

Informational Bulletin



Site Development Team
Historic Rehabilitation
Tax Credits & Preservation
Easements

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Application Process for Historic Rehabilitation Tax Credits

This Informational Bulletin:

- Explains **what** the **Historic Rehabilitation Tax Credits** (“HTC”) are.
- Describes **who** and **what projects** can qualify for **Historic Rehabilitation Tax Credits**.
- Defines **what** is considered a **Qualified Rehabilitation Expense** (QRE).
- Gives information on the **two application types** and **application instructions** for:
 - **Kentucky Rehabilitation Tax Credit** (for State Income Tax reduction)
 - **National Historic Rehabilitation Tax Credit** (for Federal Income Tax reduction).
- Clarifies Historic Tax Credit **deadlines for applications** and **timelines to complete work**.



Figures 1 & 2 (Above, Left) – **BEFORE** the rehabilitation project at St. Joseph’s Catholic Church in Bowling Green, KY.
Figure 3 (Above, Right) – **AFTER** the Kentucky Rehabilitation Tax Credit project was completed, c. 2022.
Images courtesy of St. Joseph’s Catholic Church, a 20% State Rehabilitation Tax Credit recipient.

What are the Historic Rehabilitation Tax Credits?

The **Historic Rehabilitation Tax Credit** programs (hereafter, referred to interchangeably as “Historic Tax Credits” or “HTC” for shorthand) are meant to offset additional costs that a historic property owner may incur by owning a piece of the nation’s architectural history.

Historic Tax Credits are voluntary and offer a dollar-for-dollar reduction in income taxes owed, based on the cost of a property’s rehabilitation expenses.¹

There are two Historic Tax Credit programs available: The **Federal HTC program** for historic building rehabilitation, which reduces the Federal Income Taxes owed for the *building* owner; and the **State HTC program**, which reduces the State Income Tax liability for owners of *structures* (which encompasses more than just buildings!). See the “Application Process” section in this bulletin, below, for more details on the two application types and what you may be eligible for!

Who qualifies for Historic Tax Credits?

1. You must be the property owner (or representative of the property owner) of a “certified historic structure.”
2. A “certified historic structure” is a property that is listed on the **National Register of Historic Places (NRHP)**, either as an Individual Historic Resource or as a Contributor to a Historic District.*²
You’ll need to provide the NRHP map in your Historic Tax Credit application.
**If you’re unsure if your property is listed on the National Register of Historic Places, or need assistance finding your property’s Historic District map, we have a National Register Coordinator*
3. Lastly, the property owner that applies for the Historic Tax Credit application(s) is responsible for completing the work **within three years**; plus maintaining the property’s Rehabilitation and submitting any alteration proposals for **three years** thereafter (if utilizing the State HTC) and/or **five years** (for Federal HTC) after the rehabilitation is complete. Tax Credits are prorated across this timeframe and are liable for revocation if unreviewed work is done at the property.

¹ HTCs are a dollar-for-dollar reduction for property owners that file income tax. For non-profits or tax-exempt entities, these tax credits can be transferred or sold to those that could benefit from income reduction (talk to your local CPA and banking institutions regarding your options for selling your tax credits, if this would apply to you).

² You must be listed prior to submitting your Tax Credit Application for **State** applications. You may submit a **Federal** Historic Tax Credit application while a NRHP nomination is **underway**; however, it is generally advised that you confirm your property is listed prior to seeking Historic Tax Credits, as your property may be deemed ineligible for the NRHP, and in turn, ineligible for the Tax Credit program. Review fees cannot be refunded if the property and/or project is determined ineligible.

What qualifies for Historic Tax Credits?

If you've determined your building is eligible for the program, you'll then need to determine if your **Rehabilitation Project qualifies**. Many historic properties are composed of irreplaceable materials; in large part, because these materials are no longer in existence, no longer produced, and/or cost prohibitive to purchase. For this reason, **maintaining historic features is a keystone** to the Rehabilitation Tax Credit programs.

1. First, you'll need to pledge to spend at least **\$20,000** (for owner-occupied residential and tax-exempt property owners) or exceed the **Adjusted Basis**³ of the property's value (for all income-producing properties) on **Qualified Rehabilitation Expenses** ("QREs" – *see more on this topic in the next section, below*).
2. Next, you'll have to commit to rehabilitating your property according to federal standards. Both the State and Federal Tax Credit programs require the project follows the Secretary of the Interior **Standards for Rehabilitation**, which generally seek to maintain a building's character-defining features while allowing compatible, contemporary updates for modern-day occupation.⁴

What is a Qualified Rehabilitation Expense ("QRE")?

In general, a **Qualified Rehabilitation Expense** (referred to as "QREs")⁵ includes any work that is considered a permanent renovation which meets the Standards for Rehabilitation and goes toward the basis of the historic building or structure.

Examples:

Qualifying Rehabilitation Expenses:	Does NOT qualify as Rehabilitation Expenses:
<input checked="" type="checkbox"/> Material and labor expenses to structural components within the footprint of the historic structure.	<input checked="" type="checkbox"/> New construction or additions.
<input checked="" type="checkbox"/> Costs related to new mechanical systems, such as HVAC, electric, plumbing, etc.	<input checked="" type="checkbox"/> Site development (parking lots or sidewalks)
<input checked="" type="checkbox"/> Labor and material costs to refurbish historic materials, such as windows, flooring, etc.	<input checked="" type="checkbox"/> Demolition or removal of characteristic materials and/or features.
	<input checked="" type="checkbox"/> Impermanent removable investments, such as appliances, furniture, artwork, etc.

³ "Adjusted Basis" is the current valuation of the building (*NOT* including the land) and is further defined by the IRS and the National Park Service, explained here: <https://www.nps.gov/subjects/taxincentives/eligibility-requirements.htm>

⁴ The National Park Service's Secretary of the Interior Standards for Rehabilitation can be found here: <https://www.nps.gov/articles/000/treatment-standards-rehabilitation.htm>

⁵ A "Qualified Rehabilitation Expense" is nationally defined by the IRS under [26 USC 47\(c\)\(2\)\(A\)](#) and defined under Kentucky regulations [300 KAR 6:001 1\(23\) and 4\(3\)\(c\)](#), and statute [KRS 171.396 \(9\)](#), should you seek additional information.

The (2) Historic Rehabilitation Tax Credit Options:

There are two Historic Tax Credits available, depending on how your property is used:

<i>If your property is:</i>	→	<i>It can qualify for:</i>
• Owner-occupied residential	→	KY State Tax Credit: up to <u>30%</u> of all QREs*
• Non-profit or tax-exempt	→	KY State Tax Credit: up to <u>20%</u> of all QREs*
• Income-producing properties**	→	KY State Tax Credit: up to <u>20%</u> of all QREs*
• Income-producing properties**	→	Federal Tax Credit: <u>20%</u> of all QREs

*****Income-producing properties*** are the only building types that qualify for **BOTH the state and federal tax credits**; meaning, you can qualify for a **total tax credit up to 40% of the project's QREs**.

****Up To*** is used in the **State Historic Tax Credit percentages** because Kentucky has yearly allocation caps; meaning, if the Kentucky Heritage Council (KHC) receives more applicants than funding allows that year, everyone's allocated credit is equitably prorated. See our website for more details on Allocation Caps!

Application Process:

Both the State and Federal Tax Credit Application processes consists of a three-part application:

Part 1 (BEFORE Rehabilitation Work):

- Confirms eligibility for the Historic Tax Credit programs.
- Requires the Part 1 Form(s)
- Requires the NRHP map
- No Review Fee

Part 2 (BEFORE Rehabilitation Work):

- Describes the Rehabilitation project and estimated QRE costs.
- Requires the Part 2 Form(s)
- Requires "Before" Photo Documentation (see following page for details)
- Part 2 Review Fee

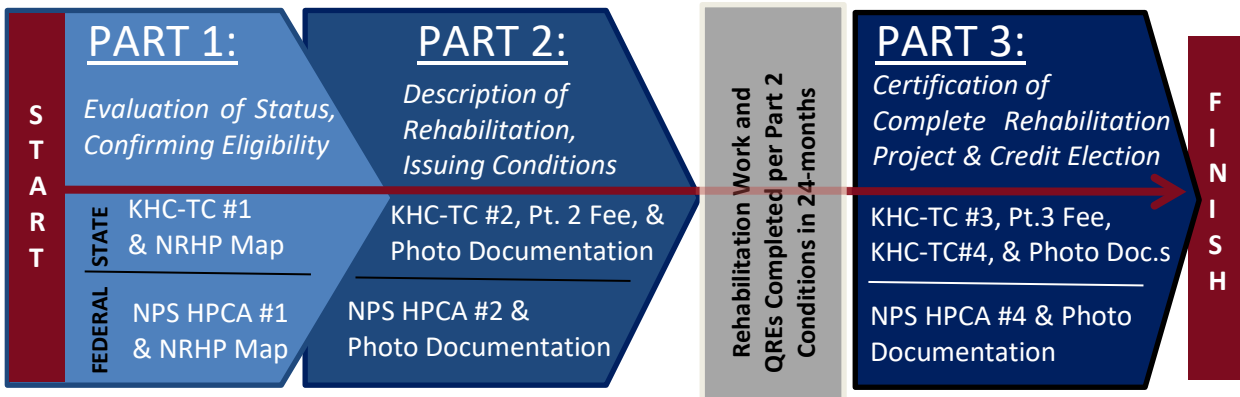
Part 3 (AFTER Rehabilitation Work):

- Describes the completed work's QRE costs.
- Requires the Part 3 Form(s)
- Requires "After" Photo Documentation (see following page for details)
- Part 3 Review Fee
- *For State Historic Tax Credit applications – Requires TC-4 Form for the Dept. of Revenue*

Part 1 and 2 are typically submitted together, to reduce review-turnaround time. **All forms are available on our Tax Credit website, for download, here:** <https://heritage.ky.gov/historic-buildings/rehab-tax-credits/Pages/guides.aspx>

- **FOR STATE APPLICATIONS:** use the Kentucky Heritage Council’s Tax Credit Forms: **KHC-TC Forms**, TC-1; TC-2; TC-3; and TC-4
- **FEDERAL APPLICATIONS:** National Park Service’s Historic Preservation Certification Applications: **NPS HPCA Forms**.
- **BOTH STATE & FEDERAL APPLICATIONS:** If you need to submit BOTH applications, you will download and submit BOT the **KHC-TC Forms** *and* **NPS HPCA Forms**.

The Historic Tax Credit Three-Part Process:



In addition to the required forms, you’ll need to provide **Photo Documentation with your Part 2 and Part 3 applications**, respectively. If applying for both state and federal programs, then **(2) sets** of Photo Documentation is required (one set for the State and one set for Federal), **as further outlined in the Information Bulletin for Photo Documentation requirements for Historic Tax Credit Applications.**

The Kentucky Heritage Council (KHC) is the State Historic Preservation Office in Kentucky, and therefore, KHC reviews and administers Rehabilitation Conditions and Recommendations for both State and Federal applications. **As such, all Historic Tax Credit Application must be submitted to the Kentucky Heritage Council.**

Currently, the Kentucky Heritage Council is only accepting paper applications. Completed forms, with their supplemental Photo Documentation materials, should be mailed (or drop off in-person) to:

**Kentucky Heritage Council
Attn: Tax Credit Program
410 High Street
Frankfort, KY 40601**

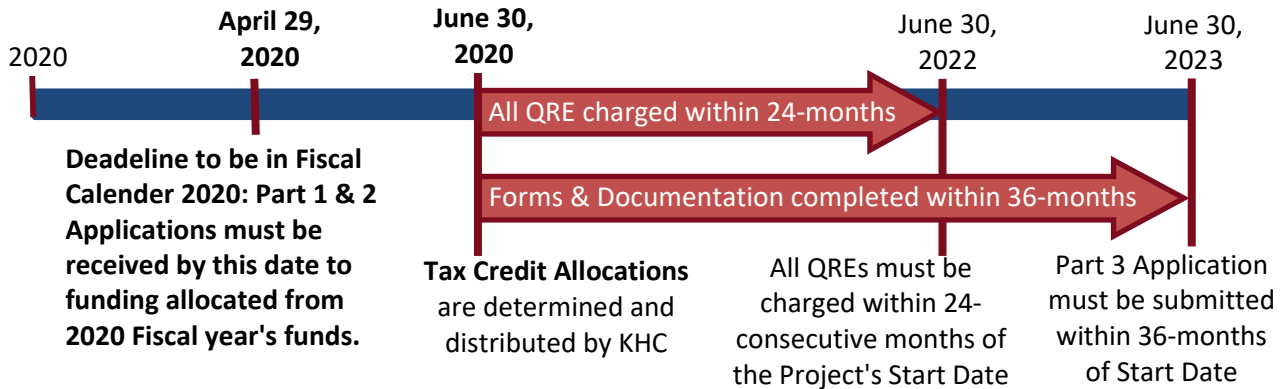
Historic Tax Credit Deadlines and Timelines:

The deadline to apply for a Tax Credit allocation is **no later than April 29th of each calendar year.** Applications can be dropped-off in person (before 4pm on April 29th or nearest business day prior to April 29th) or mailed into our office, postmarked no later than April 29th.

Incomplete applications and/or applications with inadequate Photo Documentation will be given a **Notice of Incomplete Application with a **30-day deadline** to submit the required materials. If the missing materials are not provided within 30 days, the application will be deemed incomplete and relinquished from KHC's review.*

After being accepted as an applicant, you have **24-months** to spend your Qualified Rehabilitation Expenses (QREs) for tax credits. Within 36-months, the Part 3 Applications (Certificate of Completed Work) must be submitted.

For Example:



After the work has been formally approved by the Kentucky Heritage Council and/or the National Park Service, the property owner is liable for 3-years or 5-years (for State or Federal HTC's, respectively) to maintain and submit any renovation plans for approval.

Questions?

The Site Development Team, who reviews Historic Tax Credit applications, are here to help!

Reach the Site Development Team and Manager via:

Email: KHC.TaxCredits@ky.gov or Katherine.Wilborn@ky.gov

Phone: 502-892-3620

Office Hours (for phone calls and meetings):

Tuesday – Thursday, 7:30am-4:00pm

**Most of KHC staff works remotely on Mondays & Fridays but can be reached via email.*