



TAX CREDITS - FEDERAL MAIN STREET IOWA TECHNOTES

One of the best financial incentives remaining for preservation activities is the Federal Rehabilitation Investment Tax Credit (ITC). Tax credits often can make the difference in creating positive cash flow and undertaking renovation of historic properties. The rehabilitation tax credits provide a property owner with a direct credit against any money owed on federal income taxes and can be carried forward against future liabilities.

With the possible credits available, one might wonder why so few people utilize this financial incentive. The most obvious reason is misunderstanding and misperception about ITC's.

There are two basic types of tax credits available: a 20% credit for certified historic buildings and a 10% credit for "non-historic" buildings built prior to 1936. The 10% tax credit has no review from the State Historical Society and is not available to properties that are listed on the National Register or are part of a National Register district.

In order to receive the 20% ITC the rehabilitation must be certified by the State Historical Society and by the National Park Service, which maintains the National Register of Historic Places. Certification involves proving the building is considered historic and having the proposed and completed rehabilita-

tion approved. Typically the certification process intimidates people from applying for tax credits but it should not. The key to completing a certified rehabilitation is proper planning and basic understanding of good preservation.

Filing for tax credits is not an overnight process.

Property owners should allow 3-6 months for plan approval PRIOR to the start of the rehabilitation project. This may seem like an extended

period, but the more time invested in the planning stages, the better the chance for the project to meet the standards for certification.

Filing for Investment Tax Credits also has another distinct advantage for property owners. The same general forms can be used to apply for State of Iowa tax credits, the Iowa Finance Authority Main Street loan program and for the Historic Property Temporary Tax Exemption. This allows the property owner to access four financial incentive

programs at once, thus helping to make the project work financially.

The State Historical Society should be involved with a potential tax credit project from the early stages. This will help property owners from making costly mistakes

and from doing anything that might jeopardize the certification of the project. They will also help the property owner through the process and make the project more successful.

A certified rehabilitation consists of three different parts. Property owners must complete each part of the certification process to receive the 20% tax credit. Parts I & II typically occur before rehabilitation. Part III is final approval of the completed project.

Part I of the ITC certification process involves confirming that the building is a historic structure. This includes buildings that are listed as a contributing part of a National Register district, as well as properties that are not yet listed on the National Register but are in the process of nomination as an individual building or as part of a district. Part I is not necessary for buildings that are already individually listed on the

National Register. Completion of Part I does not in any way guarantee tax credits.

Part II is the key component to a successful completion of a tax credit project.

Part II is the approval of the proposed building rehabilitation. This section includes approval of the architectural plans and specifications for the proposed project, a detailed description of the work to be undertaken, and a description of

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the methods to be used to complete the rehabilitation project.

To avoid costly mistakes during this critical phase, it is imperative to work closely with the State Historical Society to ensure that any proposed work will indeed meet the standards and guidelines for good preservation. Hiring an architect or designer with tax credit experience to develop project plans and specifications can also be well worth the out-of-pocket expense in terms of overall cost savings to the owner. The local Main Street program can also be of great assistance during this phase by helping the owner to identify craftspeople and to suggest alternatives to any unsympathetic proposal.

Documentation during Part II is crucial to show the need for the proposed work and the general condition of the property before work is begun. A number of photographs are necessary for documentation. The photos should show all elevations of the property and all key architectural features. Numerous detail photos should also be taken to show the condition of each portion of the project. Lack of proper photo documentation of the existing conditions before rehabilitation can jeopardize the chance of receiving tax credits. After all, once the work is completed it is impossible to prove what the conditions were like before the work

was done.

For example, if you own a typical commercial building on Main Street and want receive tax credits, take a straight-on photo of the entire face of the building. Then take photos which show the building details that are in need of repair, such as

the cornice brackets, window sills and jambs, details of the store front kick plates, and display windows. Take photos of the transom windows or document the lack thereof. If masonry

is deteriorated, take photos showing the masonry condition. Also, take photos of the masonry that is in good condition to document the color of the mortar and the style of joint work.

The photos used for the certification process can be color or black and white. It is advisable to take color shots, particularly if the color of materials is an important issue. You may want to shoot some video footage of existing building conditions as well, but this will be largely for your own benefit.

Once the work on the building is completed, the owner files Part III of the certification, which includes an overall cost expenditure summary and other general information about the property owner. Once the project has been reviewed and approved by the State Historical Society and the National Park Service, the Part III form, signed by the National

Park Service, is returned to the property owner. This is a certificate which qualifies the owner for the 20% tax credit.

Tax credits are claimed on IRS form 3468 which is filed along with the individual's tax return for the year the credits are being claimed. A copy of the certificate can be included with this- the original certificate should be kept to prove the owner's right to claim the credits.

Claiming tax credits creates a unique financial situation which can draw special attention to your tax return from the IRS. Be certain to consult an experienced accountant and/or tax attorney to help avoid a possible audit.

Completing a certified rehabilitation has many benefits, not only for the property owner but also for the entire community. Tax credits provide a direct financial benefit to the owner and help to save a vital piece of a community's history for future generations to enjoy.

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For More Information:

*Design Consultant, Main Street Iowa
Iowa Dept of Economic Development
200 East Grand, Des Moines, IA
50309 515-242-4762
515-242-4792*

Additional Reading:

*“A guide to Tax-Advantage
Rehabilitation”
National Trust for Historic Preservation
Washington, D.C.*

*“Tax Incentives for Historic Buildings”
U.S. Department of the Interior
National Park Service*