

Historic Preservation Tax Credits for Rehabilitation of Historic Properties



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What is a Tax Credit?

A tax credit is a type of financial incentive that states can offer for “public benefit.” – Garrett Fischer, Thompson Colburn (law firm)

A tax credit certificate is issued following **completion** of certified historic rehabilitation. They do **NOT** provide up-front funding to initiate or pay for a project that is in-process.

What is the Purpose of Historic Preservation Tax Credits?

1. To encourage the protection, preservation, and continued use of Missouri's diverse range of historic architectural resources.

2. Economic development

Both the Federal and the State HTC programs are intended to incentivize the **Rehabilitation** of historic buildings.



The Berry Building, Columbia, Missouri; rehab completed in 2010 using both federal and state historic preservation tax credits.

What is Rehabilitation?

The Four Treatments outlined by the National Park Service for historic buildings, sites, structures, objects, and districts eligible to be listed on the National Register of Historic Places are:

Preservation

Rehabilitation – the only one eligible for tax credits

Restoration

Reconstruction

Rehabilitation is NOT the same as renovation, preservation, restoration, or reconstruction. In order for a certified historic property to become a certified rehabilitation, it must **preserve the historic character of the property**. In other words, the property must retain its **Integrity**, that is, its ability to convey its significance, or to “tell its story.”

What is Rehabilitation?

1. **Rehabilitation** is the act or process of making possible a compatible use for a property through repair, alterations, and additions while preserving those portions or features which convey its historical, cultural, or architectural values.
2. **Rehabilitation** acknowledges the need to alter or add to a historic building to meet continuing or new uses while retaining the building's historic character.
3. **Rehabilitation** is the only one of the NPS's Four Treatments that allows for alterations and even the construction of a new addition, if necessary for a continuing or new use for the historic building.



What is Rehabilitation?

Rehabilitation is the only one of the NPS's Four Treatments that allows for alterations and even the construction of a new addition, if necessary for a continuing or new use for the historic building.

Before Rehab:



After Rehab:



Before Rehab:



MISSOURI STATE PARKS



After Rehab:



MISSOURI STATE PARKS



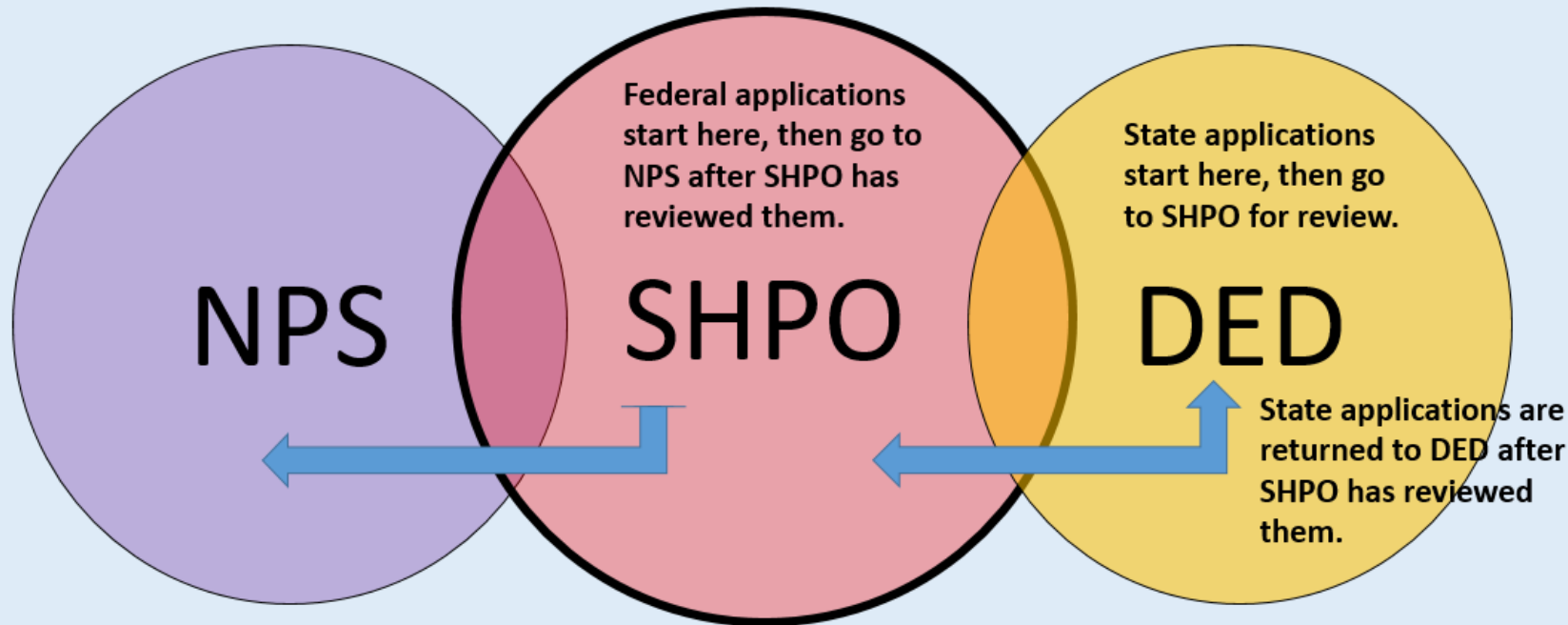


Rehabilitation includes installing up-to-date HVAC, fire safety, and mechanical, electrical, and plumbing systems to meet current needs as well as to meet code requirements. However, these should always be installed so as not to detract from the building's historic character.

In this case, the HVAC duct visible through the transom window of the storefront does not meet the Standards. Ducts should always be held back from windows far enough to not be visible from outside.

Two Historic Tax Credit Programs

- ❑ **Federal Historic Tax Credit Program** – Established in 1977; partnering agencies: SHPO, National Park Service, IRS
- ❑ **Missouri State Historic Tax Credit Program** – Established in 1998; partnering agencies: SHPO, DED



**BOTH PROGRAMS
FOLLOW THE
SECRETARY OF
THE INTERIOR'S
STANDARDS FOR
REHABILITATION**

Rehabilitation Hierarchy

The National Park Service has established the following **Rehabilitation Hierarchy** to help with interpreting the *Standards*:

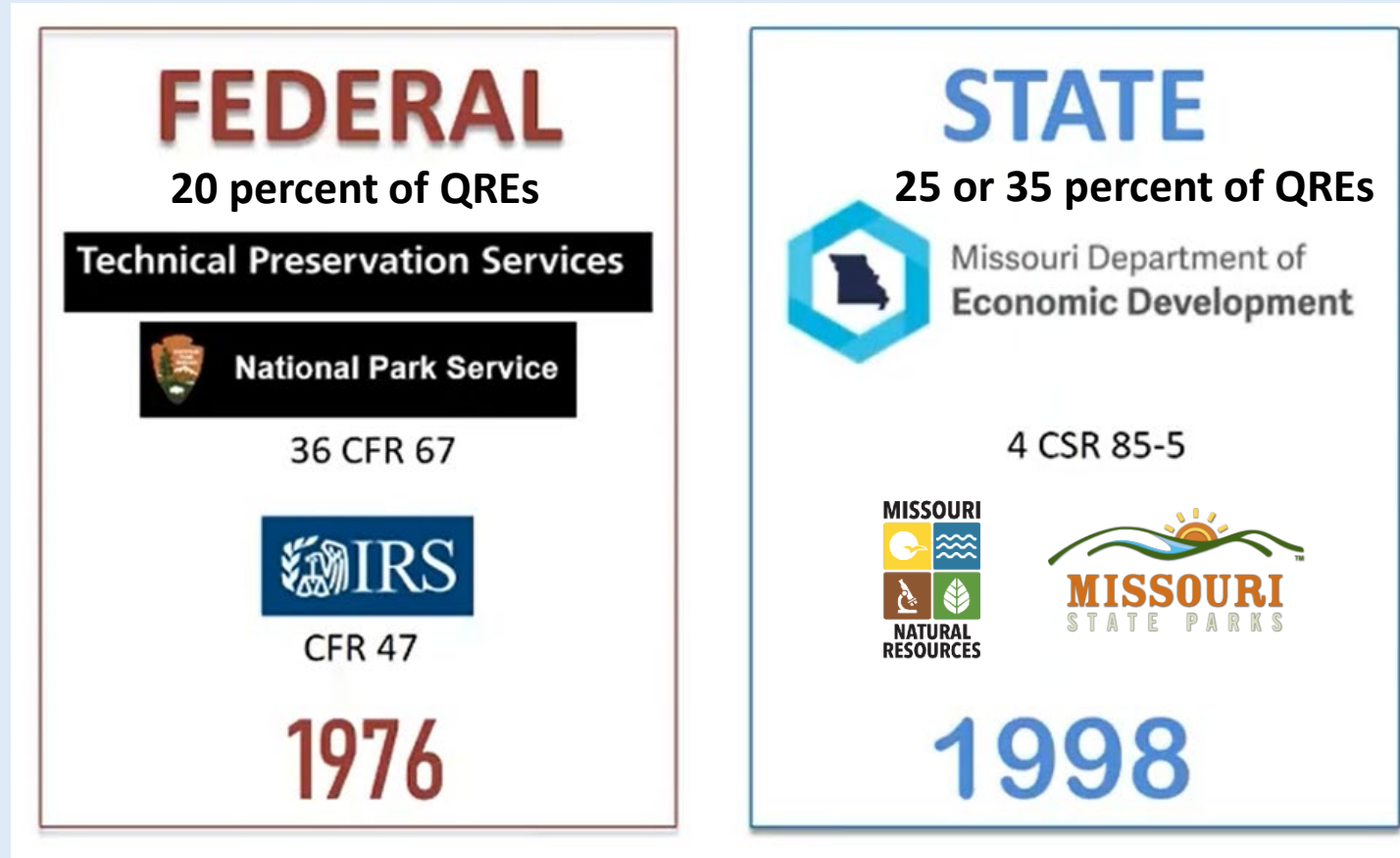
First: *Identify, Retain, and Preserve* historic materials and features.

Second: *Protect and Maintain* historic materials and features.

Third: *Repair* historic materials and features.

Fourth: *Replace* deteriorated historic materials and features (*only if it cannot be repaired, and only with compatible materials*).

What Tax Credit Programs are Available?



- These can be combined if the project qualifies for both, for a total tax credit of 45 percent of QREs (in St. Louis and Kansas City) or 55 percent (outside of St. Louis & KC).**

The Missouri Historic, Rural Revitalization, and Regulatory Streamlining Act, 2024: MODIFIED THE MISSOURI HTC PROGRAM

- **Previously:** Missouri Historic Tax Credit was worth 25 percent of Qualified Rehabilitation Expenditures (QREs) statewide
- **Now:** the tax credit is still worth 25 percent in St. Louis and Kansas City, but is worth 35 percent of QREs everywhere else.*

***The only exception is for projects that are also claiming Low Income Housing Tax Credits (LIHTC); those projects may only claim 25 percent of QREs from the HTC program, even if they are outside of St. Louis and Kansas City.**



How do the Federal and State Historic Tax Credits differ?

FEDERAL:

- To be used at the completion of a project for tax payment for the applied property, to be taken ratably over five years. This is called the **Recapture Period**.
- Applicant must retain the property for 5 years; they may not sell the property.
- Federal tax credits cannot be sold.
- Only available on income-producing properties.
- Non-profits and government entities may NOT apply for Federal Historic Tax Incentives.

STATE:

- There is no recapture period. Property does not have to be retained for a period of time following project completion.
- State Historic Tax Credits may be sold for cash.
- State HTC's are available for owner-occupied homes.
- **Non-profit entities ARE eligible to apply for State Historic Tax Credits (as of August 2024).**



The Missouri Historic, Rural Revitalization, and Regulatory Streamlining Act

The Missouri Historic Tax Credit program has two categories based on the dollar amount being spent: **Small** projects and **Large** projects. These are treated differently by DED.

- **Small projects:** those receiving under \$275,000 in historic tax credits, regardless of the Applicable Percentage:
 $\$275,000 = .25 \times \$1,100,000$ in QREs
 $\$275,000 = .35 \times \$785,715$ in QREs
- **For ALL projects (Small and Large), DED requires 10 percent of estimated costs of rehabilitation to be incurred within 24 months of authorization.** Prior to August 28, 2024, they only had 9 months to spend ten percent.
- **There is no cap on the TOTAL annual dollar amount of historic tax credits awarded to Small projects, though each project is limited to \$275,000.**



The Missouri Historic, Rural Revitalization, and Regulatory Streamlining Act

- **Large projects:** those with over \$275,000 in historic tax credits.
- **For ALL projects (Small and Large),** DED requires 10 percent of estimated costs of rehabilitation to be incurred within 24 months of authorization. **The exception to that rule is for buildings that are at least 1 million square feet; DED requires 10 percent of estimated costs of rehabilitation to be incurred within 36 months of authorization.**
- **The program has an annual cap of \$90 million for Large projects,** but some types of projects are excluded from the cap. Both in FY23 and FY24, the \$90M HTC cap was increased by \$14,378,270.19, making a total cap for all projects of \$104,378,270.19.



The Missouri Historic, Rural Revitalization, and Regulatory Streamlining Act

HTCs for projects in Qualified Census Tracts (QCTs)

- The QCT Tax Credit Cap is \$30 million, which is set aside solely for properties in Qualified Census Tracts. Properties in a QCT are not limited by the amount in this set-aside, but QCT projects will be authorized Historic Tax Credits from the QCT Tax Credit Cap **BEFORE** being authorized from the Statewide Tax Credit Cap.

The Missouri Historic, Rural Revitalization, and Regulatory Streamlining Act

Large projects (over \$275,000 in HTC's) are subject to Scoring:

- When DED receives the preliminary application for a Large project, they are required to score the proposed project based on these categories, with a total possible score of 100; **70 points receives award**
 - Leveraged Investment (30 points)
 - Financing Committed (30 points)
 - Vacant Building (30 points)
 - Net Fiscal Benefit to the State (10 points)
- The 2024 legislation eliminated a fifth category, Project Location, which had been worth 22 points.

The Missouri Historic, Rural Revitalization, and Regulatory Streamlining Act

- Under the 2024 legislation, **historic schools and theaters** do not get scored by DED, even if they are Large projects. Thus they do not have to compete against other Large projects for tax credits.

Substantial Rehabilitation Test – THIS THRESHOLD IS ALSO DIFFERENT FOR THE STATE AND FEDERAL PROGRAMS

UNDER THE FEDERAL PROGRAM:

The project must meet the “substantial rehabilitation test”: In short, the cost of a project must exceed the greater of \$5,000 or the building’s adjusted basis. The following formula will help you determine if your project will be substantial:

$$A - B - C + D = \text{adjusted basis}$$

A = purchase price of the property (building and land)

B = the cost of the land at the time of purchase

C = depreciation taken for the property (the property must be depreciable, such as in a business, commercial, or other income-producing use)

D = cost of any capital improvements made since purchase

You also must claim the tax credits the year you complete the project.



❑ What **PROJECTS** are eligible?

Four Qualifiers:

1. The historic building must be a “certified historic structure.”
2. The Rehabilitation work must be done according to the Secretary of the Interior’s Standards for Rehabilitation (10 Standards). See www.nps.gov/subjects/taxincentives/secretarys-standards-rehabilitation.htm
3. The project must meet the “substantial rehabilitation test.” (State and Federal tests differ.) **We strongly recommend that you consult an accountant, tax attorney, other tax advisor, or the IRS to determine whether these incentives apply to your own tax and financial situation.** See [Eligibility Requirements - Historic Preservation Tax Incentives \(U.S. National Park Service\) \(nps.gov\)](http://www.nps.gov/subjects/taxincentives/eligibility-requirements-historic-preservation-tax-incentives.htm) for more information.
4. After Rehabilitation, the historic building must be used for an income-producing purpose UNDER THE SAME OWNER for at least five years (the Recapture Period). **THIS DOES NOT APPLY TO STATE TAX CREDITS.**



Non-Qualifying Projects:



Only BUILDINGS qualify for the credits (i.e., enclosing a space meant for human habitation). Structures, objects, etc. cannot receive the federal or state credits (even though they can be listed on the National Register of Historic Places).

What Steps are Involved in an HTC Application?

	Federal Program	Missouri State Program
Is this resource historic?	Part 1	Part 1
PRELIMINARY APPLICATION (Proposed Scope of Work)	Part 2	Part 1
FINAL APPLICATION (Completed Work)	Part 3	Part 2

In addition, any number of amendments may be submitted to revise or clarify the original scope of work. If a project has both Federal and State applications, a Federal amendment will serve for both applications.



What are Qualified Rehabilitation Expenditures?



Federal QREs: www.irs.gov/pub/irs-sbse/qualified-rehabilitation-expenditures.pdf

Missouri QREs: ded.mo.gov/media/pdf/qre-and-nqre-list

What are Qualified Rehabilitation Expenditures?

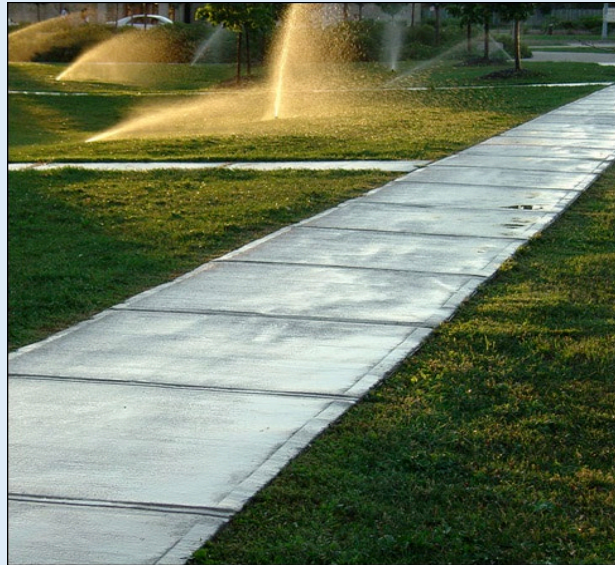
1. **QREs** must be for a building and its structural components, i.e., components relating to the operation or maintenance of a building (walls, floors, ceilings, windows, doors, heating and cooling, plumbing, electrical, chimneys, stairs, elevators, life safety), as well as permanent coverings, and some soft costs.
2. This includes costs associated with work undertaken on the historic building, as well as architectural and engineering fees, legal expenses, development fees, and other construction-related costs.
3. The State and Federal programs use slightly different criteria for determining QREs, but they are mostly the same.
4. **Note that even if an expenditure is not considered a QRE, it still comes under SHPO and NPS review because we must evaluate the entirety of the site and environment.**

What Costs are NOT Qualified Rehabilitation Expenditures?

These costs DO NOT qualify as QREs and will not be included in the calculation of HTC:

- Acquisition costs, furnishing costs, new additions that expand the building, new building construction, parking lots, sidewalks, and landscaping are not considered QREs under the Federal and State programs.

However, additions still must be reviewed by SHPO and NPS to ensure they meet the Standards.



What is the “Current Existing Condition”?

Before starting a Rehabilitation project, it is essential to document the building’s CURRENT EXISTING CONDITION. This refers to the state of the building, its existing features both interior and exterior, the condition of those features, and everything about the site and environment. For example, can flooring material be refinished? What material is on the walls (plaster? drywall?), and does it appear to be the historic material? In what condition do you find the roof, the windows, etc.?

All must be thoroughly documented in photographs.

None of it should be removed without being reviewed by SHPO first.

Current Existing Condition

Before you can REPLACE historic material, deterioration must be documented through photos.

Question: Is this window deteriorated beyond repair?

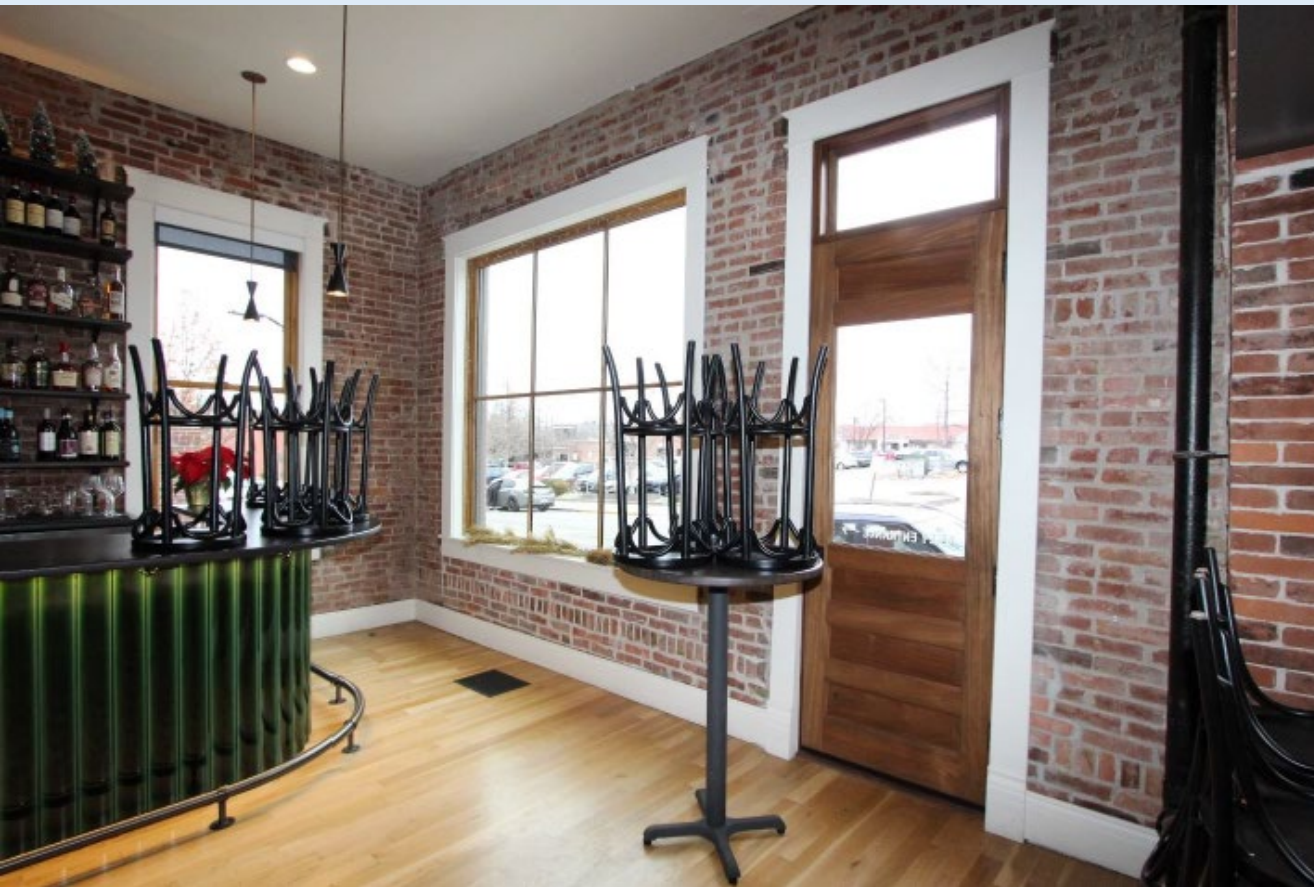


Before Rehab:

*Exposed brick
walls in one
portion of the
building*



After Rehab – Meets the Standards:



Secretary of the Interior's *10 Standards for Rehabilitation*

A successful **Rehabilitation** project, whether large or small, will meet the *10 Standards for Rehabilitation* that have been defined by the Secretary of the Interior; see www.nps.gov/subjects/taxincentives/secretarys-standards-rehabilitation.htm

These Standards apply to both State and Federal tax credit projects.

Standard 1: 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.



Attucks School in Kansas City, 1922, after Rehabilitation (now the Zhou Brothers Art Center)

Before Rehab:

Standard 2:

Historic character of a property shall be retained and preserved. Removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.



After Rehab: Does not meet the Standards:



Standard 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.

To avoid treatments that do not meet the *Standards*, it is essential that you submit your application and WAIT FOR SIGNED APPROVAL before implementing proposed treatments.



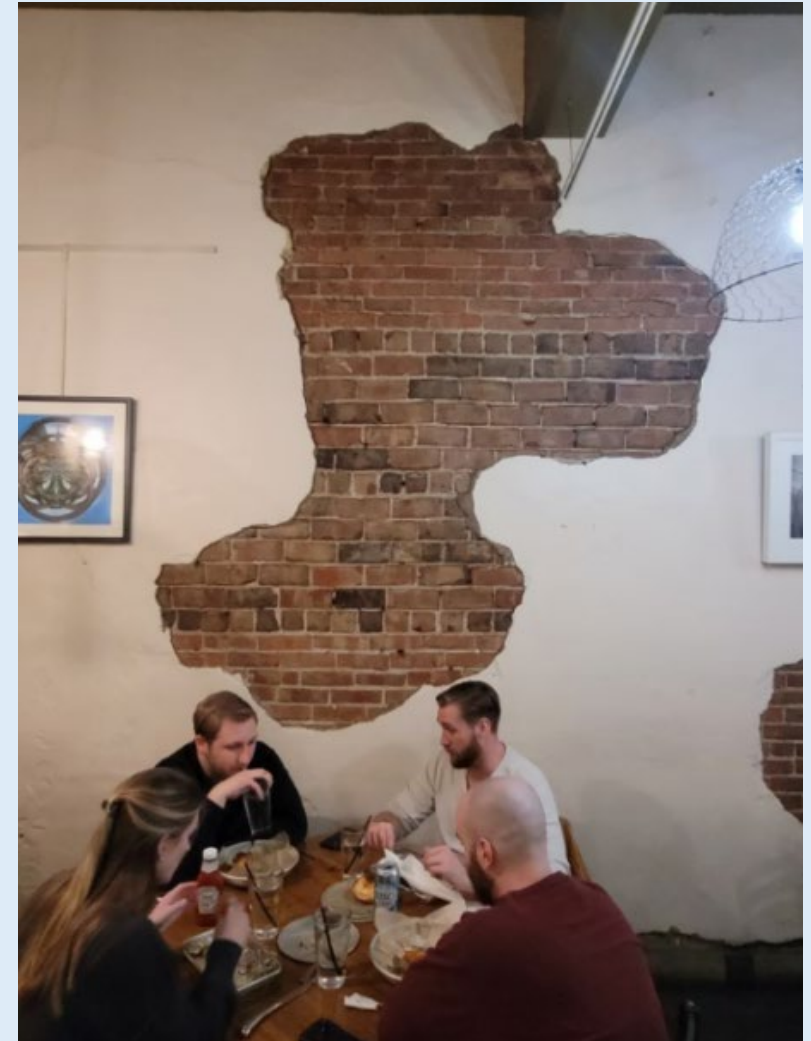
Standard 4: Changes that have acquired historic significance in their own right shall be retained and preserved.



Standard 5: Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a property shall be preserved.

Does not meet the Standards:

Historic features and materials must be repaired.



Standard 6. (A) Deteriorated historic features shall be repaired rather than replaced.



Left: Before Rehab



Right: After Rehab

Standard 6. (B) Where 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.



New wood patched in to replace missing wood

Standard 6: (C) Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.



Prior to rehab, this 1871 traditional Missouri-German stone farmhouse had two non-historic additions built on front and back.

The two non-historic additions were removed in order to uncover what was left of the historic materials. After removal of non-historic additions, only the elevated porch floor remained on the front of the house.

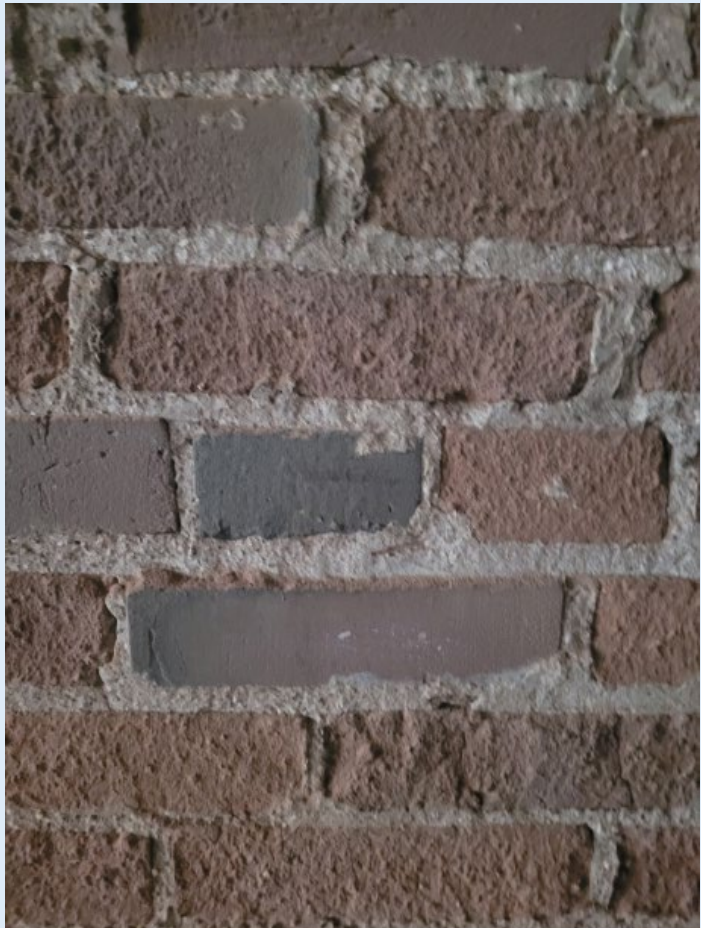
Standard 6: (C) Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.



With the evidence of a historic photo, a historically compatible porch could be returned to the property.



Standard 7: Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. Surface cleaning, if appropriate, shall be undertaken using the gentlest means possible.



1 PRESERVATION BRIEFS

Assessing Cleaning and Water-Repellent Treatments for Historic Masonry Buildings

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Inappropriate cleaning and coating treatments are a major cause of damage to historic masonry buildings. While either or both treatments may be appropriate in some cases, they can be very destructive to historic masonry if they are not selected carefully. Historic masonry, as considered here, includes stone, brick, architectural terra cotta, cast stone, concrete and concrete block. It is frequently cleaned because cleaning is equated with improvement. Cleaning may sometimes be followed by the application of a water-repellent coating. However, unless these procedures are carried out under the guidance and supervision of an architectural conservator, they may result in irrevocable damage to the historic resource.

The purpose of this Brief is to provide information on the variety of cleaning methods and materials that are available for use on the exterior of historic masonry buildings, and to provide guidance in selecting the most appropriate method or combination of methods. The difference between



Figure 1. Low-to medium-pressure steam (hot pressurized water washing), is the first method available considered in Washington, D.C., in 1935. This method was used to clean the marble. Steam can remove heavy scaling deposits such as those on the floor deposits have been removed from the right side of the cornice which has also

6 PRESERVATION BRIEFS

Dangers of Abrasive Cleaning to Historic Buildings

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Cultural Resources
Heritage Preservation Service

"The surface cleaning of structures shall be undertaken with the gentlest means possible. Sandblasting and other cleaning methods that will damage the historic building materials shall not be undertaken."—The Secretary of the Interior's "Standards for Historic Preservation Projects."

Abrasive cleaning methods are responsible for causing a great deal of damage to historic building materials. To prevent indiscriminate use of these potentially harmful techniques, this brief has been prepared to explain abrasive cleaning methods, how they can be physically and aesthetically destructive to historic building materials, and why they generally are not acceptable preservation treatments for historic structures. These are alternative, less harsh means of cleaning and removing paint and stains from historic buildings. However, careful testing should precede general cleaning to assure that the method selected will not have an adverse effect on the building materials. A historic building is irreplaceable, and should be cleaned using only the "gentlest means possible" to best preserve it.

brushes, rotary wheels, power sanding disks and belt sanders. The use of water in combination with grit may also be classified as an abrasive cleaning method. Depending on the manner in which it is applied, water may soften the impact of the grit, but water that is too highly pressurized can be very abrasive. There are basically two different methods which can be referred to as "wet grit," and it is important to differentiate between the two. One technique involves the addition of a stream of water to a regular sandblasting setup. This is done primarily to cut down dust, and has very little, if any, effect on reducing the aggressiveness, or cutting action of the grit particles. With the second technique, a very small amount of grit is added to a pressurized water stream. This method may be controlled by regulating the amount of grit fed into the water stream, as well as the pressure of the water.

Usually, an abrasive cleaning method is selected as an expeditious means of quickly removing years of dirt accumulation, unsightly stains, or deteriorating building fabric or finishes, such as stucco or paint. The fact that sandblasting is one of the best known and most readily available building cleaning treatments is probably the major reason for its frequent use.

Many mid-19th century brick buildings were painted immediately or soon after completion to protect poor quality brick or to imitate another material, such as stone. Sometimes brick buildings were painted in an effort to produce what was considered a more harmonious relationship between a building and its natural surroundings. By the 1870s, brick buildings

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20540



While we're on the subject of historic brick masonry...



2 PRESERVATION BRIEFS

Repointing Mortar Joints in Historic Masonry Buildings

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National Park Service
Cultural Resources
Heritage Preservation Services



Figure 1. After removing deteriorated mortar, an experienced mason repoints a portion of this early 20th century limestone building. Photo: Robert C. Mack, FAIA.

Masonry — brick, stone, terra-cotta, and concrete block — is found on nearly every historic building. Structures with all-masonry exteriors come to mind immediately, but most other buildings at least have masonry foundations or chimneys. Although generally considered "permanent," masonry is subject to deterioration, especially at the mortar joints. Repointing, also known simply as "pointing" or—somewhat inaccurately—"tuck pointing", is the process of removing deteriorated mortar from the joints of a masonry wall and replacing it with new mortar (Fig. 1). Properly done, repointing restores the visual and physical integrity of the masonry. Improperly done, repointing not only detracts from the appearance of the building, but may also cause physical damage to the masonry units themselves.

The purpose of this Brief is to provide general guidance on appropriate materials and methods for repointing historic masonry buildings and it is intended to benefit building owners, architects, and contractors. The Brief should serve as a guide to prepare specifications for repointing historic masonry buildings. It should also help develop sensitivity to the particular needs of historic masonry, and to assist historic building owners in working cooperatively with architects, architectural conservators and historic preservation consultants, and contractors. Although specifically intended for historic buildings, the guidance is appropriate for other masonry buildings as well. This publication updates *Preservation Brief 2: Repointing Mortar Joints in Historic Brick Buildings* to include all types of historic unit masonry. The scope of the earlier Brief has also been expanded to acknowledge that the many buildings constructed in the first half of the 20th century are now historic and eligible for listing in the National Register of Historic Places, and that they may have been originally constructed with portland cement mortar.

*Backpointing technically describes a primarily decorative application of a raised mortar joint or lime putty joint on top of flush mortar joints.



Standard 8: Significant archaeological resources affected by a project shall be protected and preserved. If they must be disturbed, mitigation measures shall be undertaken.



Under both State and Federal law, if human remains are discovered while working on any project, work must be stopped immediately and you must contact authorities.

Sugarloaf Mound, the sole remaining Mississippian culture platform mound in St. Louis

Standard 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.



Standard 9.

Left: Before Rehab

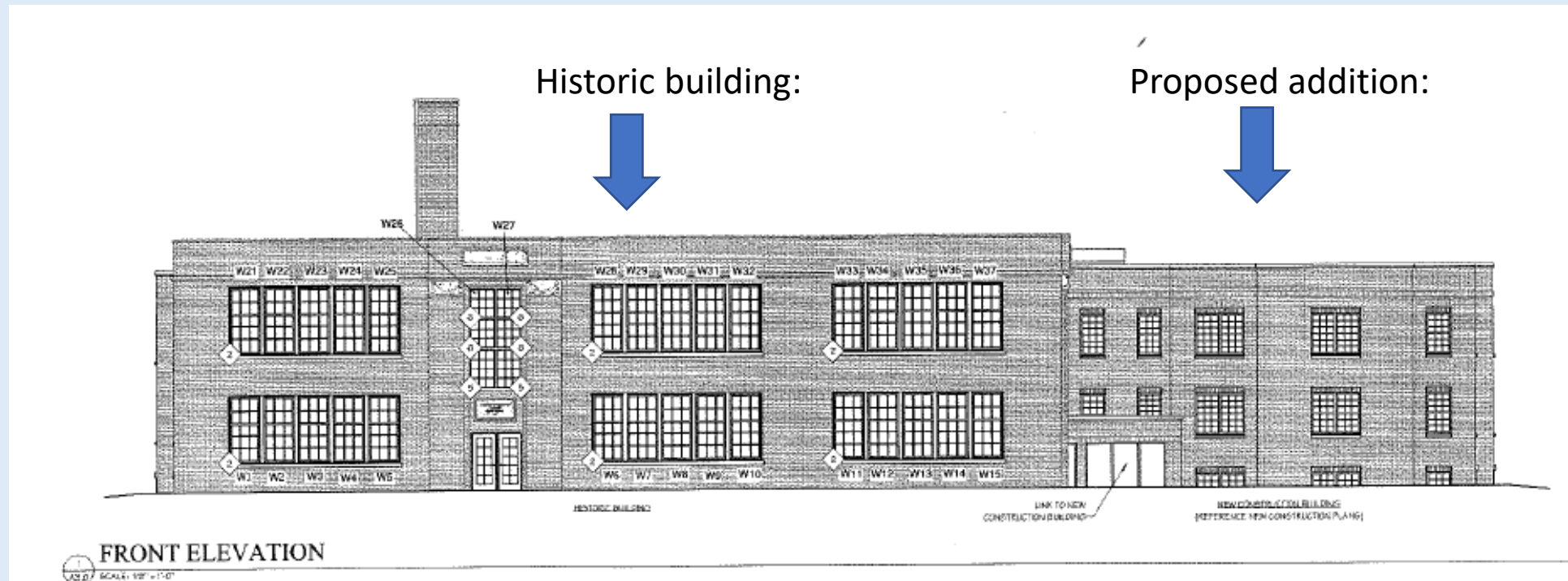
Right: After Rehab



Standard 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.



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❑ NPS Website and Resources:

The National Park Service, through its Technical Preservation Services (TPS) unit, has issued *Guidelines, Preservation Briefs, Interpreting the Standards (ITS) Bulletins*, and numerous other publications discussing specific aspects of preservation for all sorts of rehabilitation projects. Find these links and more at the NPS website.

Home page: www.nps.gov/orgs/1739/index.htm

Illustrated Guidelines for Rehabilitating Historic Buildings:
www.nps.gov/crps/tps/rehab-guidelines/index.htm



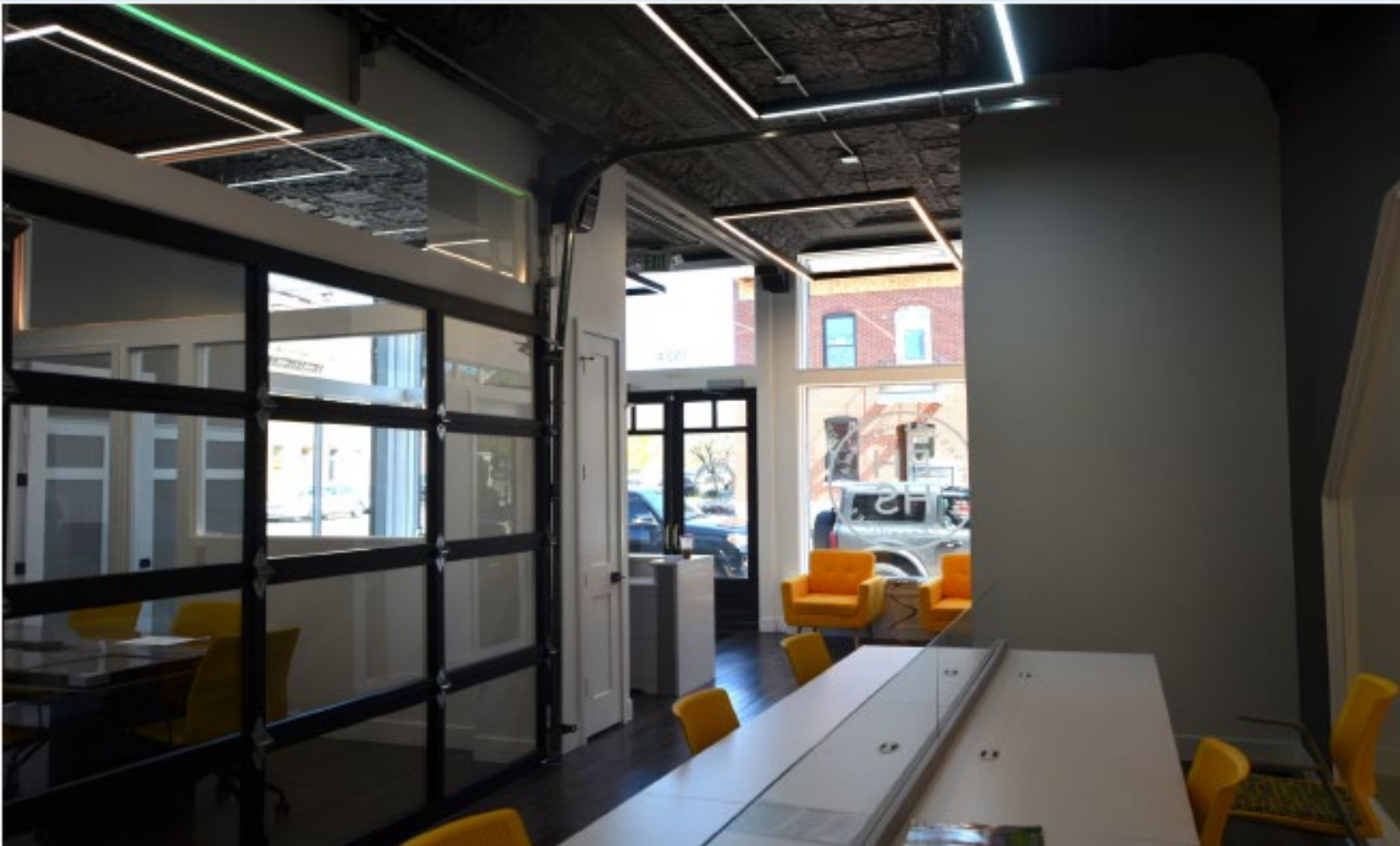
What is “Cumulative Effect”?

When you have completed your Rehabilitation project, it is reviewed by SHPO according to the Sol Standards. In the Federal application this is called Part 3. In the State application this is called Part 2.

In reviewing the final part, SHPO and NPS look at “cumulative effect” – how does the overall project meet the Standards?

A single treatment that does not meet the Standards *might* not be a deal-breaker, but a number of these can jeopardize the project’s meeting the Standards.

Likewise, a single treatment that is highly visible will affect the “cumulative effect” much more than one in a less visible or less public space.



*example of a SINGLE TREATMENT that does not meet the Standards and put the entire project at risk of being denied by the National Park Service

