



Preservation Financial Incentives

- **State Historic Property Tax Reclassification program**

This program is administered by the County Assessor and the State Historic Preservation Office (SHPO). Rehabilitation must follow Secretary of Interior's Standards and SHPO must approve plans for such work prior to implementation. In addition, the property owner may be required to annually submit an expenditure record, and a form (furnished by the SHPO) verifying that the property has been maintained according to program guidelines.

This program reduces up to 50% of the property tax of NR listed *residential properties* over a period of 15 years. Improvements to NR listed *commercial properties* are assessed at 1% of full value over a period of 10 years. The intent is to provide an owner the opportunity to make a building presentable to tenants and allow such tenants a period to establish business without the burden of increased rent due to property tax increases.

These State tax credits can be combined with Federal preservation tax incentives. For more information, visit:

http://www.tucsonaz.gov/planning/prog_proj/projects/historic/taxcrprog.html

- **Federal Investment Tax Credit program**

20% Rehabilitation Tax Credit

Administered by SHPO. It provides 20% income tax credit equal to 20% of qualified rehabilitation expenditures, and accelerated depreciation, for rehabilitated income producing properties listed individually or as contributors on NR. Rehabilitation must follow Secretary of Interior's Standards. The project costs must be *substantial*, exceeding either \$5000 or the adjusted basis of the building, whichever is higher. Most tax incentive rehabilitation projects are completed in a two-year cycle and the credits are claimed when the Part 3 (Request for Certification of Completed Work) is filed.

10% Rehabilitation Tax Credit

A 10% rehabilitation tax credit is available for the rehabilitation of *non-historic buildings* that were built before 1936. The rehabilitation must be *substantial*, exceeding either \$5,000 or the adjusted basis of the property, whichever is greater, and the property must be depreciable. Rehabilitation must be for *non-residential* uses. Rental housing does not qualify for the 10% credit. Hotels qualify as they are considered to be commercial use, not residential use. The tax credit must be claimed on IRS form 3468 for the tax year in which the

rehabilitated building is placed in service. The owner files the 3468 form directly; there is no formal review process for rehabilitations of non-historic buildings.

Projects undertaken for the 10% credit must meet a specific physical test for retention of external walls and internal structural framework:

- 50% or more of the building's existing walls must remain in place as external walls at the work's conclusion, and
- 75% or more of the building's existing external walls must remain in place as either external or internal walls, and
- 75% or more of the building's internal structural framework must also remain in place.

The 20% and 10% credits are mutually exclusive. Only one may be applied to a given project. Which credit applies depends on the building, not on the owner's preference.

For more information, visit:

<http://www.pr.state.az.us/partnerships/shpo/taxincen.html>

- **Conservation Easements**

Portions of historic buildings, such as the exterior façades, may be granted to nonprofit organizations or local governments, and their values may be deducted from the property owner's income taxes. Under Section 170(h) of the tax code, a donor of a qualified conservation easement is entitled to a charitable contribution deduction in the amount of the appraised value of the donated easement. If the value of the donation and deduction exceeds \$5000, the taxpayer must obtain a qualified appraisal and attach a full summary to the income tax return. Valuations usually range from 10-15% of the structure's total fair market value.

Easements that qualify for the federal tax deduction must be perpetual. To qualify, the gift of an easement for conservation purposes such as the preservation of the façade of a certified historic structure must be made to a nonprofit or local government holding entity.

A façade easement may be claimed for a qualified rehabilitated building (i.e., combined with the 20% Rehabilitation Tax Credit). However, if the donation is made within the five year 20% Rehabilitation Tax Credit recapture period, the donation is considered a partial disposition of the property and will trigger recapture of all or part of the rehabilitation credits. The donation is made only once, but the tax deduction may be distributed.

For more information, visit:

<http://www.nationaltrust.org/legal/easements/index.html>