States have been crafting their own historic tax credit (HTC) programs since the 1980s, following the example of the federal HTC. They have been credited with revitalizing communities, creating jobs and creating economic opportunities. The objectives of these programs generally follow a few guiding principles: preserve historic buildings, incentivize economic development and improve communities while doing no harm to state revenue.

Today, 35 states have some level of tax credit for historic rehabilitations.

Preserve Historic Buildings

With the many technical aspects and interests represented when structuring HTC legislation and deals, it is sometimes is easy to lose sight of their foundation: to preserve historic places. Leading up to the National Historic Preservation Act of 1966 that marks the beginning of the modern preservation movement, figures such as Lady Bird Johnson were publicly extolling the virtues of “heritage” and “culture.” The first federal incentive for preservation was born of national pride centered on the American bicentennial in 1976, as Main Street USA was celebrated and draped in red, white and blue. This celebration also took place after urban renewal campaigns ripped through cities in the 1950s and 1960s, ordained by municipal leaders around the country, leaving them arguably more scarred than mended and with much less of their material heritage.

This is the environment in which state HTCs were incubated. Issues of pride, heritage and unrenewable architectural resources are what they are meant to address. HTCs are an acknowledgement that the economic forces of real estate development sometimes favor new construction versus rehabilitation, but that building preservation is important to telling the stories of our communities and our nation.
A good HTC is created with preservation at its core. Federal guidelines for historic significance are the standard for identifying and evaluating what should be preserved and how. The significance criteria from the National Register of Historic Places is an effective benchmark for worthy projects deemed as “certified structures” and the Secretary of Interior’s Standards for Rehabilitation are the standard for project review. These standards create a cohesive process of review by both state historic preservation offices and the National Park Service, which is ideal when properties are applying to earn both credits. Making it easy to apply for both credits easily is ideal because it brings additional federal money into the state.

**Incentivize Economic Development**

While the foundation of HTC programs is appreciation for historic architecture, it’s the economic benefit to those undertaking the developments that shape their success. Key to that success is that the credit amount is sufficient to have a positive impact on the project’s capital stack.

The National Trust for Historic Preservation in their 2018 white paper, “State Historic Tax Credits: Maximizing Preservation, Community Revitalization and Economic Impact,” estimates that a credit between 20 and 30 percent of qualified rehabilitation expenses attracts enough owners of historic properties to the incentives for the programs to be considered successful. To encourage investment in smaller projects where a lower credit amount may deter owners from applying, some states have included a “bump up” to a higher percentage of credit when the qualified rehabilitation expenses are less than a predetermined amount.

HTCs can also be used to target specific types of economic development, such as affordable housing and low-income or disinvested communities. These special credits go hand in hand with objectives of the state and strategic incentives can draw a developer’s interest to places they may have otherwise not considered. A bump up credit of 5 to 10 percent or special consideration in a competitive allocation process can help these projects.

To HTC developers and investors, an easily transferrable credit is most attractive. The most desirable method for achieving this is certificating the credit so that it can be sold to any taxpayer. Another less common but effective method is to make credits refundable for owners who do not hold enough tax liability to take full advantage of the credit amount.

Predictability is perhaps the most important cornerstone of effective HTCs. Clearly written, noncompetitive credits get the most use. This means that aggregate caps should be avoided if possible. If per-project caps are necessary, these should be large enough that large developments that can potentially create significant economic benefits for communities should feel that they will receive sufficient incentive, even if there is a limit to how much they can generate. A project cap of $5 million, for instance, could easily incentivize projects up to $20 million in qualified rehabilitation expenses for most state programs.

**Improve Communities**

Just as importantly as saving historic resources, HTCs are an investment in the betterment of communities. They represent a desire to improve the lives of constituents by improving infrastructure. They also help to address specific issues such as housing, rural development and even energy efficiency and job creation when special allocations or increased credit amounts are used to promote those specific objectives.

HTCs inherently promote sustainability and job creation. This is illustrated by the fact that historic rehabilitations take more labor and less material than new construction, and in addition to short-term...
construction jobs, historic properties also can create new long-term jobs in buildings that may have had no current economic use.

While they are an important part of a community’s history, historic buildings provide the authenticity that so many crave from towns and cities today. It is part of drawing new residents in and encouraging current residents to stay. Historic building rehabilitation represents a collective pride and investment in the future.

Benefit the State
A multitude of economic studies has proven that HTCs return more to state tax bases than the state loses in tax credit each year. This is because of the cumulative benefits of historic rehabilitation activities from job creation, building reuse and catalytic investment.

In order to pass effective HTC legislation, it is sometimes necessary to structure the programs in a way that produces measurable results that aide in providing transparency to constituents as well as government agencies. This structure includes requiring a minimum investment for projects (this is often the adjusted basis or a dollar amount such as $5,000); setting deadlines for applications, including steps for extension appeals and explanation of any reallocation process; instating application fees for the administration of the program; and collecting project data that will help with program performance evaluations.

States with no personal income tax can still create programs by having the credit offset a different type of tax, such as a franchise tax or insurance premium’s tax. They can also extend beyond the federal requirement that a project must be income producing by creating programs that allow nonprofits or state universities to use the credit. In these cases, certificated or refundable credits are necessary in order to use the incentive to attract investors.

Another benefit of HTCs is the ability to draw out-of-state investment for building reuse. Where the incentive is attractive enough, developers are willing to cross state lines to bring unused or underused buildings back to life and back to the tax roll.

The truth is that there is no single blueprint for a perfect state HTC. Each state must consider its objectives in order to craft the credit program that is right for them. Over nearly 40 years of experience, methods of creating more effective programs are maturing and continue to be integral to economic development. The structure of these programs are vital to the health of our material culture, our communities and our collective heritage.

Elements of Effective State Historic Tax Credits
- Follow federal guidelines for identifying and evaluating eligible resources
- Provide ample credit to incentivize use
- Set sufficient project and/or aggregate caps when they are necessary
- Require minimum investments for projects and set minimum investments low so all kinds of projects will qualify
- Create special credit amounts or considerations for projects that represent special building types or functions (e.g.,: bump-up credit for textile mills or priority allocation for affordable housing)
- Create a certificated credit that can be bifurcated from the federal credit
- Create an opportunity for nonprofits to utilize the credit
- Outline a clear and easy path for transferring credit
- Clearly define deadlines, appeals and allocation/reallocation process

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