

TAX BENEFITS

for Owners of **HISTORIC BUILDINGS**



INDIANA LANDMARKS

SINCE 1976, federal and state governments have encouraged people to re-use historic structures by offering tax credits as incentives. Tax credits work like this: 20 percent of what a property owner spends to rehabilitate a historic, income-producing property comes off the bottom line of the taxes paid to the state and federal governments.

If an owner has spent \$100,000 to restore an old hotel, for example, he pays \$20,000 less in federal tax and \$20,000 less in state tax. Rules govern what types of buildings and what kind of work qualifies. Indiana's rules differ slightly from those set by the federal government, so it's best to seek the advice of a tax attorney and preservation experts before moving forward with a project. The following general information shows that rehabbing historic buildings can result in significant tax savings.

TWO TYPES OF TAX BREAKS BENEFIT OWNERS OF HISTORIC PROPERTIES:

HISTORIC REHABILITATION INVESTMENT TAX CREDITS

are for people who own and renovate qualified historic commercial or residential properties. These credits apply to federal and state taxes.

TO QUALIFY for the Rehabilitation Investment Tax Credit (RITC), a building must be listed in or eligible for the National Register of Historic Places, either individually or as a contributing structure in a designated historic district. The property can be a commercial building, a factory, or even an old house—but it must be income-producing, not a private residence.

To qualify for the credit, the renovation work must qualify as a “certified rehabilitation,” meaning that it complies with the Secretary of the Interior’s Standards for Rehabilitation. These guidelines are available from the National Park Service or in Indiana Landmarks’ library (see “Resources”). In a nutshell, the Secretary’s Standards say:

- Don't change anything you don't have to change.
- If you have to change something, make sure it doesn't alter the significance of the property.
- Don't do anything that can't be reversed.

Following the Secretary’s Standards alone is not enough to qualify your project for the RITC, however. Before any demolition or renovation work begins, the federal and state programs both recommend that property owners submit plans to ensure that proposed work will be approved. For both the federal and state tax credits, plans must be submitted to the Indiana Division of Historic Preservation and Archaeology (DHPA).

Qualifying for the RITC also requires “substantial rehabilitation,” which means spending more than \$10,000 or the property’s adjusted basis—whichever is greater—over a specified period, typically 24 to 60 months, depending on the complexity of the project. While most applicants

for tax credits reap the financial rewards themselves, some developers sell the tax credits to raise money to fund rehabilitation projects.

DHPA encourages applicants to apply as early as possible in the process of planning a building’s rehabilitation. The DHPA also recommends consulting your accountant or tax attorney before you embark on a tax credit project.

A note of caution: Because there is currently an annual limit on the total amount of Indiana state tax credits available for income-producing properties, a years-long backlog has accumulated of owners waiting to secure their credits. (The federal tax credit has no annual limit or waiting list.) Indiana Landmarks is appealing to the legislature to make the state credit a useful tool by raising the limit and eliminating the backlog.

A property owner who rehabs a primary residence may qualify for the Indiana Residential Historic Rehabilitation Credit if the house is at least 50 years old and listed in the Indiana Register of Historic Places either individually or as part of a district.

The program allows an owner-occupant to take a credit against state income tax liability equal to 20 percent of “qualified” preservation or rehab expenses. The amount spent must exceed \$10,000 and can't include such items as the cost of enlarging an existing structure, paving, or landscaping.

To determine just what expenses qualify, property owners must submit a preservation or rehabilitation plan to the Indiana Division of Historic Preservation and Archaeology (DHPA) for approval prior to beginning work. If approved rehabilitation expenses total \$20,000,

for example, a homeowner would qualify for a \$4,000 tax credit. Work must be completed within a specified period, ranging from two to five years.

If the credit exceeds a homeowner's state tax liability, the remainder may be carried over for up to 15 years. (While the state also limits the total amount of tax credits available in a given year, there is presently no waiting list as there is to claim the credits for income-

producing properties.) The residential credit is subject to recapture by the state within five years of the work's completion—triggered if the homeowner sells the property or completes any additional work that doesn't meet the DHPA's standards. With this credit, too, it pays to contact the DHPA—and your accountant or tax attorney—well in advance.



REHABILITATION PROPERTY TAX DEDUCTIONS

Deductions available to owners who restore historic commercial and residential buildings in Indiana.

WHEN A BUILDING'S assessed value rises, Indiana property taxes usually increase. But when the structure is certified as historic, and the increase in assessed value is due to qualified renovation work, the building's owner can deduct 50 percent of the increase from his or her property tax bill.

Indiana taxpayers who rehabilitate historic structures—commercial properties as well as private homes—can take the deduction annually for each of the first five years after the assessment increases. For example, if a building owner's usual property tax bill is \$10,000 annually, and rehabilitation work raises the bill to \$15,000 annually, the property owner can deduct half the increase—\$2,500 in this example—from his property tax bill every year for the next five years. The deduction is limited to \$20,000 for the owner of a single-family home, and to \$100,000 for owners of other types of historic properties.

To qualify for the deduction:

- The property must be 50 years old or older
- The rehabilitation work must have cost at least \$10,000
- The work must have been done to remodel, repair or enlarge the existing structure. However, the deduction for an addition is limited to the square footage of the historic portion of the building. For example, if the original structure is 2,000 square feet, and the addition is 3,000 square feet, the deduction only applies to 2,000 square feet of the addition.
- Taxpayers must file an Application for Deduction from Assessed Valuation of Rehabilitated Property (State Tax Board Form 322 or 322a) with the county auditor.

For more details and to request the state tax form, call your county auditor's office.

OTHER TAX INCENTIVES

THE LOW INCOME Housing Tax Credit is another potent incentive for the rehabilitation of historic buildings. It can be combined with the RITC to accomplish two good deeds at once—producing housing for low-income people while renovating historic structures. The federal government also provides certain tax incentives for the creation of rural housing. A tax expert can outline your options for combining various tax incentives.

Donating a preservation easement on a historic property or donating a building to Indiana Landmarks provides tax benefits similar to any other charitable donation, and offers the added advantage of protecting the property from inappropriate changes in perpetuity. For more information on either option, call 317-639-4534 or 800-450-4534 to consult with Indiana Landmarks' Vice President for Development.

RESOURCES

INDIANA LANDMARKS, a private non-profit preservation organization, saves, restores, and protects places of architectural and historical significance. To enlist our help, contact the regional office nearest you or our **state headquarters**:

1201 Central Avenue
Indianapolis, IN 46202
317-639-4534 or 800-450-4534

www.indianalandmarks.org

Our Regional Offices:

Central Regional Office
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317-639-4534 or 800-450-4534
central@indianalandmarks.org

Eastern Regional Office
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765-478-3172
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Western Regional Office

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Southwest Field Office

Evansville
812-423-2988
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You'll find a wealth of helpful information on our website:

www.indianalandmarks.org

For information about requirements of the Rehabilitation Investment Tax Credit, the Indiana Residential Historic Rehabilitation Credit, or nominating a property to the National Register of Historic Places, contact:

Indiana Division of Historic Preservation and Archaeology

402 West Washington Street, Room 274
Indianapolis, IN 46204
317-232-1646

www.in.gov/dnr/historic

National Park Service

Secretary of the Interior's Standards for Rehabilitation

www.nps.gov/history/hps/tps/standguide/

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