Federal Historic Preservation Tax Credits

The Federal Historic Preservation Tax Incentives program reduces a building owner's federal income taxes by 20% of the rehabilitation project's budget.

Administered by the Illinois Historic Preservation Agency (IHPA), National Park Service (NPS), and Internal Revenue Service (IRS).

For more information about this program contact Mike Ward at the IHPA: 217-785-5042

To qualify for the tax credits the cost of a project must exceed the greater of $5,000 or the building's adjusted basis. The formula for determining the adjusted basis is as follows:

A - B - C + D = adjusted basis
A = purchase price of the property
B = the part of the purchase price attributed to the land cost
C = depreciation taken for an income-producing property
D = cost of any capital improvements made since purchase

Two examples showing how the tax credits can benefit you:

- Mr. Dillon has owned a downtown retail building for a number of years. He originally purchased the property for $150,000, and of that purchase price $40,000 was attributed to the cost of the land. Over the years, Mr. Dillon has depreciated the building for tax purposes by a total of $60,000. He recently replaced the roof at a cost of $8,000. Mr. Dillon's adjusted basis would be $58,000. The adjusted basis calculation is as follows:

$150,000	purchase price
-$40,000	part of purchase price attributed to land cost
$110,000	subtotal
-$60,000	depreciation
$50,000	subtotal
$8,000	improvements made since purchase (roof replacement)
$58,000	**Adjusted Basis**

Since he intends to spend $60,000 on improvements (to fix a leaking basement wall, upgrade the heating/air conditioning systems, and repair the deteriorated storefront) the project would qualify for a 20% rehabilitation tax credit as follows:

$60,000	cost of project improvements
x 0.20	20%
$12,000	**Federal income tax credit**

- Mr. Jones has just purchased an old home in a historic district he intends to rent. He originally purchased the property for $130,000, and of that purchase price $33,000 was attributed to the cost of the land. Since the property was just purchased, Mr. Jones has not yet depreciated the

building for tax purposes or made capital improvements. Therefore, Mr. Jones's adjusted basis is $97,000. The adjusted basis calculation is as follows:

$130,000	purchase price
$33,000	part of purchase price attributed to land cost
$97,000	subtotal
$0	depreciation
$97,000	subtotal
$0	improvements made since purchase
$97,000	**Adjusted Basis**

- Since he intends to spend $100,000 on a substantial rehabilitation of the property (including the installation of a new roof, repair of siding, upgrading the wiring, repairing plumbing fixtures, rebuilding the severely deteriorated front porch, and replacing windows and doors) the project would qualify for a 20% rehabilitation tax credit as follows:

$100,000	cost of project improvements
x 0.20	20%
$20,000	**Federal income tax credit**

Details of the Historic Preservation Tax Credit Program:

- The program is only for income-producing depreciable property:
  - Properties rehabilitated for commercial, agricultural, industrial, rental residential use.
- Owner-occupied housing is not eligible.
- Building must be a certified historic structure:
  - Listed on the National Register (individually or contributing to a National Register district); or
  - A contributing building within a local historic district certified by the NPS for the tax credits.
  - Individually listed local landmarks are not eligible.
- Project must be certified by the NPS to meet the Secretary of the Interior's Standards for Rehabilitation.
  - Requires the preservation the existing significant historic features and materials.
  - Does not require restoring a building or its features to their original appearance.
  - Non-historic features may be removed or retained, if desired.
  - New, compatible alterations or additions may be added.
  - New additions outside the existing building envelope cannot be claimed for the credit.
- Owner must spend more than $5,000 or the Adjusted Basis, whichever is larger, during a 24-month period. Owners may qualify for a 60-month phased project, but it requires more up-front planning.
- Eligible rehabilitation expenditures may include:
  - Architectural and construction costs on the historic building.
  - Soft costs that are depreciable rather than taken as a one-time expense: Architectural and Engineering fees, survey, legal, development fees, construction-related costs.

- Ineligible expenditures include acquisition, furnishings, new additions, or landscape or site improvements.
- It is strongly recommended that applications be filed ***before work begins*** to avoid costly mistakes or possible denial.
- Must fill out a three-part application that is reviewed by IHPA and the NPS.
    - Part I: Certifies that the building is "historic."
    - Part II: Describes the proposed work. Must submit photos of the pre-construction conditions. Architectural drawings and specifications must be submitted if/when available.
    - Part III: Certifies that the work has been completed, has met the Standards, and lists the value of the renovation. The certified Part III is filed with the IRS for claiming the tax credit in the year the project is completed.
- Part I *must* be submitted prior to placing the building in service or the application will be denied.
- The building must be placed in service after completion to claim the credit.
- Sliding fee for review ranging from free for projects < $20,000 up to $2,500 for projects > $1 million.
- Owner must retain the building for five years or return a prorated portion of the credits.
- Approval of proposed work typically takes from 3 to 6 months.

More information on these programs can be found at the Illinois Historic Preservation Agency.