

Historic Preservation Tax Credits



The Kentucky Heritage Council/State Historic Preservation Office (KHC) administers the Kentucky Historic Preservation Tax Credit Program in partnership with the Kentucky Department of Revenue, and the Federal Historic Rehabilitation Tax Credit in partnership with the National Park Service.

What is a tax credit?

A tax credit differs from a tax deduction in that a tax deduction lowers the amount of income subject to taxation, while a tax credit is a **dollar-for-dollar reduction in income tax liability**. Taxpayers are urged to seek the advice of a qualified tax professional before proceeding with any tax credit rehabilitation project.

The Kentucky Historic Preservation Tax Credit Program offers:

- Up to 30% of qualified rehabilitation expenses for owner-occupied residential properties. A minimum investment of \$20,000 is required, with the total credit not to exceed \$60,000.
- Up to 20% of qualified rehabilitation expenses for all other properties (including commercial), requiring a minimum investment of \$20,000 or the adjusted basis, whichever is greater. Adjusted basis is the cost of purchase price minus the cost of the land, minus any depreciation, and plus any improvement (prior to the credit). For example, if the building and land was purchased for \$50,000, and the land is valued at \$5,000 (and there wasn't any depreciation or improvements), then your adjusted basis would be \$45,000. The total credit for a single tax credit project cannot exceed \$400,000.

Currently, the amount of historic preservation tax credits allowed for all Kentucky taxpayers for each calendar year is capped at \$5 million. If that limit is exceeded by approved projects, an apportionment formula must be applied to determine the amount of the credit that will be awarded per project. As a result, the final credit awarded to each project may be less than the entire percentage for which the project is eligible. Because the number of participants and the size of projects vary from year to year, KHC cannot predict in advance what this percentage will be.

What buildings qualify for the credit?

Buildings listed in the National Register of Historic Places, or located within a historic district listed in the National Register of Historic Places, and certified by the KHC as contributing to the historic significance of the National Register district qualify for the tax credit.

What work qualifies for the credit?

The program requires that you complete a "substantial improvement" (spending at least \$20,000 for owner-occupied buildings, or spending \$20,000 or the adjusted basis for commercial or other buildings) *within a consecutive 24-month period*. There is no allowance in Kentucky for phased projects longer than 24 months, so each tax credit project should be contained within a two-year period.

A building must be rehabilitated according to a set of technical standards established by the U.S. Secretary of the Interior. Compliance with the *Secretary of the Interior's Standards for Rehabilitation* must be certified by KHC. The *Standards* are intended to provide guidance to historic building owners and building managers, preservation consultants, architects, contractors, and project reviewers prior to rehabilitation.

The Kentucky Historic Preservation Tax Credit CAN assist non-profits with rehabilitation work

Although non-profit organizations generally have no tax liability, a non-profit can use the **transferability option** of the program. Ask the Kentucky Heritage Council for details!

How does the state tax credit differ from the federal rehabilitation tax credit?

In addition to the Kentucky Historic Preservation Tax Credit Program, the Kentucky Heritage Council administers the Federal Historic Rehabilitation Tax Credit Program in Kentucky. This program offers a federal tax credit of 20% for certified rehabilitation expenses **for income-producing properties** listed in or eligible for the National Register of Historic Places. Owner-occupied residences are not eligible for the federal tax credit. However, federal and state rehabilitation tax credits can be used in combination for the rehabilitation of commercial or income-producing properties.

What is the process for applying for the state preservation tax credit?

KHC reviews all tax credit projects for eligibility and should be consulted both prior to the start of a project, and then regularly throughout the course of the project, to ensure that the proper standards are followed. Applying for the credit is a three-part process:

PART 1 is the preliminary application, Evaluation of National Register Status, which determines if the proposed property is historic and listed in the National Register of Historic Places or in a National Register district. (Basically, Part 1 helps understand your property and place it in a historic context.)

PART 2 is the Description of Proposed Rehabilitation, which outlines in detail the proposed rehabilitation work. (Part 2 allows you to explain what you plan to do to the property.)

PART 3 is the Request for Certification of Completed Work form, submitted once the rehabilitation work is completed. (Part 3 allows KHC to make sure your work meets the Secretary of the Interior's Standards for Rehabilitation.)

Parts 1 and 2 may be submitted simultaneously. However, **any work done prior to certification of these applications by the Kentucky Heritage Council is done at the applicant's own risk, and may result in disqualification of the project.**

Photographic documentation of the project prior to rehabilitation and at each phase of the certification process is required.

For more information about the program and application instructions, and to download copies of the tax credit application, see www.heritage.ky.gov or contact:

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Secretary of the Interior's Standards & Guidelines for Rehabilitation
www.nps.gov/tps/standards/rehabilitation.htm

The Federal Rehabilitation Tax Credit Program
www.nps.gov/tps/tax-incentives/before-you-apply.htm

National Park Service/Technical Preservation Services Online Training
<https://www.nps.gov/tps/education/online-training.htm>