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Federal Rehabilitation Tax Credit Program



Waco High School, courtesy of Landmark Asset Services, Inc.

A federal tax credit worth 20 percent of the eligible rehabilitation costs is available for buildings listed in the [National Register of Historic Places](#). Established in 1976, the federal rehabilitation tax credit program is administered in Texas by the National Park Service (NPS) in partnership with the Internal Revenue Service (IRS) and the Texas Historical Commission (THC).

NOTE: the federal tax credit has been affected by recent legislative changes.

On December 22, 2017, **Public Law No: 115-97** (Pub. L. 115-97) was signed and enacted, amending the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. Pub. L. 115-97 (Sec. 13402) modifies the **20% Historic Rehabilitation Tax Credit** as well as provides certain transition rules. These and other changes to the Internal Revenue Code may affect a taxpayer's ability to use of the 20% Historic Tax Credit. Pub. L. 115-97 also repeals the **10% Rehabilitation Tax Credit** for non-historic buildings. The text of Pub. L. 115-97 is available at www.congress.gov.

Applicants requesting historic preservation certifications by the National Park Service as well as others interested in the use of these tax credits are strongly advised to consult an accountant, tax attorney, or other professional tax adviser, legal counsel, or the Internal Revenue Service regarding the changes to the Internal Revenue Code related to Pub. L. 115-97.

The Texas Historic Preservation Tax Credit also offers a 25 percent tax credit for historic buildings. Applicants are encouraged to apply to both programs together.

Eligible Buildings and Costs

In order to be eligible for the Federal 20 percent rehabilitation tax credit, a building must meet these basic requirements:

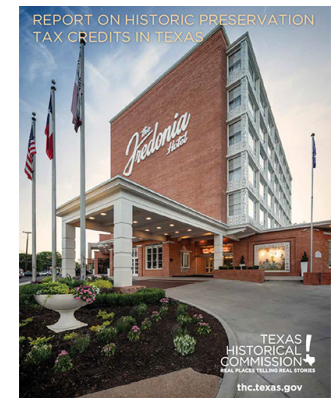
- The building must either be listed individually in the **National Register of Historic Places**, contributing to the significance of a historic district, or determined to be eligible for listing in the National Register. A building determined eligible for listing in the National Register at the beginning of the project does not need to be officially listed until the tax credit is claimed by the owner.
- Only **buildings** qualify for the tax credit. Structures such as bridges, ships, railroad cars, grain silos, and dams are not eligible for the credit.
- The building must be **income-producing**. For example, it may be used as a hotel, for offices, for commercial, industrial, or agricultural purposes, or for rental housing. Owner-occupied residential properties are not eligible for the credit.
- The work to the building must be a **substantial rehabilitation** and not a small remodeling project. In general, the rehabilitation costs must exceed the greater of \$5,000 or the adjusted basis of the building and its

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Report on Historic Preservation Tax Credits in Texas



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structural components. The adjusted basis is generally the purchase price, minus the cost of the land, plus improvements already made, minus depreciation already taken.

- Most **rehabilitation costs** are eligible for the credit, such as structural work, building repairs, electrical, plumbing, heating and air conditioning, roof work, and painting. Architectural and engineering fees, site survey fees, legal expenses, development fees, and other construction-related costs are also qualified expenditures if such costs are reasonable and added to the property basis. Some costs are not eligible for the credit, such as property acquisition, new additions, furniture, parking lots, sidewalks, and landscaping.
- The building must be **placed in service** (returned to use) after the rehabilitation. The tax credit is generally allowed in the taxable year that the rehabilitated property is placed in service. Unused tax credit can be carried back one year and carried forward 20 years. **NOTE:** The timing for taking the federal tax credit has been changed by recent legislative changes of December 22, 2017. [Read more.](#)
- The work undertaken as part of the project must meet the [Secretary of the Interior's Standards for Rehabilitation](#). The entire project is reviewed, including interior and exterior work, as well as related demolition and new construction. A project is certified, or approved, only if the overall rehabilitation project is determined to meet the Standards. More information about the Standards can be found [here](#).

The Application Process

An application for tax credits must be submitted before the project is completed, although work may begin prior to the application or approval. Ideally, the application should be submitted during the planning stages of the work so the owner can receive the necessary guidance to ensure that the project meets the [Secretary of the Interior's Standards for Rehabilitation](#), and therefore may qualify for the credits. The application process consists of three parts, all of which are submitted directly to THC.



Dallas Post Office interior, courtesy of 400 North Ervay

Part 1: Evaluation of Significance

(Corresponds to state Part A)

The first part of the application determines if the building is eligible for the National Register or contributes to the significance of a National Register historic district. Part 1 of the application is not needed if the property is already individually listed in the National Register, since these properties are already "certified historic structures" for the purposes of the tax credit program.

Part 2: Description of Rehabilitation

(Corresponds to state Part B)

This part of the application describes the existing condition of the building and the proposed work. Photographs are required showing the major character-defining features of the building prior to the start of work. The proposed work is evaluated using the Secretary of the Interior's Standards for Rehabilitation.

Part 3: Request for Certification of Completed Work

(Corresponds to state Part C)

The final part of the application is submitted upon completion of the rehabilitation and documents that the work was completed as proposed. Once the National Park Service determines that the completed work meets the Standards and approves Part 3 of the application, the project is a "certified rehabilitation" and qualifies for the tax credits.

For More Information

Our new [Tax Credits Frequently Asked Questions](#) page is a good starting point for common queries.

For more information about the 20 percent rehabilitation tax credit program, including a downloadable application, FAQs about the IRS requirements, and NPS review fees, please visit the [National Park Service](#)

[website.](#)

Download the federal applications directly from [this webpage.](#)

Tax credit requirements, which include NPS and IRS regulations for the Federal credit, can appear confusing at times. THC staff is available to assist property owners in understanding and applying for the credits. For both Federal and Texas tax credits, the application process is overseen primarily by the THC. THC staff may visit the property and/or request additional information from the applicant during review. Complete applications for the Federal credits are then sent to NPS with a recommendation as to whether the project meets the Standards for Rehabilitation.

Please note that THC staff cannot give tax advice. Consult a tax advisor regarding IRS regulations and their implications for your particular tax situation.

Completed Rehabilitation Tax Credit Projects

Learn more about successful rehabilitation tax credit projects:

- [Dallas Coffin Company in Dallas, Dallas County](#)
- [Dallas Post Office in Dallas, Dallas County](#)
- [Anson Mills Building in El Paso, El Paso County](#)
- [Valley Fruit Company in Pharr, Hidalgo County](#)

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