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

San Antonio Workshop

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Texas Historical Commission

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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”.
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.
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
Federal HTC projects in Texas, geographic distribution

<table>
<thead>
<tr>
<th>City</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>DALLAS</td>
<td>35.4%</td>
</tr>
<tr>
<td>San Antonio</td>
<td>17.5%</td>
</tr>
<tr>
<td>Houston</td>
<td>14%</td>
</tr>
<tr>
<td>Fort Worth</td>
<td>10%</td>
</tr>
<tr>
<td>Austin, El Paso, Galv</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
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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.
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.
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.
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.

Federal 20% + State 25% = Max Benefit 45%
### Historic Rehabilitation Tax Credits

#### Sample project

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

<table>
<thead>
<tr>
<th>Federal Credit</th>
<th>State Credit if sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>$200,000</td>
<td>$250,000</td>
</tr>
</tbody>
</table>

On paper: recoup 45% of expenses

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

If state credit is sold and federal is partnered: recoup 37% minus capital gains
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
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
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
**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.”
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.*
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.
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).
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.
<table>
<thead>
<tr>
<th><strong>Federal Historic Preservation Tax Incentives Program</strong></th>
<th><strong>Texas Historic Preservation Tax Credit Program</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit applies to:</strong></td>
<td>Federal Income Tax</td>
</tr>
<tr>
<td><strong>Percent credit offered:</strong></td>
<td>20% of qualified expenditures</td>
</tr>
<tr>
<td><strong>Credit recipient:</strong></td>
<td>Current owner(s)</td>
</tr>
<tr>
<td><strong>Eligible applicants:</strong></td>
<td>Individuals, companies, partnerships</td>
</tr>
<tr>
<td><strong>Eligible building uses:</strong></td>
<td>Income-producing only</td>
</tr>
<tr>
<td><strong>Required historic designation:</strong></td>
<td>National Register (individual or district) Required within 30 months of claiming credit</td>
</tr>
<tr>
<td><strong>Minimum project:</strong></td>
<td>$5000/value of building (whichever is greater)</td>
</tr>
<tr>
<td><strong>Application structure:</strong></td>
<td>3-part Federal application (1, 2, 3)</td>
</tr>
<tr>
<td><strong>Recapture period:</strong></td>
<td>5 years</td>
</tr>
<tr>
<td><strong>Time limit for use of credits:</strong></td>
<td>20 years</td>
</tr>
<tr>
<td><strong>Architectural oversight:</strong></td>
<td>National Park Service (NPS) certifies with THC's recommendation</td>
</tr>
<tr>
<td><strong>Financial oversight:</strong></td>
<td>Credit managed by IRS</td>
</tr>
<tr>
<td><strong>Application deadline:</strong></td>
<td>Must apply before project completion</td>
</tr>
<tr>
<td><strong>Applications accepted:</strong></td>
<td>Any time</td>
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</table>
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
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.
For more information about historic tax credits:

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512-463-3857    |    valerie.magolan@thc.state.tx.gov

Greg Smith, National Register Coordinator at THC
512-463-6013    |    greg.smith@thc.state.tx.gov

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!

Who is next?

Bassett Building, El Paso
Melrose Building, Houston
Rand Building, San Antonio