

Barns and Historic Preservation Tax Incentives in Michigan

Federal and State income tax credits are available to encourage investment in Michigan's historic resources. Historic resource owners and long-term lessees who undertake qualified rehabilitation of certain historic resources can apply for a credit against their federal and state general income tax or Michigan Single Business tax of up to 25% of qualified rehabilitation expenditures. The purpose of these programs is to provide financial incentives to homeowners, commercial property owners and businesses to rehabilitate historic commercial and residential property.

The federal income tax credits fall into two categories. The 20% credit applies to rehabilitation of "Certified Historic Structures". A 10% credit applies to rehabilitation of a "Pre-1936 Non-historic Structure". Each credit has differing eligibility requirements and application processes. Because the 20% credit involves a certification process which establishes the historic importance of the structure, it is a much more involved process.

For example, for a barn rehabilitation project to qualify for participation in the 20% tax credit program, the farmstead or the barn must be listed on the National or State Register of historical properties. Conversely, the 10% tax credit is available for a barn built before 1936. There is no requirement of a historic connection. ***Please note:*** designation as a Centennial Farm does not *automatically* qualify the structure for these programs.

Furthermore, these credits provide financial assistance by reducing the owner's personal or business income tax liability once the rehabilitation project has begun. These credits do not provide up front financing to purchase materials, supplies, contractor services, etc. The owner in most cases must seek the funds for these items through conventional sources, such as bank loans.

Who is eligible to receive a credit?

Federal *historic preservation* tax credits (the 20% credit) are available to the owners or long-term lessees of income producing qualified historic resources who undertake rehabilitation projects that are certified by the U.S. Secretary of the Interior, through the National Park Service.

The Federal 10% credits are available for rehabilitation on *non-historic buildings* built before 1936 and which are not used for residential use. Rental housing structures, which are considered *residential* rental, would not qualify, but hotels, considered *commercial* use, would qualify. ***The 10% credit is the only credit which does not require a formal review process or the submission of fees.***

Michigan historic preservation tax credits are available to owners or long-term lessees of qualified historic resources who undertake rehabilitation projects that are certified by the State Historic Preservation Office (SHPO), Michigan Historical Center, Michigan Department of History, Arts and Libraries. A project under Michigan law must have historical significance, and includes historic sites, objects, features or open space.

What historic resources are eligible for the program?

Federal credits are available only to the owners of *income-producing* buildings. This means these credits apply only to structures which are used for a commercial purpose and are subject to depreciation. For example, a barn used for agricultural purposes or as a retail center would qualify. A barn converted for use as a residence by the owner would not qualify.

Both the federal and state credits require the retention of specified portions of the original structure's external walls and internal structural framework. These requirements differ and depend on which credit is being sought. In addition, structures built before 1936 and which have been moved from the original site will *not* qualify for the 10% credit.

For State credits, an eligible resource is any historic building, structure, site, object, feature or open space that:

- Is located in a local unit of government with a population of 5,000 people or more, and is in a local historic district established under Michigan's Local Historic District Act; **or**
- Is located in a unit of government with a population under 5,000 or the adjusted basis of the building whichever is larger. The adjusted basis for a building is equal to:

Acquisition cost or purchase price
- land value at date of acquisition
+ capital investment over time
- depreciation

Qualified rehabilitation expenditures for the State program must be equal to or greater than 10 percent of the State Equalized Value (SEV) of the property rehabilitated. In situations where the SEV is not determined, the total qualified expenditures must be greater than 5 percent of the resource's appraised value.

Taxpayers undertaking rehabilitation projects that qualify for the Federal historic preservation tax credits must first apply for the 20 percent Federal credit. If approved, the project will be eligible for only an additional 5 percent credit against the taxpayer's Michigan taxes. Projects using only the State historic preservation tax incentives are eligible for a 25 percent credit against their personal income taxes *or* single business taxes.

If the credit exceeds the taxpayer's tax liability for the tax year in which it is initially claimed, the excess may be carried forward to subsequent years.

If the property is sold or ceases to be used for the intended purposes within five years after the credit is claimed, a percentage of the credit will be subject to recapture or repayment to the federal or state government from which the credit originated.

How to apply for the tax credit?

Applicants for the Federal 20% tax credit must complete an application form available from the State Historic Preservation Office (SHPO) office and pay a fee. The fee ranges from \$500 to \$2,500 depending on the cost of the rehabilitation in addition to a preliminary processing fee of

\$250. The completed application and the preliminary processing fee are submitted to the National Park Service (NPS). The NPS will not accept state forms in lieu of their own. These forms are available from the SHPO. Both Federal and State certification involves a three-part application process.

Part 1 of the process involves certifying the eligibility of the historic resource. For combined or State only projects, this part includes a declaration of location form which is required if the resource is located in a local historic district.

Part 2 of the process involves certifying that the project's rehabilitation plans conform to the U.S. Secretary of the Interior's Standards for Rehabilitation.

Part 3 of the process involves certifying that the completed work conforms to the Secretary of the Interior's Standards for Rehabilitation.

For further information visit the SHPO Web page at:

www.sos.state.mi.us/history/preserv/preserve.html or contact the State Historic Preservation Office, Michigan Historical Center, Michigan Department of History, Arts and Libraries at 517-373-1630. Information is also available on Preservation Tax Incentives for Historic Buildings through U.S. Department of the Interior, National Park Service, Heritage Preservation Services.