

TAX INCENTIVES FOR HISTORIC INCOME-PRODUCING PROPERTIES

The US Federal Government and State of Montana offer income tax credits for the rehabilitation of income-producing properties listed in the National Register of Historic Places. These credits incentivize revitalization of historic real estate and level the playing field when redevelopment exceeds the cost of new construction.

The Federal credit awards successful applicants an income tax credit equal to 20% of their rehab investment. The State of Montana's income tax credit is equal to 25% of the amount an owner claims under the Federal program. Those wishing to claim the state credit must first be certified for credits under the Federal program.

Since 1990, these programs have leveraged \$48.8 million in private investment towards Montana's historic buildings, earning property owners \$9.7 million in Federal credits and \$2.4 million in state. While owners realize immediate tax benefits, Montana sees real benefits through job creation, increased property values, and an improved tax base.

The [State Historic Preservation Office \(SHPO\)](#), [National Park Service \(NPS\)](#), the IRS, and their roles

SHPO is the liaison between applicants and the NPS, providing guidance throughout each project. The NPS comments on proposed work, determines if projects would meet program requirements, and certifies projects for credits. The IRS assists by interpreting Federal tax code through their [FAQ](#) webpage and direct consultation.

QUALIFYING FOR THE PROGRAM

Properties must be income producing

The Rehabilitation Tax Credit program is for buildings such as rental housing, commercial space, barns, or offices that are associated with a business venture. Private residential properties do not qualify for the program.

Working within the [Secretary of the Interior's Standards for Historic Rehabilitation](#)

The Rehabilitation Standards provide a decision making framework for applicants as they plan and implement building treatments. All work must adhere to the Standards to be certified for tax credits. Rehabilitation emphasizes retaining or reintroducing the historic character of a building while making it function to meet modern needs. This ideal is best achieved by maintaining historic building fabric, and replacing missing or severely damaged historic features in-kind.

Rehabilitations must be substantial

For a project to qualify for tax credits the owner's rehab investment must exceed a certain dollar amount referred to as the building's *adjusted basis*. The formula for determining the adjusted basis is: the cost of the building, plus capital improvements, minus the cost of the land, minus depreciation.

National Register listing requirements

Buildings that would qualify for tax credits must be listed in the National Register or be determined eligible for listing by the NPS at the onset of the application process. Owners of properties not yet listed in the National Register must nominate and list their property to the Register in a process concurrent with the rehabilitation.

The Application Process

Applicants submit a three-part Federal Rehabilitation Tax Credit application to the SHPO for review and comment. SHPO forwards complete applications on to the NPS for their review. There is no application process for the state tax credit beyond the successful applicant's own state income tax forms.

Making the most of the credits

The Federal Rehabilitation Tax Credit program enables property owners with limited tax burdens and potentially limited capital to transfer their credits to investors who contribute working capital in exchange for income tax credits. Investors claiming credits must be part owner of the subject property.

Applicants with limited tax burdens can claim their Federal credits incrementally over a period of 20 years forward. The state credit offers a seven-year carry-forward period.