



Historic Rehabilitation Tax 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.



Historic Rehabilitation Tax Credits

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.





Historic Rehabilitation Tax Credits

Sample project

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

Federal Credit \$200,000	State Credit \$250,000
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***On paper:
recoup 45% of expenses***

Federal Credit \$200,000	State Credit if sold ~\$220,000
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***If state credit is sold:
recoup 42% minus capital gains***

Federal Credit ~\$150,000	State Credit if sold ~\$220,000
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***If state credit is sold and
federal is partnered:
recoup 37% minus capital gains***



Historic Rehabilitation Tax Credits

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





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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





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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.**”*





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.***



Historic Rehabilitation Tax Credits

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.*



Historic Rehabilitation Tax Credits

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).*



Historic Rehabilitation Tax Credits

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.*



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See Comparison Chart for Federal/State programs

	Federal Historic Preservation Tax Incentives Program	Texas Historic Preservation Tax Credit Program
Credit applies to:	Federal Income Tax	Texas Franchise Tax
Percent credit offered:	20% of qualified expenditures	25% of qualified expenditures*
Credit recipient:	Current owner(s)	Current owner(s) May transfer whole or partial credit to others
Eligible applicants:	Individuals, companies, partnerships	Individuals, companies, partnerships, non profits and government entities
Eligible building uses:	Income-producing only	Income-producing only
Required historic designation:	National Register (individual or district) Required within 30 months of claiming credit	National Register (individual or district), Registered Texas Historic Landmark, or State Antiquities Landmark Required when credit is claimed
Minimum project:	\$5000/value of building (whichever is greater)	\$5000
Application structure:	3-part Federal application (1, 2, 3)	3-part application that mirrors Federal (A, B, C)
Recapture period:	5 years	No recapture period
Time limit for use of credits:	20 years	5 years
Architectural oversight:	National Park Service (NPS) certifies with THC's recommendation	Texas Historical Commission (THC) certifies projects NPS reviews first if applying for Federal & State
Financial oversight:	Credit managed by IRS	Credit managed by Texas Comptroller
Application deadline:	Must apply before project completion	Projects completed between September 1, 2013 and January 1, 2015 may apply retroactively All others must apply before project completion
Applications accepted:	Any time	Beginning January 1, 2015



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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



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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.