Frequently Asked Questions about Preservation Tax Credits

What are Tax Credits?
They are credits that are designed to encourage the renovation and re-use of older buildings. There are 3 kinds of tax credits available: a 20% State Income Tax Credit (STC), a 20% Federal Income Tax Credit (20% ITC), and a 10% Federal Income Tax Credit (10% ITC).

This is a tax credit on what?
On your state and/or federal income taxes. Unlike a deduction, which reduces your taxable income, a tax credit directly reduces the amount of tax you owe. If you spend $100,000 on a project, claiming the 20% Federal ITC would reduce the amount of taxes you owe the IRS by $20,000. If you don't owe $20,000 in one year, you can spread the tax credit out over a period of up to 20 years. If you claim the 20% State Tax Credit, it would reduce the amount of taxes you owe the State of Colorado by $20,000. The State Tax Credit can be spread out over a period of up to 10 years.

How do I know if my building is eligible for a tax credit?

Step 1: Historic Designation
First, the building must be historic. This means that some authority must designate the building as being historic. There are three levels of designation:

- Local landmarks, which are designated by Park County.
- The State Register, which is a list of historic properties designated by History Colorado.
- The National Register, which is a list of historic properties reviewed by History Colorado and designated by the National Park Service. Properties listed on the National Register are automatically listed on the State Register.

A property may be on one or more of these lists. It may also be considered eligible for designation. This means that it could be designated, but no one has filled out the application forms yet. Visit http://www.historycolorado.org/archaeologists/national-and-state-registers for more information.

Type of Credit	Requirements for Credit
STC	Must be on the State Register OR be a Local Landmark
20% ITC	Must be on the National Register, OR a contributing structure in a National Register district, OR eligible for the National Register, OR a contributing structure on a National Register-eligible district.
10% ITC	Must be considered NOT eligible for the National Register, or NON-contributing to an existing National Register district. Must also have been built before 1936.

You cannot take the 10% Federal ITC if your property meets the requirements for the 20% credit.

Step 2: Current Use

The State Tax Credit applies to any building that can meet the requirements listed above. The Federal Tax Credit only applies to certain uses, as listed in the chart below:

I own the building, and:	STC	20% ITC	10% ITC
I live in the building	X		
I rent out the building for others to live in	X	X	
I live in one part of the building, and rent out another part to others	X	X*	
I run a business in the building	X	X	X
I live in one part of the building, and run a business in another part	X	X*	X*
I don't own the building, but I lease all or part of it for my business	X	X	X

* In these cases, work on personal living areas would not count, but work on the rented/business part would. Work which covers both personal and business areas (a new roof on the house, for example) would also count.

How can I find out if my building is listed?

Contact the Park County Office of Historic Preservation to find out if a property has been designated as a Local Landmark or if it is listed on the State or National Register. Park County Office of Historic Preservation staff can also help if you need to get your property designated as a Local Landmark or listed on the State or National Register.

Are there any limits on the credit?

The project must be "substantial." For the State Tax Credit and 10% Federal ITC, this means that you must spend at least $5,000. For the 20% Federal ITC, you must spend the greater of $5,000 or the Adjusted Basis of the building.

You must finish the project within 24 months. Projects which claim the 20% Federal ITC can be split into phases, which allows the work to be completed within 5 years. If you plan on taking longer than 24 months to finish your project, you may wish to break it up into two or more smaller projects.

The maximum credit for the State Tax Credit is $50,000. There is no maximum for the Federal ITC programs.

You must keep the property for five years after completing the work. If you sell the property or break a lease, you may have to pay back all or some of the credit.

Not all costs associated with the rehabilitation are eligible for the credit.

What is the "Adjusted basis"? How do I determine that?
The adjusted basis of a building is determined by the following formula:

Purchase price of the buildings - Value of the land - Depreciation + Value of improvements (if any)

You may want to consult an accountant or a real estate agent to help you calculate the adjusted basis for your property.

You said that not all costs are associated with the credit. What is and what isn't?
The laws that established the federal and state tax credit programs also stipulated what costs could be counted towards the tax credit, and which could not. The costs which do count towards the credit are known as qualified expenditures. The State and Federal versions differ slightly. In general, the following items are considered qualified expenditures:

- "Hard costs" associated with the physical preservation of the property-demolition, carpentry, plaster and/or sheetrock, painting, ceiling/floor repair, doors and windows, roofing and flashing, cleaning, brick and mortar repair, wiring, light fixtures, stairs, elevators, heating systems, etc.
- "Soft costs," such as architect, engineer, and developer fees, count towards the Federal ITC but NOT the State Tax Credit.
- Appliances which are permanently installed (a built-in stove, for example) count towards the State Tax Credit, but NOT the Federal ITC.
- For more information, please contact History Colorado or the National Park Service. You should also contact an accountant if you have questions. Although History Colorado can provide general information about costs, they cannot give the same sort of detailed, line-by-line analysis that a certified accountant can.

Are there any other requirements I should know about?
The projects are reviewed according to the Secretary of the Interior's Standards for Rehabilitation. These were designed by the National Park Service to help people to renovate their homes in a historically sensitive manner. You do not need to "restore" your building in order to claim the tax credit, but you must preserve existing historic features whenever possible. Visit http://www.nps.gov/tps/standards/four-treatments/treatment-rehabilitation.htm to learn more about the Secretary of the Interior's Standards for Rehabilitation.

The 10% Federal ITC does not have to follow the Standards for Rehabilitation. If you want to claim the 10% credit, you must meet some minimum requirements concerning the placement of exterior and interior walls.

If I claim both the state and the federal tax credits, do I have to fill out two forms?
No. If you are applying for both the 20% Federal ITC and the State Tax Credit, only the Federal form has to be filled out. The approval form signed by the National Park Service at the conclusion of the project can also be used when claiming the State Tax Credit. If you claim both the 20% Federal ITC and the State Tax Credit, you do not have to pay any of the fees associated with the State Tax Credit review.

What must I do to claim these credits?
This depends on the type of credit being claimed. Each involves an application, which is reviewed and certified (approved). The 20% Federal ITC is a three-part process. The State Tax Credit is a two-part process, and the 10% Federal ITC is a one-part process.

Where do I send my application? Who looks at it?
Both the State and the National Park Service review the Federal ITCs. These applications are sent to History Colorado, which then forwards them to the Park Service in Washington, D.C.

The Park County Historic Preservation Advisory Commission will review your State Tax Credit application.

What do I do to claim the credit?

20% Federal ITC:
This is a 3-part application. Part 1 determines that the property is eligible as a historic structure. Properties that are listed INDIVIDUALLY on the National Register do not need a Part 1. All other properties, including those in National Register districts, do.

Part 2 is the section where you describe the work planned for the project. Often, applicants describe their project by dividing it into sections (roof, windows, walls, foundation, etc.) and describing each in detail. An example would be:

NUMBER 1

Architectural Feature: Roof

Approximate date of Feature: 1980s

Describe work and impact on existing feature:
Remove existing asphalt roof. Replace with new T-lock asphalt shingle roof. Install flashing where needed.

Describe existing feature and its condition:
Existing asphalt roof is in poor condition. Shingles are warped and missing. Gaps in flashing cause leaks.

Photo #: 12, 13, 14, 18

Drawing #: A-2, A-3

Part 2 must include color photographs. Plans, specifications, and drawings should also be included if they help to explain the work being proposed. History Colorado requires two sets of everything—one for their office, and one for the National Park Service in Washington, D.C. If two sets of photographs cannot be provided, History Colorado will accept one set of photos and a set of clear reproductions instead (color photocopies, color computer scans, etc. History Colorado cannot accept B&W photocopies of color prints).

Part 3 is completed after the work is finished. This is the "after" section, which describes the work actually done as part of the project. The Part 3 application also requires two sets of

photographs. Ideally, the Part 3 photos should match the same views as the Part 2 photos, so that History Colorado can compare "before" and "after" views.

History Colorado reviews all of the Parts and then forwards them to the National Park Service in Washington D.C. for final approval/disapproval. The National Park Service has the final word on these matters. History Colorado office can only make recommendations.

OK, How about the State Tax Credit?
The State Tax Credit works like the Federal ITC, with two exceptions. One is that the applications are reviewed locally by the Park County Historic Preservation Advisory Commission; the National Park Service is not involved. The other is that for the State Tax Credit application, Parts 1 and 2 of the federal ITC are combined together and are called Part 1. When filling out Part 1 of the State Tax Credit application, you document the historic eligibility of the property **AND** outline the plans for its renovation at the same time.

Part 2 of the State Tax Credit is like Part 3 of the Federal ITC—it describes what the place looks like "after" the work has been completed.

Again, good photographs, drawings, plans, and other visual aids are crucial in the review process. When filling out the State Tax Credit application, only one set of photos is needed.

And the 10% Federal Tax Credit?
This application is easy, because there isn't much of one. If you plan on taking the 10% credit, you need to fill out Part 1 of the Federal ITC application. Part 1 is reviewed by History Colorado, and then gets forwarded to the National Park Service. If they find the building non-historic, they will notify you of their decision. The review process ends at that point. The 10% tax credit is claimed using IRS Form 3468.

Is there a fee for all of this review?
For the 20% Federal ITC, there is a $250 fee to review Part 2, and a larger fee to review Part 3. The Part 3 fee depends on the cost of the rehabilitation, and varies between $500 and $2,500. These fees are charged by the National Park Service—there is no additional charge from the state. You do not have to send any money with your application. The Park Service will send you a letter requesting payment once they have received the application.

For the State Tax Credit, there is a $250 fee to review Part 1. The fee is often waived by the Park County Historic Preservation Advisory Commission if the total rehabilitation costs are less than $15,000. There's a larger fee to review Part 2, which is based on the costs of the rehabilitation (varies between $0 and $750). These fees should be submitted to the Park County Historic Preservation Advisory Commission with the application. You don't need to submit the payment for Part 2 until you are ready to submit that part of the application.

How long does the process take?
The Park County Historic Preservation Advisory Commission reviews State Tax Credit applications within 30 days of receipt of the application or sooner, depending on when the application is received.

History Colorado has up to 45 days to review applications, although they are usually reviewed much more quickly than that. They aim for a turn-around time of 15 calendar days. The National Park Service has up to 30 days request payment for review. Once the payment is received, they have another 30 days to review the project and respond to the applicant.

If PCHPAC, the state, or the Park Service has questions about the project, or if there is missing information, the process can take longer. Both the state and Park Service are required to respond within the above time limits in every situation, however. The average State Tax Credit project takes 1-2 months to review; the average Federal ITC project takes 2-3 months.