Federal and State Incentives for Owners of Historic Buildings

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FEDERAL AND STATE GOVERNMENTS encourage re-use of historic structures by offering as incentives tax credits for restoration. 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 federal government.

If you spend $100,000 to restore an old hotel, for example, you pay $20,000 less in federal tax. Rules govern what types of buildings and what kind of work qualifies. 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.

In 2016, the state introduced a grant program to encourage downtown revitalization. The program replaced a state tax credit that mirrored the federal incentive.

Federal Tax Break for Income-Producing Property

AN OWNER WHO RENOVATES QUALIFIED historic commercial or residential property following preservation standards may apply for a federal tax credit. 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.

The renovation work must qualify as a “certified rehabilitation,” meaning that it complies with the Secretary of the Interior’s Standards for Rehabilitation. 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.

To ensure that proposed work will be approved, before any demolition or renovation work begins, property owners applying for the federal credit should submit plans to the Indiana Division of Historic Preservation and Archaeology (DHPA). DHPA also reviews all final tax credit applications.

Qualifying for the RITC 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 and also recommends consulting your accountant or tax attorney before you embark on a tax credit project.

Indiana Tax Break for Historic Residential Property

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 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. The residential credit is subject to recapture by the state within five years of the work’s completion.
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 DHPA—and your accountant or tax attorney—well in advance.

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 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.

State Historic Renovation Grant Program

WHEN IT ELIMINATED THE INDIANA Commercial Rehabilitation Tax Credit, the legislature created a grant program to rehab historic properties as a downtown economic development incentive. The state’s Office of Community and Rural Affairs (OCRA) manages the annual grant program. The building must be at least 50 years old and listed in the State or National Register of Historic Places. The structure must be actively used and income producing, and renovation must follow the Secretary of the Interior’s Standards for Rehabilitation.

Once a year, OCRA awards grants up to $100,000, limited to 50 percent of eligible project costs (exterior only), with proof required for the 50 percent match. The process required submission of a letter of intent, followed by a formal application (see Resources).

Facade and Economic Development Grants

SOME COMMUNITIES OFFER MATCHING grants to owners of downtown commercial buildings to restore the historic facades. Check with your local preservation organization or commission to see if such a program exists in your town. Other incentives may be available for renovation of historic commercial or industrial buildings through a local or regional economic development corporation if the new use of the structure creates jobs and boosts the local tax base.

Tech Assistance

If you’d like to consult professional help in deciding if a historic structure might qualify for any of the incentives outlined here, contact Indiana Landmarks, a private non-profit organization, at any of our nine offices (see left). The preservation professionals in our regional offices offer free advice to anyone considering the rehabilitation of a historic building. You’ll also find a wealth of helpful information on our website www.indianalandmarks.org.

Resources

- For information about requirements of the federal Rehabilitation Investment Tax Credit, 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
- You can access the Secretary of the Interior’s Standards for Rehabilitation on the National Park Service at www.nps.gov/tps/standards/rehabilitation/rehab/stand.htm.
- For detailed information on the Historic Renovation Grant Program, contact: Office of Community and Rural Affairs One North Capitol, Suite 600 Indianapolis, IN 46204
- You can download guidelines and the application at www.in.gov/ocra/hrgp/htm.
- However, your first stop should be your OCRA Community Liaison (www.in.gov/ocra/files/CL_Map.pdf).