

TEXAS HISTORICAL COMMISSION

real places telling real stories

Historic Rehabilitation Tax Credits: Using the New State Credit and the Federal Tax Credit

San Antonio Workshop

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Historic Rehabilitation Tax Credits

Tax credits are among the **most powerful financial incentives** for historic preservation.



Tax credits' benefit is created by offsetting **income tax or business tax** liability.

Two opportunities are available: the **federal** and **state** tax credit programs.



Historic Rehabilitation Tax Credits

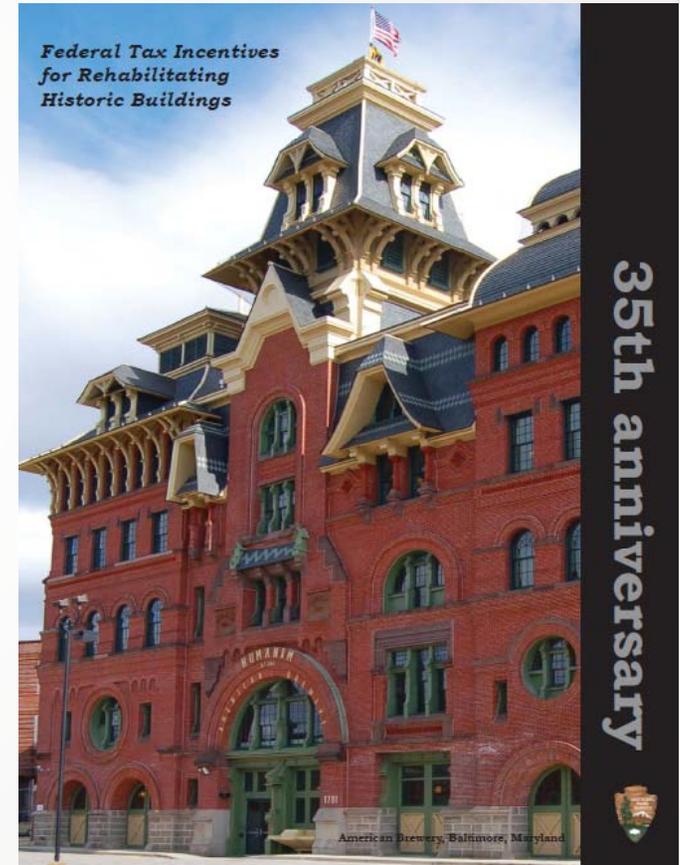
The Federal Historic Preservation Tax Incentive Program

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

Since 1976, the credit has:

- **Revitalized 38,700** vacant and underutilized buildings,
- Created **2.35 million** jobs,
- And spurred **over \$106 billion** in private investment.

It is “the nation’s most significant financial incentive for the reuse of historic buildings and revitalization of historic downtowns”.





Historic Rehabilitation Tax Credits

How does the federal program work?

1. The **THC** receives the applications and provides recommendations to the National Park Service.
2. A project is determined to be a *certified historic building* and meet the *Standards for Rehabilitation* by THC/NPS.
3. Upon completion, the **NPS** makes a final determination on whether the projects is a certified rehabilitation project.
4. The **IRS** issues the credit for **20%** of the qualified rehabilitation expenditures (QRE) toward their **federal income tax liability**.



Historic Rehabilitation Tax Credits

What has been the impact of the federal program in Texas?

- Over **500+** certified projects since 1979
- **\$1.28 billion** in rehab cost
- **\$254 million** in tax credits to individuals and businesses
- Supported over **29,000 jobs**
- Generated **\$814 million** in income

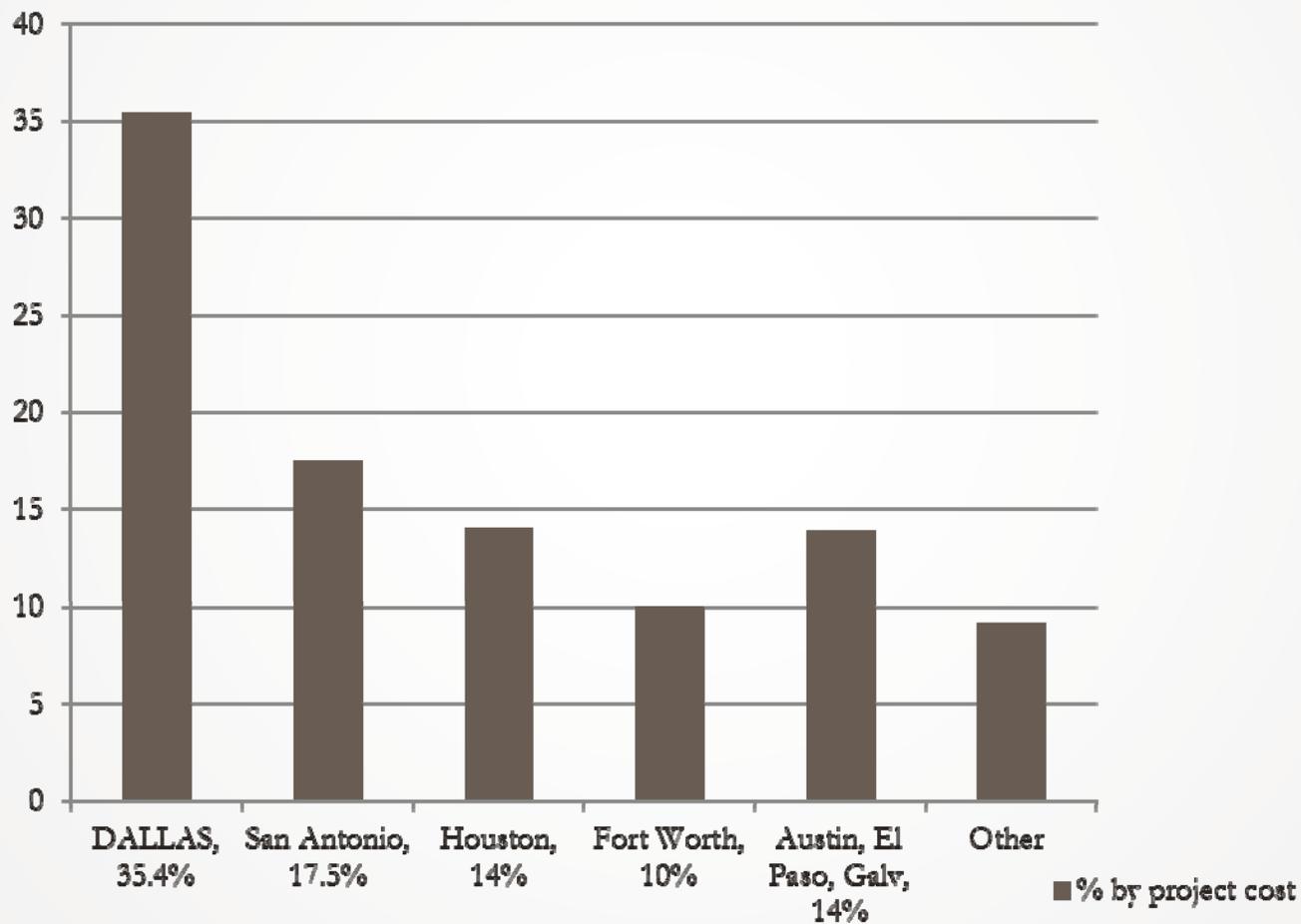


The Settles Hotel in Big Spring



Historic Rehabilitation Tax Credits

Federal HTC projects in Texas, geographic distribution





Historic Rehabilitation Tax Credits

The New State Tax Credit: *Texas Historic Preservation Tax Credit (THPTC)*



During the 83rd Texas Legislative Session (FY 2012-13), **House Bill 500** was introduced by Representative Harvey Hilderbran.

Administrative rules were passed last year, and the program officially went into effect on January 1, 2015.

Over 40 applications have been received to date.



Historic Rehabilitation Tax Credits

Texas is now one of 35 states that have **state tax credit incentives** to supplement the federal program.

Ours is one of the **best in the country.**

The program is modeled after the federal program. The intention is to **facilitate “twinning”** or simultaneous application for both credits.





Historic Rehabilitation Tax Credits

How does the state program work?

1. The **THC** receives the applications and reviews to determine if it is a *certified historic building* and meet the *Standards for Rehabilitation*.
2. After completion of the project, the applicant receives a certificate worth **25% of the qualified rehabilitation expenditures** from Texas Comptroller of Public Accounts toward their **state franchise tax**.
3. If the applicant cannot use the credit, they **may sell or transfer the credit** freely.



Historic Rehabilitation Tax Credits

Combining the state credit and the federal credit:

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 financially feasible before.





Historic Rehabilitation Tax Credits

Sample project

Total Qualified Rehabilitation Expenditures:
\$1,000,000

Federal
Credit
\$200,000

State
Credit
\$250,000

***On paper:
recoup 45% of expenses***

Federal
Credit
\$200,000

State Credit
if sold
~\$220,000

***If state credit is sold:
recoup 42% minus capital gains***

Federal
Credit
~\$150,000

State Credit
if sold
~\$220,000

***If state credit is sold and
federal is partnered:
recoup 37% minus capital gains***



Historic Rehabilitation Tax Credits

Similarities between the federal and state programs:

1) No competition or deadlines

- *Both programs are **not competitive***
- *No cap for credit on an individual project*
- *No caps on the total credits for the program*
- *Applications are reviewed continuously on a **yearlong rolling basis***



Historic Rehabilitation Tax Credits

Similarities between the federal and state programs:

2) Eligible property types

Buildings that are **income-producing*** qualify for the credit.
Owner-occupied residential properties are not eligible.

*pending HB 3230





Historic Rehabilitation Tax Credits

Similarities between the federal and state programs:

3) Only historic buildings. *The property must be determined to be a “certified historic structure.”*

E.g. listing on the National Register of Historic Places





Historic Rehabilitation Tax Credits

Similarities between the federal and state programs:

4) Requirements of the work. *The rehabilitation project must meet the Secretary of the Interior's Standards for Rehabilitation in order to be determined by the THC/NPS as a “**certified rehabilitation.**”*





Historic Rehabilitation Tax Credits

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**.





Historic Rehabilitation Tax Credits

The *Secretary's Standards for Rehabilitation* are a “building-first” approach.

- Prioritize the significant historic spaces, materials and character that remains.
- The current condition is the starting point.
- All buildings are different – the Standards are interpreted to apply to an individual property.
- Any work done on the exterior and interior is subject to review.



Historic Rehabilitation Tax Credits

Major differences between the federal and state programs:

1) **Amount and type of credit for each program differs.**

- *Federal credit is worth 20% of the eligible project costs and is applied against **federal income tax liability.***
- *State credit is worth 25% of the eligible project costs and is applied against **state franchise tax liability.***



Historic Rehabilitation Tax Credits

Major differences between the federal and state programs:

2) **Credit transferability is *better* for the state program.**

- *Federal income tax credit **cannot be directly transferred.***
- *State franchise tax **can be easily transferred** **which** allows entities (small businesses) with no franchise tax liability to take the credit.*



Historic Rehabilitation Tax Credits

Major differences between the federal and state programs:

3) Project *cost threshold* for state program is much *less*.

- *The federal credit requires a “**substantial rehabilitation**” (equal to the adjusted basis of the building or \$5000, whichever is greater).*
- *The state credit requires the project to be **at least \$5,000** (small projects in succession).*



Historic Rehabilitation Tax Credits

Major differences between the federal and state programs:

4) Definition of “owner” broader for state program.

- *The federal program allows private individuals and for-profit companies and non-profit organizations only if a for profit partner is at risk.*
- *The state program allows private individuals and for-profit companies ... and **may allow non-profit organizations** to participate directly on non-incoming producing properties by being exempted from the depreciation requirement of IRS 47(2)c, if HB 3230 passes.*



Historic Rehabilitation Tax Credits

See Comparison Chart for Federal/State programs

	Federal Historic Preservation Tax Incentives Program	Texas Historic Preservation Tax Credit Program
Credit applies to:	Federal Income Tax	Texas Franchise Tax
Percent credit offered:	20% of qualified expenditures	25% of qualified expenditures*
Credit recipient:	Current owner(s)	Current owner(s) May transfer whole or partial credit to others
Eligible applicants:	Individuals, companies, partnerships	Individuals, companies, partnerships, non profits and government entities
Eligible building uses:	Income-producing only	Income-producing only
Required historic designation:	National Register (individual or district) Required within 30 months of claiming credit	National Register (individual or district), Registered Texas Historic Landmark, or State Antiquities Landmark Required when credit is claimed
Minimum project:	\$5000/value of building (whichever is greater)	\$5000
Application structure:	3-part Federal application (1, 2, 3)	3-part application that mirrors Federal (A, B, C)
Recapture period:	5 years	No recapture period
Time limit for use of credits:	20 years	5 years
Architectural oversight:	National Park Service (NPS) certifies with THC's recommendation	Texas Historical Commission (THC) certifies projects NPS reviews first if applying for Federal & State
Financial oversight:	Credit managed by IRS	Credit managed by Texas Comptroller
Application deadline:	Must apply before project completion	Projects completed between September 1, 2013 and January 1, 2015 may apply retroactively All others must apply before project completion
Applications accepted:	Any time	Beginning January 1, 2015



Historic Rehabilitation Tax Credits

How is the state credit sold?

- It is up to the recipient to coordinate with a buyer in a **private sale**.
- There are **many interested buyers** who will pay on average ~\$0.87 per dollar.
- Interested buyers may include **capital companies** or **local large companies** that incur franchise tax.
- When the credit is sold, the buyer and seller record the transfer with the Texas Comptroller.



Historic Rehabilitation Tax Credits

Cost eligibility

- Only **Qualified Rehabilitation Expenditures** apply.

Qualified Costs

(examples)

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

Non-Qualified Costs

(examples)

- Acquisition costs
- Site work (landscaping, parking, etc.)
 - New additions
 - New construction
 - Signage
- Appliances & furniture



Historic Rehabilitation Tax Credits

Afterwards:

- For the federal program, you cannot sell or drastically change your property during a **5-year recapture** period.
- There are **no further requirements** of either program. National Register listing imposes no future review requirements.
- You may apply again for the credit at any time.



Historic Rehabilitation Tax Credits

For more information about historic tax credits:

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For information on the **Texas Historic Preservation Tax Credit**:
<http://www.thc.state.tx.us/preserve/projects-and-programs/preservation-tax-incentives>

Information on the **Federal Rehabilitation Tax Incentive Program**:
<http://www.nps.gov/tps/tax-incentives.htm>



Historic Rehabilitation Tax Credits

Many potential new projects are poised to take advantage of these tax credits!



Bassett Building, El Paso



Melrose Building, Houston

Who is next?



Rand Building, San Antonio

