

Historic Rehabilitation Tax Credit Programs

PROGRAM UPDATED: February 2023 through [KAR 300.006.011](#)



What is a Rehabilitation Tax Credit?

A tax credit is a dollar-for-dollar credit toward a historic property owner's income tax liability, based on the cost to rehabilitate a historic property (these costs are referred to as "Qualifying Rehabilitation Expenses" or "QREs"). Tax-exempt property owners may transfer/sell the tax credits they receive. Taxpayers are urged to seek the advice of a qualified tax professional and/or contact the Department of Revenue's Tax Credit team for tax-related guidance.

The Kentucky Heritage Council / State Historic Preservation Office (KHC) reviews both:

1. The Federal Rehabilitation Tax Credit, in partnership with the National Park Service, &
2. The State Rehabilitation Tax Credit, in partnership with the KY Department of Revenue.

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 30% of all QREs* |
| • Non-profit or tax-exempt | → | KY State Tax Credit: up to 20% of all QREs* |
| • Income-producing properties** | → | KY State Tax Credit: up to 20% of all QREs* |
| • Income-producing properties** | → | Federal Tax Credit: 20% 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.

The Federal Rehabilitation Tax Credit Program offers:

- **A 20% Tax Credit** on eligible income-producing buildings with a minimum investment of the property's Adjusted Basis. Federal projects have no maximum credit caps but are non-refundable.

The Kentucky Rehabilitation Tax Credit Program offers:

- **Up to a 30% Tax Credit*** for owner-occupied residential properties on the total Qualifying Rehabilitation Expenses ("QREs"). A minimum investment of \$20,000 is required. **Per project, the maximum credit that can be awarded is \$120,000** (which is 30% of \$400,000 QREs).
- **Up to 20% Tax Credit*** for all other properties on the total QREs. The project must exceed \$20,000 or the adjusted basis, whichever is greater. The Adjusted Basis is the current value of the building, without the value of the land. **Per project, the maximum credit that can be awarded is \$10 Million** (which is 20% of \$50 Million in Estimated QREs).

* Each fiscal year, the Kentucky Heritage Council has **\$100 Million** to allocate for Rehabilitation Tax Credit projects (as of 2023). If we receive more requests than we have funding for, we must apportion each request equally. As a result, the final tax credit awarded to each project *may* be less than the eligible percentage. In other words: every project may receive a slightly reduced piece of the pie than what they requested. **The deadline for each fiscal calendar is April 29th** and a project's allocated tax credit amount will be determined and provided in an Allocation Letter in late-June. **This fiscal deadline determines what year the project's tax credit funding will be allocated from. We call this the "Allocation Year."** The Allocation is separate and distinct from a Part 2 project approval. **A Part 2 approval is your "green light" to begin the work described in the application.**

Projects are accepted, processed, and approved ALL YEAR!

We highly recommend submit a Tax Credit project application before any work has begun.

What building qualifies for the credit?

Buildings and structures listed on the National Register of Historic Places (NRHP), or eligible for listing, can qualify for the tax credit programs. Ask our National Register Coordinator, Marty Perry at Marty.Perry@ky.gov, to confirm your NRHP status!

What work qualifies for the credit?

Repair, maintenance, and compatible alterations which meets the Federal *Standards for Rehabilitation* are considered Qualifying Rehabilitation Expenses (“QREs”). For State Credits, the expenses must be completed within a 24-month period.

How does the State Tax Credit differ from the Federal Rehabilitation Tax Credit?

STATE PROGRAM:

- Structures / Objects can qualify
- Owner-Occupied Residential
- Other / Tax-Exempt properties
- 24-month strict timeline, NO phasing
- Possible portioning of eligible Credits
- 3-year monitoring period, after claiming credit

FEDERAL PROGRAM:

- Buildings ONLY
- Income-Producing properties ONLY
- Flat, 20% credit on all final QREs
- 24-month timeline OR 60-month phasing option with phased advisory.
- 5-year monitoring, after claiming credit

What is the process for applying for the Rehabilitation Tax Credits?

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 of Rehabilitation are followed. **Submit applications electronically via:** <https://bit.ly/KyTaxCredit>

The State and Federal Rehabilitation Tax Credit process consists of three-part applications. Parts 1 & 2 are submitted BEFORE the rehabilitation project, and Part 3 is submitted AFTER the rehabilitation project. See the Application Parts, and their descriptions, below:

PART 1: Evaluation of National Register Status, is the first application, which confirms if the property is listed in the National Register of Historic Places and eligible for a Rehab Tax Credit.

PART 2: Description of Proposed Rehabilitation, outlines in detail the proposed rehabilitation work and provides plenty of “Before Rehabilitation” photos and a Photo-Keyed Floor Plan.

Parts 1 and 2 are often submitted simultaneously.

Any work done prior to KHC’s approval of Parts 1 and 2 shall be done at the applicant’s own risk and may result in disqualification of the project from receiving a tax credit allocation.

PART 3: Request for Certification of Completed Work, is submitted once the rehabilitation work is completed, with plenty of “After Rehabilitation” photos and a Photo-Keyed Floor Plan.

For additional resources, see:

Kentucky Heritage Council’s Website:
<https://bit.ly/KyTaxCredit>

Federal Standards for Rehabilitation:
<https://bit.ly/RehabStandards>

Contact information:

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KY Heritage Council’s Tax Credit Manger

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KY Heritage Council’s NRHP Coordinator

Reach out if you have any questions!