



Commonwealth of Pennsylvania
Pennsylvania Historical and Museum Commission
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FEDERAL HISTORIC PRESERVATION TAX INCENTIVES

Two federal tax incentive programs currently apply to preservation activities: the rehabilitation investment tax credit (RITC), and the charitable contribution deduction. The RITC effectively reduces the costs of rehabilitation to an owner of an income producing historic property. The charitable contribution deduction is a donation of the historic value of a structure and is available to owners of income producing properties as well as private residences.

REHABILITATION INVESTMENT TAX CREDIT (RITC)

RITC's are the most widely used incentive program. Certain expenses incurred in connection with the rehabilitation of an old building are eligible for a tax credit. RITC's are available to owners and certain long term leases of **income-producing properties**. There are two rates -20% for a historic building and 10% for a non-historic building, with different qualifying criteria for each rate.

To be eligible for the 20% Tax Credit:

- The building must be listed on the National Register, either individually or as a contributing building within a district or is a contributing building to a Certified Local District (a local historic district that has been certified by the National Park Service.)
- Building must be used for income producing purposes.
- Rehabilitation work itself must be undertaken according to the Secretary of the Interior's *Standards for Rehabilitation*.
- The project must meet the "substantial rehabilitation test." This test is where the amount of money to be spent on the rehabilitation is greater than the adjusted basis of the building or at \$5,000, whichever is more. Generally, projects must be finished within a 24-month period.
- After rehabilitation, the building must be owned by the same owner and operated as an income producing property for 5 years.

Two government agencies must review the project: The State Historic Preservation Office (SHPO) and the National Park Service (NPS). In Pennsylvania, the Bureau for Historic Preservation of the Pennsylvania Historical and Museum Commission serves as the SHPO. The owner submits the application forms to the Bureau for Historic Preservation. They are reviewed and passed on to the NPS for review and comment and final certification decision.

The application is a three part process. **Part 1** documents the building as a certified historic structure and is eligible to receive the tax credit. Buildings that are individually listed are automatically designated as certified historic structures. **Part 2** explains the scope of the rehabilitation work and should be filed before work begins. **Request for Certification of Completed Work** (Part 3) documents the completed work and is proof (for the IRS) that the rehabilitation is "certified". The SHPO provides ongoing technical assistance throughout the application process and encourages early communication with their office.

To be eligible for the 10% Tax Credit:

- The building must be built before 1936 and be non-historic. That is, not listed on the National Register, either individually or as a contributing building within a district or has been determined eligible for listing in the National Register of Historic Places.
- Building cannot be used for rental residential purposes.
- A building must meet the Wall Retention Requirement, retaining 50% to 75% of the external walls and retain 75% of the internal structural framework.
- The project must meet the "substantial rehabilitation test," where the amount of money to be spent on the rehabilitation is greater than the adjusted basis of the building and is at least \$5,000. Generally, projects must be finished within a 24-month period.
- After rehabilitation, the building must be owned by the same owner and operated as an income producing property for 5 years.

Rehabilitation work is not subject to review by any state or federal agency. If the above criteria are met, the 10% rehabilitation 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 usually involves the preservation of a building's facade by restricting the right to alter its appearance. If you would like to see your building preserved for future generations and/or you could benefit from a significant tax deduction, a conservation easement is something to consider. Qualified professionals should be consulted on the matter of easement valuations and the tax consequences of their decision.

To be eligible for the charitable contribution deduction:

The property must be listed in the National Register of Historic Places, either individually or as contributing building within an historic district. Buildings that are individually listed are automatically designated as certified historic structures. Buildings within National Register historic districts must have a Part 1 application reviewed by the SHPO and certified by the NPS.

Additional information, tax application forms and instructions are available from the Bureau for Historic Preservation upon request. Please contact BHP office at (717) 787-4363 and ask for tax credit assistance. As with any tax law, there are restrictions, which may affect your ability to make use of these tax benefits, so you should seek the advice of a tax consultant.

The Bureau for Historic Preservation within the Pennsylvania Historical and Museum Commission serves as the State Historic Preservation Office (SHPO) in Pennsylvania. Working in partnership with the United States Department of Interior, the SHPO carries out the mandates of the national Historic Preservation Act, as amended, and works with local communities to preserve the historical, architectural, and archaeological resources of Pennsylvania. For more information on historic preservation programs, contact the Bureau for Historic Preservation.

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