by the National Park Service (NPS). Depending on the historic conditions and the specifics of the proposed rehab work, some examples of eligible work items include:

- Repairing/upgrading windows
- Repointing masonry
- Repairing or replacing roofs
- New floor and wall coverings
- Painting walls, trim, etc.
- Refinishing floors, handrails, etc.
- Electrical updates
- New furnace A/C boiler, etc.
- Plumbing repairs and fixtures
- Reconstructing historic porches
- Compatible new kitchens & baths
- Architectural, engineering & permit fees

What work does not qualify?

- Purchase price of building
- New Additions
- Purchase and installation of moveable furnishings or equipment (window coverings, refrigerators, etc.)
- Site work (landscaping, sidewalks, fences, driveways, etc.)
- Other items as determined by the IRS

The National Park Service requires that you work through us (the State Historic Preservation Office, or SHPO) on your application. You should submit the first two sections of the NPS's three-part application to us as early as possible. Photographs showing all areas of work (interior and exterior) prior to the beginning of the rehabilitation and any

It is strongly recommended that the application be submitted before starting work to ensure that it meets the *Standards*. Any work begun without prior NPS approval is done at the owner's own risk. Once work is underway, changes to bring the project into conformance with the *Standards* can be difficult, expensive, or occasionally impossible to make.

construction drawings or other technical information necessary to completely understand the proposed project are also required as part of the application.

How much money must I spend to qualify?

The Federal program requires your project to meet the "Substantial Rehabilitation Test." This requires you to be re-spending the greater of your building's "adjusted basis" or \$5,000, typically within a 24-month measuring period of your choosing. A 60-month measuring period may be available if your project meets certain requirements (consult with SHPO early if you think you might need this). The formula for calculating "adjusted basis" is $A - B - C + D$, where A = purchase price of the property, B = the cost of the land at the time of purchase, C = depreciation taken for an income-producing property, and D = cost of any capital improvements made since purchase.

Example 1 (a recent purchase): \$130,000 (purchase price) – \$33,000 (land) = \$97,000 (adjusted basis) Rehabilitation expenses must exceed the adjusted basis (\$97,000).	Example 2 (long-time ownership): \$130,000 (purchase price) – \$70,000 (depreciation) – \$33,000 (land) + \$15,000 (capital improvements) = \$42,000 (adjusted basis) Rehabilitation expenses must exceed the adjusted basis (\$42,000).
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As long as your project meets the Substantial Rehabilitation Test, you can claim costs prior to your selected measuring period and up through the end of the year in which your measuring period ends. Your project does not have to be finished within the 24- or 60-month window, but the building does have to be placed "back in service" before you can claim the credit. Fees are charged by the NPS to process parts of the federal historic rehabilitation tax credit application, except for projects under \$80,000. For more information on the fee structure, see: <https://www.nps.gov/subjects/taxincentives/index.htm>

Are there any restrictions placed on my building?

All work done to the building during the rehabilitation project, and for five years following the certification of the project, must meet the Secretary of the Interior's *Standards for Rehabilitation*. Unapproved changes within that five-year post-project period could result in recapture of the tax credit by the IRS.

Similarly, you must keep the building for at least five years from the date you complete the project. The tax credit recapture amount ranges from 100% if the building is sold within the first year, to 20% if it is sold within the fifth year.

For more information or application instructions contact: Amber Anderson (amberanderson@utah.gov or 801/245-7277) Utah State Historic Preservation Office 210 N 1950 W Third Floor Salt Lake City, UT 84134

Additional local preservation requirements may also apply.
Contact your city or county government for more information.

For tax-related questions, see:

*<https://www.irs.gov/businesses/small-businesses-self-employed/tax-aspects-of-the-historic-preservation-tax-incentives-faqs>

*<https://www.nps.gov/subjects/taxincentives/index.htm>

For a list of preservation contractors see Preservation Utah's Directory:

*<https://preservationutah.org/resources/tools-for-property-owners/ut-preservation-directory>



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