



# Historic Tax Credits

## PRIMER

### INTRODUCTION TO HISTORIC TAX CREDITS

The Historic Tax Credit encourages private/public sector investment in the rehabilitation and re-use of historic buildings. Requirements for historic tax credits vary depending on the administering entity, whether it be the federal, a state, or a local government. Generally, a historic tax credit works by allowing property owners to apply a certain level of project expenditures used to refurbish historically significant structures or buildings within a historic district as a claim for tax credits on their tax returns to directly offset tax liabilities. The program has enhanced property values, created jobs, generated local, state, and federal revenues, and revitalized communities in need of economic development. These tax credits are not permanent and terms fluctuate; as such, they are different than new market tax credits.

The federal historic preservation tax incentives program began in 1976 and is administered by the National Park Service in partnership with the Internal Revenue Service. The federal program is only available to properties rehabilitated for income-producing purposes, including commercial, industrial, agricultural, or residential leasing, and these properties receive a 20% tax credit for eligible expenses. The facilities must be either registered on the National Register or in an area certified as a local historic district. Local governments do not typically qualify for the program unless leasing space through a private entity.

[Currently, 35 states are allowed to utilize Historic Tax Credits](#) to encourage redevelopment and preservation. Once a project has received eligible tax credits, in lieu of property owners using those credits, some states allow for the credits to be traded or sold as commodities for “buyers” to use to offset their own tax liabilities. Banks and local governments are often the trading parties with property owners in such transactions, and although banks can use the credits against their own tax liabilities, they often sell them to other brokers or wealthy customers. This aspect of the tool is beneficial to local governments who can sell the credits to banks through a request for proposal process. While tax credits are typically discounted in the market, revenue from the sale of the credits can then be applied to a project’s expenses.

Tax credits are a widely adopted practice because they can be a powerful economic development tool for a community interested in revitalizing distressed properties of historical significance or property within a district of historical significance.

### USE OF HISTORIC TAX CREDITS

Designated State Historical Preservation Offices (SHPOs) act as the first point of contact for property owners for Federal and State Tax Credits. They can assist with applications, regulations, or technical assistance and maintain records of buildings and districts.

One of the program requirements for a historic preservation credit is that the building must be listed on the National Register of Historic Places list or be certified as contributing to the significance of a registered historic district. In addition, expenses are typically limited to items such as walls, floors, ceilings, etc. that contribute to the significance of the historic building or its continued use. And, ownership of the property must not change within a set number of years (five years in the federal program) after receipt of the credit or else the credit must be paid back to the government.



Historic tax credits can be utilized either by local governments, if credits are transferrable, or by private developers. Since local governments don't have tax liabilities, some states allow them to transfer tax credits and sell them to financial institutions at a discount to offset their tax liabilities. These credits become part of the overall financial package that make renovation advantageous for development. Applications are required in advance of rehabilitation work in order to ensure that proper review occurs and the project rehabilitates the historic value of the property. The Tax Reform Act of 1986 also established a tax credit for the acquisition, rehabilitation, or new construction of low-income housing, often referred to as the Lower Income Housing Tax Credit (LIHTC) program. The federal tax credit for low-income housing can be combined with the federal historic tax credit.

## QUESTIONS THE FINANCE OFFICER SHOULD ASK ABOUT HISTORIC TAX CREDITS

The finance officer should be prepared to answer the following questions about a proposed historic tax credit:

- » Does the entity plan on transferring the tax credits? What is the current discount rate for the transferrable tax credits if they are being applied to a municipal project?
- » What is the risk of project completion if the tax credits are not acquired?
- » How will costs be borne by the developer if the tax credits are not obtained?
- » How will proof of the tax credits be obtained?
- » Does the entity making the application qualify for the tax credits?
- » What expenses and/or proportion of the overall project count as qualified rehabilitation expenses?

## OUTSIDE RESOURCES FOR HISTORIC TAX CREDITS

- » National Park Service:  
[https://www.nps.gov/tps/tax-incentives/incentives/essentials\\_1.htm](https://www.nps.gov/tps/tax-incentives/incentives/essentials_1.htm)  
[https://www.nps.gov/tps/tax-incentives/taxdocs/IRS\\_HRTC\\_LIHTC.pdf](https://www.nps.gov/tps/tax-incentives/taxdocs/IRS_HRTC_LIHTC.pdf)
- » Preservation Leadership Forum:  
<http://forum.savingplaces.org/learn/fundamentals/economics/tax-credits/state-htc>
- » Evaluating and Selecting Economic Development Projects:  
<http://www.gfoa.org/evaluating-and-selecting-economic-development-projects>
- » Establishing an Economic Incentive Policy:  
<http://www.gfoa.org/establishing-economic-development-incentive-policy>

## About GFOA

The Government Finance Officers Association (GFOA) represents approximately 20,000 public finance officers throughout the United States and Canada. GFOA's mission is to promote excellence in state and local government financial management. GFOA views its role as a resource, educator, facilitator, and advocate for both its members and the governments they serve and provides best practice guidance, leadership, professional development, resources and tools, networking opportunities, award programs, and advisory services.