

Historic Rehabilitation Tax Credits

Preservation and rehabilitation tax credits are intended to serve as financial incentives to encourage private investment in historic buildings. The Kentucky Heritage Council (KHC) administers both the Kentucky Historic Preservation Tax Credit, in partnership with the Kentucky Department of Revenue, and the [Federal Historic Rehabilitation Tax Credit](#), in partnership with the [National Park Service \(NPS\)](#). These incentives can often be used in tandem.

A tax credit lowers the tax owed by an individual. A tax credit differs from a tax deduction in that an income tax deduction lowers the amount of income subject to taxation, while a tax credit is a dollar-for-dollar reduction in income tax liability. In other words, a tax credit of one dollar reduces the amount of income tax owed by one dollar.

What is the economic impact of these programs?



Botherum, historic house in Lexington

Tax credits have proven to be one of the nation's most successful and cost-effective community revitalization tools - creating jobs, leveraging private investment, enhancing property values, and returning underutilized properties to tax rolls. This widely recognized program has been instrumental in preserving the historic places that give our cities, towns, and communities their special character.

Since its inception in 1976, more than 44,000 projects have been completed through the Federal Historic Rehabilitation Tax Credit, which has leveraged nearly \$96.9 billion in private investment in the rehabilitation of historic properties of every period, size, style, and type in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See the [Federal Tax Incentives for Rehabilitating Historic Buildings](#) Annual Report for FY 2018 for more.

In 2018, Kentucky ranked 12th nationally utilizing the federal credit, with 27 successfully completed projects generating investment of \$56,891,561. This tax credit can often be utilized in tandem with the Kentucky Historic Preservation Tax Credit, a key provision that strengthens use and effectiveness of both programs.

In 2019, KHC received a record number of 152 applications for the Kentucky preservation tax credit from 24 counties; 71 for residential, 70 for commercial, and 11 nonprofit. Of these, 117 were approved pending completion of the work, representing \$114 million in proposed private investment in rehabilitation.

Since the Kentucky tax credit was implemented in 2005, more than \$544 million in private investment has been leveraged from \$41.9 million in credits, resulting in the preservation and reuse more than 900 historic properties.

Does my project qualify?

To qualify for a state or federal rehab tax credit, a building must be listed in (or in some cases determined eligible for) the National Register of Historic Places, or located in a National Register district. Administered by the NPS, an agency of the U.S. Department of the Interior, the National Register is the nation's official list of historic and archaeological resources deemed worthy of preservation. Listing can be applied to buildings, objects, structures, districts and archaeological sites that may be significant in the areas of architecture, engineering, American history or culture, or possess a special role in the development of our country.

National Register status does not affect property ownership rights, but does provide a measure of protection against adverse impacts from federally funded projects. Owners of National Register properties may also qualify for tax credits by making a charitable contribution of a preservation easement. [Learn more about the National Register program in Kentucky.](#)

How do I get started?

If you are a property owner considering the use of rehab tax credits, we urge you to first contact KHC's tax credit reviewers to discuss the scope of your project.

As part of the tax credit application process, before any repair or rehabilitation work to a building or site can proceed, proposed work must first be certified by the Kentucky Heritage Council as meeting the U.S. Secretary of the Interior's [Standards for the Treatment of Historic Properties](#), which provide guidance to historic building owners and managers, preservation consultants, architects, contractors and project reviewers.

According to these standards, "rehabilitation" is "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."

For example:

- 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.
- 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.
- Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
- Distinctive features, finishes and construction techniques or examples of craftsmanship that characterize a property shall be preserved.
- Deteriorated features shall be repaired rather than replaced.

The Kentucky Heritage Council must certify all rehabilitation project plans - as well as the amount of the credit, including any amendments - before a tax credit will be approved.

What do state and federal tax credit programs offer, and how do these differ?

The federal program offers a tax credit of up to 20% for qualified rehabilitation expenses for income-producing properties. Owner-occupied residences are not eligible; however, federal and state rehabilitation tax credits can be used in combination for the rehabilitation of commercial or income-producing properties.

Guidelines for the Kentucky credit are modeled on the federal program, also offering up to 20% of qualified rehabilitation expenses for income-producing properties; however, the Kentucky credit further offers up to 30% of qualified rehabilitation expenses for owner-occupied residential properties.

Within a consecutive 24-month period, rehabilitation expenses for owner-occupied buildings must exceed \$20,000. Rehabilitation expenses for commercial or other property must be \$20,000 or the adjusted basis of the structure, whichever is greater.

No allowance is made in the state credit for "phased projects" longer than 24 months, so each rehabilitation project submitted for a tax credit should be self-contained within that two-year period.

Learn more about the federal credit from [National Park Service Technical Preservation Services](#), or link directly to the federal forms under the federal [Historic Preservation Certification Application](#).

What is the application deadline?

Applications may be submitted at any time. Credits will be allocated each calendar year to projects that have an approved Part 2 application **submitted prior to the annual deadline of April 29**.

An apportionment formula will be applied if the total amount of approved credits exceeds the \$5 million cap.

Taxpayers are urged to seek the advice of a qualified tax professional before proceeding with any tax credit project.

[Learn how to apply](#) or see [frequently asked questions](#).

For Information:

Staff Architect

[Erick Rawlings](#)

(502) 892-3612

Restoration Project Manager

[Mike Radeke](#)

(502) 892-3613