

Federal & Missouri State Tax Credits for the Rehabilitation of Historic Buildings

	FEDERAL CREDIT	STATE CREDIT	COMMENTS
What is a tax credit?	A tax credit lowers the tax owed. A tax credit differs from a tax deduction in that an income tax deduction lowers the amount of income subject to taxation while a dollar of tax credits reduces the income tax owed by one dollar.		
What tax credits are available for rehabilitation of historic buildings?	The federal credit provides an investment tax credit equal to 20% of rehabilitation costs. Federal credits are administered by the State Historic Preservation Office (SHPO) in the Missouri Department of Natural Resources & by the National Park Service (NPS).	The state credit provides an investment tax credit equal to 25% of rehabilitation costs. The state credits are administered by the Community Development Division in the Missouri Department of Economic Development (DED).	Credits can be combined for rehabilitation of commercial or income producing property. Rehabilitation of owner-occupied residences qualifies for state credits only.
	EFFECTIVE JAN. 1, 2010, THE 25% STATE CREDIT IS SUBJECT TO THE FOLLOWING CAPS: 1) NO OWNER-OCCUPIED SINGLE-FAMILY RESIDENTIAL PROJECT RECEIVING PRELIMINARY APPROVAL AFTER JAN. 1, 2010 CAN RECEIVE MORE THAN \$250,000 IN CREDITS. 2) DURING THE PERIOD JAN. 1 - JUNE 30, 2010, DED CANNOT APPROVE MORE APPLICATIONS THAN WOULD IN THE AGGREGATE RESULT IN MORE THAN \$70,000,000 IN CREDITS. BEGINNING WITH THE FISCAL YEAR BEGINNING ON JULY 1, 2010, DED CANNOT APPROVE IN ANY FISCAL YEAR MORE APPLICATIONS THAN WOULD IN THE AGGREGATE RESULT IN MORE THAN \$140,000,000 IN CREDITS. ANY PROJECT RECEIVING PRELIMINARY APPROVAL AFTER JAN. 1, 2010, WHOSE ELIGIBLE COSTS WOULD BE MORE THAN \$1,100,000, WILL BE SUBJECT TO THIS CAP. FOR INFORMATION REGARDING THESE AND OTHER CHANGES AND THEIR IMPLEMENTATION PLEASE CONSULT THE DED.		
For the purpose of the credits, what makes a building "historic"?	To be eligible for either state or federal credits, a building must be a "certified historic structure," i.e. be listed <ul style="list-style-type: none"> ♦ individually in the National Register of Historic Places (NR), or ♦ as a contributing building in a National Register district, or ♦ as a contributing building in a Local Historic District certified by the U.S. Department of the Interior as substantially meeting National Register criteria. For lists of individual sites and districts listed in the National Register of Historic Places: http://dnr.mo.gov/shpo/MNRList.htm For lists of Missouri's certified local districts: http://dnr.mo.gov/shpo/cld.htm For information on whether a building contributes to a district, please contact a State Historic Preservation Office staff member at one of the numbers on the last page.		The criteria for a building's eligibility are the same for both the federal & state credits. For more on the National Register of Historic Places, see http://dnr.mo.gov/shpo/national.htm For lists of National Register sites in Missouri: http://dnr.mo.gov/shpo/MNRList.htm For lists of certified local districts: http://dnr.mo.gov/shpo/cld.htm
What if a building is not currently listed on the National Register?	Owners of buildings not yet listed in the National Register may use the federal application, Part 1, to request preliminary determination of significance from the NPS. Although a positive determination allows the owner to proceed with the Part 2 and rehabilitation while a NR nomination is pending, determinations are not binding & become final only when the building/district is listed in the NR.	Owners may submit their state tax project for review prior to a property being listed on the NR. State credits will not be awarded, however, until the property is formally listed in the NR. An owner may begin rehabilitation work prior to a property being listed, but they do so at their own risk.	For information on listing properties in the National Register of Historic Places, see http://dnr.mo.gov/shpo/national.htm
What types of buildings qualify for the credits?	The federal credits are limited to income-producing, depreciable property only. The property may be either commercial or residential rental property. A taxpayer's personal residence would not qualify for the federal credit.	State credits also apply to income-producing property including either commercial or residential rental property. A taxpayer's personal residence can qualify for the state credit if the property is historic & minimum investment threshold is met.	Rehabilitation of owner-occupied residences qualify for state but not federal historic rehab tax credits.

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What standards must be followed to qualify for the credits?	In order to qualify for either state or federal credits, the rehabilitation project must follow the Secretary of the Interior's Standards for Rehabilitation . The Standards are included in both the state and federal tax credit application instructions & available online at: http://www.nps.gov/history/hps/tps/tax/incentives/standards_1.htm		By state statute state projects are reviewed according to the federal standards.
Who reviews proposed work to ensure compliance w/ rehab standards?	The taxpayer submits Part 2 application outlining proposed rehabilitation work for review by the SHPO & submission to the NPS for final certification. SHPO & the NPS are permitted to inspect a property within the 5-year recapture period & the certificate can be revoked if it is found that work was not carried out as certified.	The taxpayer submits to the Department of Economic Development the Part IB of the state application outlining the proposed rehabilitation work. To ensure that the proposed work meets the Secretary of the Interior's Standards for Rehabilitation, the SHPO reviews the project proposal and the completed project.	
Is there a minimum investment that an owner must make to qualify for the credits?	The threshold requirement for the federal program is the larger of \$5,000.00 or the "adjusted basis" of a building -- essentially the IRS book value of the building at the beginning of the 24-month (60-month, if phased) period during which the applicant will meet the substantial rehabilitation investment test (see below & http://www.nps.gov/history/hps/tps/tax/IRS.htm). A taxpayer's accountant can provide information on determining the basis of a property.	The threshold requirement is 50% of the basis . "Basis" is defined as the cost, or fair market value of the property at the time of acquisition, or as otherwise defined in the United States Internal Revenue Code.	Since federal credits use 'adjusted basis' while state credits use 'basis' for determining the threshold, some taxpayers seeking both credits may find their projects meet one but not the other of the threshold requirements
Is there a deadline for project completion?	Yes. The federal program requires the adjusted basis be met within a 24 month period; 60 months if project has been presented as "phased" up front. Read more on this complex IRS issue at http://www.nps.gov/history/hps/tps/tax/IRS.htm	No.	
What rehabilitation work qualifies for the credits?	Costs associated with rehab work on the historic building, architectural/engineering fees, legal expenses, development fees, & other construction-related costs, if added to the property's basis & reasonable & related to the services performed. Costs of acquisition, furnishings, additions, new building construction, parking lots, sidewalks, landscaping are not allowable expenses.	Total costs incurred on rehabilitation shall include but not be limited to qualified rehabilitation expenditures as defined under section 47(c)(2)(A) of the Internal Revenue Code of 1986 as amended.	Costs for construction undertaken before the Department of Economic Development has received a complete application -- including written description of each part of the project, complete dated before photographs keyed to floor plans of the entire building including areas in which no work is planned & any additional information necessary for the review of the project -- may not be considered eligible for state historic rehabilitation tax credits.

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Can tax credits be carried over?	Yes. If a taxpayer's tax liability in a given year is less than the amount of the federal tax credit, the credit can be carried back one year & forward twenty years or until the credit is exhausted.	Yes. The state tax credits can be carried back three years & forward up to ten years. The credits are to be claimed against the taxes imposed pursuant to chapters 143 & 148 RSMo, except for sections 143.191 to 143.265, RSMo.	
Are there recapture provisions?	Yes. If the owner sells the property within a five-year period, 20% of the credit will be recaptured for each year remaining.	No.	
How do I obtain an application?	The federal guidelines and forms application are available online at the NPS web site: http://www.nps.gov/history/hps/tps/tax/hpcappl.htm	The state guidelines and forms are linked from the State Historic Preservation Office web site: http://dnr.mo.gov/shpo/TaxCrds.htm	
What is the process for obtaining the credits?	To obtain the credit, a taxpayer submits the 3-part federal application to the SHPO. Part 1 is used to determine if building is historic. Part 2 outlines proposed rehabilitation work in detail. Part 3 is submitted once rehabilitation work is complete. The SHPO reviews each Part before it is forwarded to the NPS. The NPS issues the final certification, which is filed with the taxpayer's federal income tax return.	The applicant submits Part 1a & b to the Department of Economic Development prior to the start of a project. Once the application has received preliminary approval from SHPO, the work begins; once work has been completed, the applicant submits a Part 2 for SHPO review and approval. DED audits all expenses and provide the taxpayer with the documentation to be submitted with the taxpayer's state income tax return.	Costs for construction undertaken before the Department of Economic Development has received a complete application -- including written description of each part of the project, complete dated before photographs keyed to floor plans of the entire building including areas in which no work is planned & any additional information necessary for the review of the project -- may not be considered eligible for state historic rehabilitation tax credits.
When is the tax credit claimed?	Generally, the tax credit is claimed on IRS form 3468 for the tax year in which the rehabilitated building is placed in service.	Generally the state tax credits are claimed on Missouri form MO-TC for the year in which the rehabilitated building is placed in service.	
Timeframe for Review	Federal tax act projects are allowed 30 working days for review at the state level & 45 working days for review at the federal level. If clarifications/alterations are required the clock will be stopped & restarted.	The review of projects seeking only the state credit is generally 30 working days. This includes initial processing at the Department of Economic Development, review of proposed work by the SHPO. The applicant will be notified of the results of the initial review by DED.	Should clarification or additional information be required, the clock would stop at that point & be started again once adequate information is supplied for review.
Can a project utilize multiple investors?	Yes, however passive loss restrictions for federal projects would apply	State law permits distribution of credits to investors based on a pro-rata basis or an executed agreement among the investors	Advice of a qualified tax professional should be sought before proceeding with any project involving multiple investors!
Can the credits be sold?	Federal credits cannot be sold.	Effective August 28, 1998, state credits can be sold. Involvement by not-for-profits in the sale of state credits is not allowed.	

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Are there restrictions that limit use of credits?	Yes, Passive Activity, Alternative Minimum Tax (but see COMMENTS field to right) and Tentative Minimum Tax regulations & certain lease arrangements limit tax credit use. See: http://www.nps.gov/history/hps/tps/tax/IRSQ_A.htm	Non-applicable.	*The "Housing and Economic Recovery Act of 2008" (P.L. 110-289 Sec. 3022) repeals the Alternative Minimum Tax limitations on the Federal rehabilitation tax credit "to the extent attributable to qualified rehabilitation expenditures properly taken into account for periods after December 31, 2007."
Are fees charged for participation in the tax credit programs?	Yes. The NPS charges in advance for application review based on the anticipated cost of the project. Fees range from \$500 for projects costing \$20,000 - \$99,000 to \$2,500 for projects costing \$1,000,000 or more.	Yes. Effective Sept. 7, 2005, the Department of Economic Development will collect a fee of 2.5 % of the tax credit issued. The amount will be determined and the fee required AFTER final certification, but prior to the issuance of the tax credit.	The NPS handles billing for federal project review. DED determines both credit and fee based on costs submitted AFTER final certification.

- ◆ **Apply BEFORE beginning work. Consult with the SHPO regarding the federal credits and the architectural review process for the state credits; consult with the Department of Economic Development concerning the administration of the state credit program and all financial / economic issues. Read carefully the program applications & follow instructions carefully.**
- ◆ **Photograph your building inside & out BEFORE beginning work. Dated "BEFORE" photographs of all rooms and exterior walls keyed to the existing floor plans are required. Without them, it will not be possible to review a project. A photo-documentation instruction sheet can be found online at http://ded.mo.gov/bcs/upload/preliminary_guidelines_02_09.pdf**
- ◆ **Read & follow the "Secretary of the Interior's Standards for Rehabilitation" & consult with the SHPO for information on interpreting the Standards, online at http://www.nps.gov/history/hps/tps/tax/incentives/standards_1.htm**
- ◆ **It is STRONGLY RECOMMENDED that the advice of a qualified tax professional should be sought before proceeding with any tax credit rehabilitation project!**

For more information on the web: <http://dnr.mo.gov/shpo/TaxCrdts.htm>

For more information regarding the eligibility for or architectural review of state or federal historic rehab tax credit projects by the State Historic Preservation Office, please call (573) 751-7860 or (in St. Louis) (314) 416-2960x270 or (800) 361-4827, or write: State Historic Preservation Office, Missouri Department of Natural Resources, P.O. Box 176, Jefferson City, MO 65102-0176.

For more information regarding the administration of the state tax credit program by the Department of Economic Development, or the impact on the state historic tax credit program's administration of the changes to the Missouri laws regarding economic development and taxation effective June 4, 2009, please call 573-522-8004.