

New Mexico's 50% Income Tax Credit for Preservation of Cultural Property: The Details



The NM Historic Preservation Division (HPD) and Department of Taxation and Revenue (TRD) have administered the **New Mexico State Income Tax Credit for Registered Cultural Properties** program since 1984. More than 800 rehabilitation projects have been approved for homes, hotels, restaurants, theaters and businesses.

To be eligible, a property must be listed in the **State Register of Cultural Properties** or be a contributing resource in a state register-listed historic district. The state income tax credit is available to owners or long-term lessees of historic structures who complete qualified, pre-approved rehabilitations of historic structures.

Unlisted properties with historic value may be nominated to the register. HPD can help you determine if your property is eligible for the register or is already listed. Both commercial and residential buildings may be eligible for the program.

What is a Tax Credit?

An **income tax credit** offsets the amount of income tax owed, generally dollar-for-dollar. For instance, if your tax bill is \$500, a \$100 tax credit would reduce the tax owed to \$400. (An **income tax deduction** lowers only the amount of income subject to taxation. If your income tax rate is 15%, a \$100 deduction would lower your tax bill by only \$15.)



The 50% NM Income Tax Credit

For this program, the tax credit that may be earned for a project is **50%** of eligible costs spent in an approved rehabilitation or a maximum credit of **\$25,000** or 5 years of state income tax liability, whichever is least. Project expenses may be greater but the eligible expenses and tax credit are capped at these figures. In other words, \$5,000 in approved expenses would earn a 50% tax credit of \$2,500, and approved expenses of \$50,000 would earn the maximum tax credit of \$25,000. However, for listed historic buildings located within certified state **Arts & Cultural Districts**, the maximum in eligible expenses is \$100,000 for a 50% tax credit maximum of **\$50,000**.

If the credit is not entirely used to offset tax owed for the year of project

completion, any remaining credit may be spread over 4 additional tax years, unless used-up earlier. Any unused credit remaining after the total of 5 tax years is forfeited. Please consult your tax advisor.

Eligible Work

The CPRC reviews applications for conformance with the program's standards (the *Secretary of the Interior's Standards for Rehabilitation*) as per regulation NMAC 4.10.9. They are common-sense preservation practices that inform simple repairs or complex work like the rehabilitation of historic windows. Their guiding principles include minimizing changes to the features that define the building's historic character, retaining and repairing them unless severely deteriorated and, when beyond repair, replacing them with an exact match. HPD staff can help you develop rehab treatments that will meet the Standards.



Typically tax credit projects may include roof replacement, rehabilitation of deteriorated exterior woodwork, repair of historic windows (and the addition of interior storm glazing), stabilization of foundations and structural elements, restoration of historic interior trim and replacement of broken or out-of-code mechanical, electrical and plumbing systems. Historic landscaping may be

eligible only when documented in the State Register.

Projects that do not meet program standards or would compromise a resource's historic integrity will not be approved. All aspects of a project, interior and exterior, are reviewed. Any work begun before written CPRC approval is ineligible as is remodeling, new construction, routine maintenance and most landscaping.



The Application Process

The program has a two-part application process, **Part 1** is submitted before work begins and **Part 2** after work is complete. They may be downloaded from the **Related Documents** panel on HPD's Tax Credit web page or HPD can email or mail an application on request. Submit the application on paper with original signatures, along with contractors' written estimates and printed-out photos, so they arrive at NM HPD at least 14 days prior to a CPRC meeting for action at that meeting.



The Part 1 Application

The state **Cultural Properties Review Committee** (CPRC) must approve the proposed rehabilitation prior to the beginning of project work. All work is to conform to the program standards in the regulation **NMAC 4.10.9** as interpreted by the CPRC. All parts of the project are to be described in the **Part 1 Application** including those not eligible for credit such as new additions or remodeling.

- A complete Part 1 Application includes:
 - Clear, printed photos of each façade of the building (4"x6" suggested)
 - Close-up printed photos of proposed work areas
 - Detailed contractors' estimates
 - Written descriptions of features/systems and work to be done to them
- The application is to be received at HPD at least 14 days prior to the CPRC meeting. Meeting dates are published on our website. The applicant will receive written notification of the committee's decision within two weeks following the meeting. At its discretion, the committee may approve an application as submitted, approve it with conditions, deny it, or table it until a later meeting pending receipt of additional information or project modifications. Projects in-progress

or previously completed are ineligible for the program.

- The project term expires 24 months from the date of the Part 1 approval. Expenses incurred before the approval date or after the expiration date will not be eligible for credit.



Part 1 Documentation

When describing your project in the application text boxes, it may be helpful to think in terms of overall systems or categories of elements, for instance roof, exterior walls, windows and doors, porches or *portals*, foundations and drainage. Many applicants first describe exterior work, often from top to bottom, and then move to the interior and finally the mechanical, electrical and plumbing systems.

Photos must depict current conditions at the time of submission of the application. We recommend having them printed in color on photo paper at 4" x 6". Many copy centers, photo stores, large drug store chains and discount clubs can provide clear, reasonably priced glossy color prints of digital images, often via internet upload.

Building or site plans are helpful and they should be submitted for large or complex

projects, and for those with changes in floor plans or exterior appearance. As part of the review, missing or additional documentation may be requested by HPD or the CPRC.

Repairs to historic building features (or their replacement with exactly matching elements only when deteriorated-beyond-repair) are eligible for credit. For requests for replacement of or extensive work on historic windows the CPRC usually requires scaled drawings of existing window elevations and detailed profiles with corresponding scaled drawings for the proposed replacements, along with a detailed window conditions survey with close-up photos.

It is important to include a street map or historic district map with the exact location of the property pinpointed.

Consulting with HPD

Applicants are encouraged to call HPD to discuss the nature of their projects and the scope of work, as early in the project planning as possible. Once submitted, tax credit staff will review your application, make site visits (if possible), provide treatment recommendations as needed, and prepare a folder on your project for review by the CPRC. Site visits are sometimes needed to better understand the property, the proposed work and its effect on the building and its surroundings. Submitting an application at the last minute may delay a site visit and CPRC review.



Project Approval

Applicants are welcome to attend the CPRC meeting when their project is reviewed. Written notification of the decision is provided within two weeks following the meeting. CPRC conditions for approval of your project and any requested clarification will be described in the notification. Please do not proceed with the work without understanding and complying with them, as failure to meet approval conditions set by the CPRC as well as unapproved project changes could result in loss of credit for the whole project.

CPRC approval expires in 24 months. All eligible work for which you seek tax credit must be completed during that time, though it is not usually required that everything described in the Part 1 application be completed. The program has no mechanism to extend the approval period. After it expires, a new Part 1 Application may be submitted for CPRC approval at a subsequent meeting.

A copy of HPD's financial documentation policy is included with the Part 1 notification letter. Please be aware that cash payments and an applicant's own labor are not considered eligible expenses.

Changes

Work on your project needs to reflect what is described in the application but changes sometimes are necessary due to discoveries made while the project is underway. The program requires you to discuss these changes with HPD tax credit staff before proceeding. In some cases they will need further CPRC approval. Additional work items may be added to an approved project through a Part 1 Amendment but the program limits for eligible expenses and tax credit for the overall project are unchanged.

The Part 2 Application

When work is complete, submission of a **Part 2 Application** is needed for final CPRC approval and tax credit certification. It should fully document finished conditions with photos and complete financial documentation including invoices, receipts, copies of cancelled checks or credit card statements, applicant signatures and Taxpayer ID or Social Security numbers.

Filing Your Taxes

After approval by the CPRC for the tax credit, a copy of the Part 2 application with the CPRC chairperson's signature will be sent to the applicant along with HPD's notification letter. As per detailed instructions in the letter, both are to be submitted with your state income tax return along with the appropriate NM

Taxation and Revenue Department (TRD) forms. The HPD log number on the approved Part 2 application and letter is considered the "certificate number" by TRD.



Federal Tax Incentives for Rehabilitating Historic Buildings

In cooperation with the National Park Service (NPS), this division administers a similar program for federal tax credits for income-producing buildings listed in the National Register of Historic Places. Further information may be found on our website, by calling or emailing HPD staff or on the NPS website at: www.nps.gov/tps/tax-incentives.htm

HPD Tax Program Information:

www.nmhistoricpreservation.org

HPD main number and email:

(505) 827-6320 nmshpo@state.nm.us

Tax Credit Programs:

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