

# HISTORIC PRESERVATION TAX INCENTIVES

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National Park Service

U.S. Department of the Interior

The Economic Recovery Tax Act of 1981 includes significant revisions to the historic preservation tax incentives which were first authorized by Congress in the Tax Reform Act of 1976. The new provisions should provide major impetus to encourage capital investment in historic buildings and to spur revitalization of historic neighborhoods. The new law provides:

- a 25% investment tax credit for rehabilitations of historic commercial, industrial and rental residential buildings which can be combined with
- a 15 year accelerated cost recovery period for the adjusted basis of the historic building. Historic buildings with certified rehabilitations receive additional tax savings by their exemption from any requirement to reduce the basis of the building by the amount of the credit.

Buildings which qualify are:

- buildings listed individually in the National Register of Historic Places and
- buildings located in Registered Historic Districts if they are certified as contributing to the significance of the district.

Registered Historic Districts include:

- National Register historic districts and
- State or locally designated districts if the ordinance authorizing or creating the district as well as the district itself is certified.

The existing certification process administered by the National Park Service will be used to identify eligible buildings and qualify their rehabilitations. To qualify for the investment tax credit, the building must be substantially rehabilitated. This means the rehabilitation costs must equal the greater of \$5000 or the adjusted basis of the building (actual cost minus any depreciation already taken). The monetary test to qualify for the tax credit must be met within a 2 year period or, for phased projects where architectural plans and specifications are completed before the rehabilitation begins, over a 5 year period.

The owner of a building in a historic district must have his rehabilitation work reviewed by the National Park Service to qualify for the 25% credit. If the building is determined not to contribute to the historic district, the owner may be eligible for lesser tax credits (see below).

Lessees with a leaseterm of 15 years or greater can qualify for the investment tax credit. The owners of buildings leased to tax exempt organizations and government entities are eligible for the investment tax credit. This provision was made retroactive to July 30, 1980.

The law also includes a 15% investment tax credit for buildings 30 years and older and a 20% investment tax credit for buildings 40 years and older. These credits apply only to commercial and industrial buildings and not to residential rental buildings. To qualify for these lesser credits, review by the NPS is required only when the buildings are within Registered Historic Districts or are individually listed in the National Register.

The new investment tax credit is available for projects which begin January 1, 1982 and after. The provision was enacted with no expiration date. The 15 year accelerated cost recovery period is available for buildings placed in service January 1, 1981 or after. If the investment tax credit is elected, projects are limited to straight line depreciation over the 15 year period.

#### IMPACT ON EXISTING PRESERVATION TAX PROVISIONS

- The 5 year amortization provision will be repealed effective January 1, 1982, (IRC sec. 191). Owners may use the 5 year write off for expenditures made in projects through December 31, 1981 and use the investment tax credit for expenditures made after that date.
- The accelerated depreciation provision is repealed (IRC sec 167 (o)), effective January 1, 1982.
- The denial of accelerated depreciation for a building built on the site of a demolished historic building is repealed effective January 1, 1982, (IRC sec 167 (n)).
- The 10% investment tax credit is replaced effective January 1, 1982 (IRC sec. 38 and 48). Owners may use the 10% credit for costs incurred through December 31, 1981 and the larger credit for costs incurred after that date. Owners of 20-29 year old buildings may use the 10% credit for costs incurred in their entire projects if physical work begins before January 1, 1982.

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**For further information please contact the National Register Division (202-272-3504) or the Technical Preservation Services Division (202-272-3721).**

**NOTE:** This report was prepared prior to the signing of the law and is based on information available to date.