

# Historic Rehabilitation Tax Credit Programs

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



## What is a Tax Credit?

A tax credit is a dollar-for-dollar reduction in 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 or sell the tax credits they receive. Taxpayers are urged to seek the advice of a qualified tax professional and/or contact the Depart. of Revenue’s Tax Credit team.

## The Kentucky Heritage Council / State Historic Preservation Office (KHC) administers 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:

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

## 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 Qualifying Rehabilitation Expenses).

\* 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 29<sup>th</sup>** 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.”** Each project’s 24-month timeline must include its Allocation Year...

***But projects are accepted, processed, and approved ALL YEAR!***

### **What building qualifies for the credit?**

Buildings and structures listed on the National Register of Historic Places (NRHP), as individual or contributing to a NRHP Historic District, can qualify for the tax credit. Ask our National Register Coordinator, Marty Perry at [Marty.Perry@ky.gov](mailto:Marty.Perry@ky.gov), to confirm your NRHP status!

### **What work qualifies for the credit?**

Only work which meets the Federal *Standards for Rehabilitation* are considered Qualifying Rehabilitation Expenses (“QREs”). **For each project, all QREs must be completed within a consecutive 24-months and include the fiscal year the project received an Allocation Letter.**

### **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 project

#### **FEDERAL PROGRAM:**

- Buildings ONLY
- Income-Producing properties ONLY
- Flat, 20% credit on all final QREs
- Phasing option, over longer periods of time for Adjusted Basis purposes.
- 5-year monitoring period, after project

### **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.

#### **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://heritage.ky.gov/historic-buildings/rehab-tax-credits/Pages/overview.aspx>

##### **Federal Standards for Rehabilitation:**

<https://www.nps.gov/subjects/taxincentives/secretarys-standards-rehabilitation.htm>

#### **Contact information:**

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**Marty Perry** – [Marty.Perry@ky.gov](mailto:Marty.Perry@ky.gov)

KY Heritage Council’s NRHP Coordinator

**Rehabilitation Tax Credit Team** –

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KY Department of Revenue