

Federal Tax Incentive Programs for Historic Preservation

Two federal tax incentive programs currently apply to preservation activities: the Rehabilitation Investment Tax Credit program (RITC), and the charitable contribution deduction. The Rehabilitation Investment Tax Credit program effectively reduces the costs of rehabilitation to an owner of a historic income-producing property. The charitable contribution deduction is a donation of the historic value of a structure and is available to owners of both residential and income-producing properties.

Rehabilitation Investment Tax Credit (RITC)

The Rehabilitation Investment Tax Credit program provides to owners of certified historic structures, who undertake a certified rehabilitation, a federal income tax credit equal to *20 percent of the qualified rehabilitation expenses*. Only properties utilized for income-producing purposes can take advantage of the credit.

Tax Credit, 20 percent:

To be eligible for the 20 percent tax credit:

- The building must be listed, or eligible for listing, in the National Register of Historic Places, either individually or as a contributing building within a historic district.
- The project must meet the “substantial rehabilitation test.” This test means that the cost of the rehabilitation must be greater than the adjusted basis of the property and must be at least \$5,000. Generally, projects must be finished within two years.
- After the rehabilitation, the building must be used for an income-producing purpose for at least five years.
- The rehabilitation work itself must be done according to *The Secretary of the Interior’s Standards for Rehabilitation*; these are common-sense guidelines for appropriate and sensitive rehabilitation.

All rehabilitation tax credit projects must be reviewed by the Georgia Historic Preservation Division (HPD), and certified by the National Park Service (NPS). A property owner interested in participating in the program must submit the Historic Preservation Certification Application and supporting documentation to HPD for review and comment. After HPD reviews the work, the project is forwarded to NPS for final certification.

The application has three parts:

- Part 1 requests documentation that the building is a historic structure, listed or eligible for listing in the National Register of Historic Places.
- Part 2 requests a detailed description of the rehabilitation work supplemented with before rehab photographs and proposed floor plans. The Part 2 should be submitted to HPD before work begins to ensure compliance with the Standards.
- Part 3 is the Request for Certification of Completed Work. This application is submitted after the rehabilitation is complete and requests photo-documentation of the rehabilitation in compliance with the Standards for Rehabilitation.

Tax Credit, 10 percent

There is a 10 percent federal income tax credit available to property owners who rehabilitate non-historic buildings built before 1936.

To be eligible for the 10% tax credit:

- The building must be built before 1936 and be non-historic. A non-historic building is one that is not listed in the National Register, either individually or as a contributing building within a historic district. If the property is located in a National Register Historic District, a Part 1 must be submitted and reviewed by HPD and NPS for certification of non-historic significance.
- A building must meet the physical wall retention test. At least 50% of the building's walls existing before the rehab must remain as external walls, at least 75 % of the external walls must remain in place as either external or internal walls, and 75% of the internal structure must remain in place.
- The project must meet the "substantial rehabilitation test." This test means that the cost of the rehabilitation must be greater than the adjusted basis of the building and must be at least \$5,000. Generally, projects must be finished within two years.
- The building must be used for non-residential, income-producing purposes for at least five years after the rehabilitation. Therefore, properties used for residential rental income are excluded.

Rehabilitation work under the 10% tax credit program is not subject to review by any state or federal agency. If the above criteria are fulfilled, then the 10% rehabilitation tax credit can be claimed as an investment credit on an owner's federal income tax return.

Charitable Contribution Deduction

The charitable contribution deduction is taken in the form of a conservation easement and enables the owner of a “certified historic structure” to receive a one-time tax deduction. A conservation easement ensures the preservation of a building’s facade by restricting the right to alter its appearance. Qualified professionals should be consulted on the matters of easement valuations and the tax consequences of their donation.

To be eligible for the charitable contribution deduction:

- The property must be listed in the National Register of Historic Places, either individually or as a contributing building within a historic district. If a property is located in a National Register Historic District, a Part 1 must be submitted to HPD for review and certification by NPS.

Upon request, HPD will offer technical assistance to rehabilitation tax projects either by meeting with individuals at HPD, or on-site to discuss specific rehab issues. HPD encourages early communication with the office.

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