

Michigan's Historic Preservation Combined State and Federal Tax Incentives Program



State Historic Preservation Office Michigan State Housing Development Authority

Historic Preservation Tax Incentives

Historic resources are tangible links to our past. They impart a sense of identity, stability, and orientation to a community. Historic preservation tax incentives promote the retention and rehabilitation of these resources.

Rehabilitation is defined as "The process of returning a property to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural, and cultural values."

Tax credits lower the amount of state and federal income tax liability of the historic resource owner. The basic combined tax credits are a 25% credit (5% state plus 20% federal) for certain historic resources.

The credits are available to encourage investment in Michigan's historic resources. The State Historic Preservation Office (SHPO) administers the program in partnership with the National Park Service (NPS), the IRS, and the Michigan Department of Treasury.

Michigan resource owners and long-term Lessees who undertake qualified rehabilitations of certain historic resources can apply for a credit against their federal income tax as well as their state general income tax or Michigan Business Tax (MBT) based on their qualified rehabilitation expenditures. The purpose of the tax credit program is to provide incentives to landlords, commercial property owners, long-term lessees, and businesses to rehabilitate historic commercial and rental residential resources.

Historic Preservation Tax Incentives

Eligible Resource

An eligible resource is defined as any income-producing historic building that meets at least one of the following criteria. The resource is:

- A. Listed individually, or is a contributing resource in a historic district listed in the National Register of Historic Places **and** is a contributing resource in a locally designated historic district established pursuant to PA 169 of 1970 as amended, **or**
- B. Listed individually, or is a contributing resource in a historic district listed in the State Register of Historic Sites or the National Register of Historic Places **and** is in a unit of government with a population of less than 5,000 people, **or**
- C. Listed individually, or is a contributing resource in a historic district listed in the State Register of Historic Sites or the National Register of Historic Places **and** is located in a chartered summer resort and assembly association, **or**

- D. Listed individually, or is a contributing resource in a historic district listed in the State Register of Historic Sites or the National Register of Historic Places **and** is subject to an historic preservation easement that has been approved by the State Historic Preservation Office.

An *eligible resource* is designated a certified historic resource by the SHPO and NPS after the resource is reviewed and a determination of the resource's historic significance and character are made.

A *local historic district* is established by a local ordinance and regulates the construction, alteration, and demolition of resources in the district.

The *National Register of Historic Places* is the nation's list of cultural resources worthy of preservation. Listing in the State Register of Historic Sites or the National Register of Historic Places does not prevent a private citizen from altering, managing, or disposing of the resource.



The Three Types of Combined Tax Credits:

1. Basic Combined Credits:

Basic combined credits are non-competitive, are non-capped, and are equal to 5% of the project's qualified expenditures. In no case shall the combined total of the federal and basic combined state historic preservation tax credits exceed 25% of the eligible rehabilitation expenses. In practice, this may result in a 20% federal credit and a 5% state credit for the same work. Basic combined projects must submit complete copies of the federal application form with all supporting documents as well as a portion of the state form. Basic combined applications are subject to all required federal and state processing fees.

2. Enhanced Credits:

Projects that qualify for the basic combined 20% federal and 5% state credits have the opportunity to apply for an enhanced credit of up to an additional 15%. In 2009, enhanced credits have a cap of \$8 million, and the cap increases by \$1 million each year after 2009. All applicants may not receive the full 15% additional credit.

Enhanced credits are competitive, and are awarded in three rounds per year. First round applications must be received by 5:00 PM EST on the last Friday of March, the second round by 5:00 PM EST on the last Friday of June, and the third round by 5:00 PM EST on the second Friday of October. Enhanced credits are equal up to an additional 15% of qualified expenses, but in no case shall the total of federal, basic, and enhanced tax credits exceed 40% of the eligible rehabilitation expenses. In

practice, this may result in a 20% federal credit and a 20% maximum state credit for the same work. 25% of the annual available enhanced credits are reserved for projects with a total expenditure of \$1 million or less. Enhanced credit projects must submit complete copies of the federal application form with all supporting documents as well as a portion of the state form. Enhanced credit applications are subject to all required federal and state processing fees. Incomplete applications will not be considered, but will be held over to the next available round pending receipt of missing information. Application fees and materials will not be returned.

3. Special Consideration Credits:

In 2009, one high-impact preservation project may receive up to an additional 15% state tax credit, which is outside of the cap placed on the enhanced credits. In 2010 and beyond, two special consideration credits will be available annually. The recipient of this credit will be determined by the SHPO Department Director, in consultation with the President of the Michigan Strategic Fund and the State Treasurer.

There is no cap on the amount of special consideration credit available. Applicants receiving these credits are subject to a \$3 million per person per year claimant limitation. Special consideration credits are in addition to basic credits available. Special consideration credits are equal to up to an additional 15% of qualified expenses, but in no case shall the combined total of federal, basic and special consideration tax credits exceed 40% of the eligible rehabilitation expenses (20% at the federal level and 20% maximum at the state level).

Special consideration projects must submit complete copies of the federal application form and all supporting documents as well as a portion of the state form.

Special consideration project applications are subject to all required federal and state processing fees. Complete special consideration credit applications must be received by the SHPO no later than 5:00pm EST on the first Monday of March, to be considered for a given year's credits. Incomplete applications will not be considered, but will be held over to the next available round pending receipt of missing information. Application fees and materials will not be returned.

Please note that projects can either apply for the enhanced credits **or** for the special consideration credits, not both at the same time.

Application Requirements

Basic Combined Credits:

- (2) Full federal applications, with 1 copy of pages 1 and 2 of the state credit application
- (1) Declaration of Location Form (if located in a locally designated historic district)
- (1) State Equalized Value form (with Part 2 application)
- Part 1 state review fee
- Parts 2 and 3 federal and state review fees

Enhanced Credits:

- (2) Full federal applications, with one copy of pages 1 and 2 of the state credit application



- (1) Declaration of Location Form (if located in a locally designated historic district)
- (1) State Equalized Value form (with Part 2 application)
- (1) Supplemental Information form
- Part 1 state review fee
- Parts 2 and 3 federal and state review fees

Special Consideration Credits:

- (2) Full federal applications, with one copy of pages 1 and 2 of the state credit application
- (1) Declaration of Location Form (if located in a locally designated historic district)
- (1) State Equalized Value form (with Part 2 application)
- (1) Supplemental Information form
- (1) Project operating pro-forma
- Part 1 state review fee
- Parts 2 and 3 federal and state review fees

Note: The Application requirements as shown on this page are only brief descriptions- please see the SHPO website for full application details.

Certified Rehabilitation

A certified rehabilitation is the rehabilitation of a certified historic resource that the SHPO has affirmed as being consistent with the historic character of the resource and, where applicable, with the district in which the resource is located. The rehabilitation must conform to the *Secretary of the Interior's Standards for Rehabilitation*.

The *Secretary of the Interior's Standards for Rehabilitation* are broadly worked to guide the rehabilitation of all historic resources. The underlying concern expressed in the standards is the preservation of significant historic materials and features of a resource in the process of rehabilitation. The standards apply with equal weight to both the interior and exterior work and the SHPO reviews the **entire** rehabilitation project rather than a single aspect of the undertaking. Certification of the rehabilitation is based on whether the **entire** project meets the *Standards for Rehabilitation*.

The Standards accommodate some alteration of the historic resource to provide for an efficient contemporary use. However, the rehabilitation must not damage, destroy, or cover materials or other features, whether interior or exterior, which define the resource's historic character. The *Secretary of the Interior's Standards for Rehabilitation* are applied to projects in a reasonable manner, taking into consideration economic and technical feasibility.

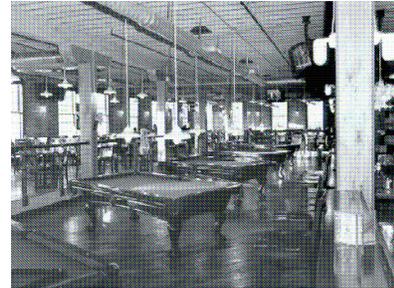
The *Secretary of the Interior's Standards for Rehabilitation* apply to historic resources of all periods, sizes, styles, types, and materials. They apply to both the exterior and the interior of historic resources. The standards also encompass related landscape features and the resource's site and environment as well as attached, adjacent, or related new construction. Further guidance in applying the standards can be found in the companion *Secretary of the Interior's Guidelines for Rehabilitating Historic Buildings* at:

www.nps.gov/history/hps/TPS/tax/rhb/



Secretary of the Interior's Standards for Rehabilitation

1. A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
2. The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
3. Each property shall be recognized as a physical record of its time, place and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
5. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a property shall be preserved.
6. Distinctive historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
7. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.
8. Significant archaeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.



9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
10. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

Application Process

To qualify for the combined tax credit, applicants must submit the complete federal *Historic Preservation Certification Application* and portions of the state *Historic Preservation Certification Application*. Both applications are composed of three parts:

Part 1 – Evaluation of Eligibility.

Certified historic resource status is obtained by completing Part 1 of the applications. The SHPO reviews the applications and recommends whether the resource should be a certified historic resource. The NPS makes the formal certification. If the resource is located in a local historic district, this must be verified by the local unit of government, and a *Declaration of Location* form must be completed.

All applicants for state credits that submit a Part 1 application are subject to the following fees: \$25 for basic and enhanced credits, and \$1000 for special consideration credits. These fees are nonrefundable.

Please note: A separate check for each required state review fee is required. *Do not* combine fees into a single check.

Part 2 – Description of Rehabilitation

To ensure that a planned rehabilitation is consistent with the historic character of the resource, Part 2 of the application is submitted to the SHPO for review and to the NPS for approval. The SHPO evaluates the rehabilitation project for conformance with the *Secretary of the Interior’s Standards for Rehabilitation*. If necessary, the SHPO advises applicants, and provides technical assistance and literature on appropriate rehabilitation treatments. To determine if the amount

of the rehabilitation expenditures is sufficient to qualify for the state tax credit, a *Verification of State Equalized Value (SEV)* form must be submitted.

Parts 1 and 2 of the application may be submitted at the same time. **Prior** to beginning **any** rehabilitation work, Parts 1 and 2 of the application should be submitted to the SHPO for review and to the NPS for approval. This will minimize the risk encountered by the applicant.

An applicant who submits a Part 2 application must pay a processing fee as outlined in the tables below. This fee is nonrefundable.

PART 2 Fee for 5% Combined Credits	
Qualified Expenditures	Fee
\$0.00 to \$24,999.99	\$0.00
\$25,000.00 to \$49,999.99	\$25.00
\$15,000.00 to \$99,999.99	\$50.00
\$100,000.00 to \$249,999.99	\$125.00
\$250,000.00 to \$499,999.99	\$250.00
\$500,000.00 to \$999,999.99	\$500.00
\$1,000,000.00 to \$2,499,999.99	\$1,250.00
\$2,500,000.00 and above	\$2,500.00

PART 2 Fee for Enhanced and Special Consideration Credits	
Qualified Expenditures	Fee
\$0.00 to \$4,999.99	\$25.00
\$5,000.00 to \$9,999.99	\$50.00
\$10,000.00 to \$24,999.99	\$125.00
\$25,000.00 to \$49,999.99	\$250.00
\$50,000.00 to \$99,999.99	\$500.00
\$100,000.00 to \$249,999.99	\$1,250.00
\$250,000.00 to \$499,999.99	\$2,500.00
\$500,000.00 and above	\$5,000.00

Part 3 – Request for Certification of Completed Work.

Final certification of the project is obtained when the rehabilitation work is completed. Part 3 of the application is submitted to the SHPO for review and to the NPS for approval. A project designated by the SHPO as a certified rehabilitation is approved for purposes of the tax credit and both the applicant and the Michigan Department of Treasury are notified.

An applicant who submits a Part 3 application must pay a processing fee as outlined in the tables below. This fee is nonrefundable.

PART 3 Fee for 5% Combined Credits	
<u>Qualified Expenditures</u>	<u>Fee</u>
\$0.00 to \$24,999.99	\$0.00
\$25,000.00 to \$49,999.99	\$25.00
\$15,000.00 to \$99,999.99	\$50.00
\$100,000.00 to \$249,999.99	\$125.00
\$250,000.00 to \$499,999.99	\$250.00
\$500,000.00 to \$999,999.99	\$500.00
\$1,000,000.00 to \$2,499,999.99	\$1,250.00
\$2,500,000.00 and above	1/2% of credit

PART 3 Fee for Enhanced and Special Consideration Credits	
<u>Qualified Expenditures</u>	<u>Fee</u>
\$0.00 to \$4,999.99	\$0.00
\$5,000.00 to \$9,999.99	\$25.00
\$10,000.00 to \$24,999.99	\$50.00
\$25,000.00 to \$49,999.99	\$125.00
\$50,000.00 to \$99,999.99	\$250.00
\$100,000.00 to \$249,999.99	\$500.00
\$250,000.00 to \$499,999.99	\$1,250.00
\$500,000.00 \$999,999.99	\$2,500.00
\$1,000,000.00 to \$2,499,999.99	\$5,000.00
\$2,500,000.00 and up	2% of credit

Deadlines for Application Submittal

The SHPO and NPS have 30 days each in which to review an application submitted for the combined tax credit program. The credits are claimed on business taxes or individual income taxes beginning in the year in which the Part 3 application is certified. Therefore, if the applicant desires review of a tax credit application for a given tax year, that application and all required supporting materials must be received in the SHPO office no later than November 15 of that year. Applications received after November 15 may or may not be reviewed in that tax year.

Qualified Rehabilitation Expenditures

A combined tax credit of 25 percent may be taken on qualified rehabilitation expenditures. Qualified rehabilitation expenditures are costs incurred through rehabilitation work undertaken on the resource itself and can also include fees associated with the rehabilitation such as architectural and engineering fees, site surveys, legal expenses, development fees, and application fees. Qualified rehabilitation expenditures do not include costs of acquiring or furnishing the resource, new additions that expand the volume of the existing resource and construction of new facilities related to the resource.

Qualified rehabilitation expenditures must be equal to or greater than 10 percent of the State Equalized Value (SEV) of the property to qualify for the state tax credit. Only those expenditures that are paid or incurred during the time periods prescribed for the credit under section 47(a)(2) of the internal revenue code and any related treasury regulations shall be considered qualified expenditures.

Claiming the Credit

Once approved, applicants claim the credit when they file their federal and State of Michigan business or individual income tax returns. The tax credit is claimed on the tax return for the year that the Part 3, Request for Certification of Completed Work, is certified by the SHPO.

Credit Assignment

A qualified taxpayer may assign all or any portion of the credit in the tax year in which a certificate of completed rehabilitation is issued. An assignee may subsequently assign the credit or any portion of the credit.

Credit Refund

For projects in which the credit amount allowed is less than \$250,000, a qualified taxpayer may receive a refund of the amount of the credit that exceeds the taxpayer's tax liability. The amount of the refund shall be equal to 90 percent of the amount of the credit that exceeds the qualified taxpayer's tax liability.

Credit Recapture

Because of the credit assignment provision provided in the tax law noted above, any recapture of the credit will be the responsibility of the qualified taxpayer that received the certificate of completed rehabilitation and not the assignee.

Contact Information

State Tax Credits:

Bryan Lijewski
Architect
State Historic Preservation Office
Michigan State Housing Development
Authority
702 W. Kalamazoo, Box 30740
Lansing, MI 48909-8237

(517) 373-1631
lijewskib@michigan.gov

Federal and Combined Tax Credits:

Robbert McKay
Historical Architect
State Historic Preservation Office
Michigan State Housing Development
Authority
702 W. Kalamazoo, Box 30740
Lansing, MI 48909-8237

(517) 335-2727
mckayr@michigan.gov

Daniel Schneider, AIA
Historical Architect
State Historic Preservation Office
Michigan State Housing Development
Authority
702 W. Kalamazoo, Box 30740
Lansing, MI 48909-8237

(517) 373-7653
schneiderd2@michigan.gov