

Michigan's Historic Preservation State-Only Tax Incentives Program



State Historic Preservation Office Michigan State Housing Development Authority

Historic Preservation Tax Incentives

Historic resources are tangible links to our past. They impart a sense of identity, stability, and orientation to a community. Historic preservation tax incentives promote the preservation and rehabilitation of these resources.

Rehabilitation is defined as "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."

A tax credit lowers the amount of state income tax owed by the historic resource owner. The Michigan historic preservation tax credit is a state income

tax credit of 25 percent that is available for certain historic resources.

The credits are available to encourage investment in Michigan's historic resources. The State Historic Preservation Office (SHPO) administers the program in partnership with the Michigan Department of Treasury.

Michigan resource owners and long-term lessees who undertake qualified rehabilitations of certain historic resources can apply for a credit against their state general income tax or Michigan Business Tax (MBT) of 25 percent of qualified rehabilitation expenditures. The purpose of the tax credit program is to provide incentives to homeowners, commercial property owners, and businesses to rehabilitate historic commercial and residential resources.

Historic Preservation Tax Incentives

Eligible Resource

An eligible resource is defined as any historic building, structure, site, object, feature, or open space that meets one or more of the following criteria. The resource is:

- A. A contributing resource in a local historic district established pursuant to PA 169 of 1970 as amended **or**
- B. Listed individually, or is a contributing resource in a historic district, listed in the State Register of Historic Sites or the National Register of Historic Places **and** is in a unit of government with a population of less than 5,000 people, **or**
- C. Listed individually, or is a contributing resource in a historic district listed in the State Register of Historic Sites or the National Register of Historic Places **and** is located in a summer resort and assembly association established pursuant to PA 39 of 1889, **or**



- D. Listed individually, or is a contributing resource in a historic district listed in the State Register of Historic Sites or the National Register of Historic Places **and** is subject to an historic preservation easement that has been approved by the State Historic Preservation Office.

An eligible resource is designated a certified historic resource by the SHPO after the resource is reviewed and a determination of the resource's historic significance and character are made.

A local historic district is established by a local ordinance and regulates the construction, alteration, and demolition of resources in the district. The *State Register of Historic Sites* is a program designed to assist the citizens of Michigan in the identification and recognition of historic resources through Michigan Historical Markers.

The *National Register of Historic Places* is the nation's list of cultural resources worthy of preservation. Listing in the State Register of Historic Sites or the National Register of Historic Places does not prevent a private citizen from altering, managing, or disposing of the resource.

Certified Rehabilitation

A certified rehabilitation is the rehabilitation of a certified historic resource that the SHPO has affirmed as being consistent with the historic character of the resource and, where applicable, with the district in which the resource is located. The rehabilitation must conform to the *Secretary of the Interior's Standards for Rehabilitation*.

The *Secretary of the Interior's Standards for Rehabilitation* are broadly worked to guide the rehabilitation of all historic resources. The underlying concern expressed in the standards is the preservation of significant historic materials and features of a resource in the process of rehabilitation. The standards apply with equal weight to both the interior and exterior work and the SHPO reviews the **entire** rehabilitation project rather than a single aspect of the undertaking. Certification of the rehabilitation is based on whether the **entire** project meets the *Standards for Rehabilitation*.

The Standards accommodate some alteration of the historic resource to provide for an efficient contemporary use. However, the rehabilitation must not damage, destroy, or cover materials or other features, whether interior or exterior, that define the resource's historic character. The *Secretary of the Interior's Standards for Rehabilitation* are applied to projects in a reasonable manner, taking into consideration economic and technical feasibility.

The *Secretary of the Interior's Standards for Rehabilitation* apply to historic resources of all periods, sizes, styles, types, and materials. They apply to both the exterior and the interior of historic resources. The standards also encompass related landscape features and the resource's site and environment as well as attached, adjacent, or related new construction. Further guidance in applying the standards can be found in the companion *Secretary of the Interior's Guidelines for Rehabilitating Historic Buildings* at:

www.nps.gov/history/hps/TPS/tax/rhb/



Secretary of the Interior's Standards for Rehabilitation

1. A 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.
2. 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.
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.
4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
5. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a property shall be preserved.
6. Distinctive historic features shall be repaired rather than replaced. Where the 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. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
7. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.
8. Significant archaeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.



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.
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.

Application Process

To qualify for the tax credit, applicants must complete the *Historic Preservation Certification Application*. The application is composed of three parts.

Part 1 – Evaluation of Eligibility.

Certified historic resource status is obtained by completing Part 1 of the application. The SHPO reviews the application and determines whether the resource is a certified historic resource. Additionally, if the resource is located in a local historic district, this must be verified and a *Declaration of Location* form must be submitted.

All applicants who submit a Part 1 application must pay a \$25 processing fee. This fee is nonrefundable.

Please note: A separate check for each required state review fee must be submitted. *Do not* combine fees into a single check.

Part 2 – Description of Rehabilitation

To ensure that a planned rehabilitation is consistent with the historic character of the resource, Part 2 of the application is submitted to the SHPO for review and approval. The SHPO evaluates the rehabilitation project for conformance with the *Secretary of the Interior's Standards for Rehabilitation*. If necessary, the SHPO advises applicants, and provides technical assistance and literature on appropriate rehabilitation treatments. To determine if the amount of the rehabilitation expenditures is sufficient to qualify for the state tax credit, a Verification of State Equalized Value (SEV) form must be submitted.

Parts 1 and 2 of the application may be submitted at the same time. **Prior** to beginning **any** rehabilitation work, Parts 1 and 2 of the application should be submitted to and approved by the SHPO. This will minimize the risk encountered by the applicant.

An applicant who submits a Part 2 application must pay a processing fee as outlined in the tables below. This fee is nonrefundable.

PART 2 Fee for 25 percent State Only	
<u>Qualified Expenditures</u>	<u>Fee</u>
\$0.00 to \$4,999.99	\$25.00
\$5,000.00 to \$9,999.99	\$50.00
\$10,000.00 to \$24,999.99	\$125.00
\$25,000.00 to \$49,999.99	\$250.00
\$50,000.00 to \$99,999.99	\$500.00
\$100,000.00 to \$249,999.99	\$1,250.00
\$250,000.00 to \$499,999.99	\$2,500.00
\$500,000.00 and above	\$5,000.00

Part 3 – Request for Certification of Completed Work.

Certification of the project is obtained when the rehabilitation work is completed. Part 3 of the application is submitted to the SHPO for review and approval. A project designated by the SHPO as a certified rehabilitation is approved for purposes of the tax credit and both the applicant and the Michigan Department of Treasury are notified.

An applicant who submits a Part 3 application must pay a processing fee as outlined in the tables below. This fee is nonrefundable.

PART 3 Fee for 25 percent State Only	
<u>Qualified Expenditures</u>	<u>Fee</u>
\$0.00 to \$4,999.99	\$0.00
\$5,000.00 to \$9,999.99	\$25.00
\$10,000.00 to \$24,999.99	\$50.00
\$25,000.00 to \$49,999.99	\$125.00
\$50,000.00 to \$99,999.99	\$250.00
\$100,000.00 to \$249,999.99	\$500.00
\$250,000.00 to \$499,999.99	\$1,250.00
\$500,000.00 to \$999,999.99	\$2,500.00
\$1,000,000.00 to \$2,499,999.99	\$5,000.00
\$2,500,000.00 and above	2percent of

Deadlines for Application Submittal

The SHPO has 45 calendar days in which to review an application submitted for the state tax credit program. The credit can only be claimed on business taxes or individual income taxes for the tax year in which the Part 3 application is certified. Therefore, if the applicant desires review of a tax credit application for a given tax year, that application and all required supporting materials must be received in the SHPO office no later than November 15 of that year. Applications received after November 15 may or may not be reviewed in that tax year.

Qualified Rehabilitation Expenditures

A state tax credit of 25 percent may be taken on qualified rehabilitation expenditures. Qualified rehabilitation expenditures are costs incurred through rehabilitation work undertaken on the resource itself and can also include fees

associated with the rehabilitation such as architectural and engineering fees, site surveys, legal expenses, development fees, and application fees. Qualified rehabilitation expenditures do not include costs of acquiring or furnishing the resource, new additions that expand the volume of the existing resource and construction of new facilities related to the resource.

Qualified rehabilitation expenditures must be equal to or greater than 10 percent of the State Equalized Value (SEV) of the property to qualify for the state tax credit.

Only those expenditures that are paid or incurred during the time periods prescribed for the credit under section 47(a)(2) of the internal revenue code and any related treasury regulations shall be considered qualified expenditures.

For work that has already been completed, an applicant can only claim as eligible expenditures those costs incurred during a 5-year window prior to the date of certification of a Part 2 application for that project work. Expenditures made more than 5 years prior to the Part 2 certification date are not eligible. An applicant also has a 5-year window going forward from the date of certification of the Part 2 application in which to incur eligible expenditures.

Claiming the Credit

Once approved, applicants claim the credit when they file their State of Michigan business or individual income tax returns. The tax credit is claimed on the tax return for the year that the Part 3, Request for Certification of Completed Work, is certified by the SHPO.

Credit Assignment

A qualified taxpayer may assign all or any portion of the credit in the tax year in which a certificate of completed rehabilitation is issued. An assignee may subsequently assign the credit or any portion of the credit.

Credit Refund

For projects in which the credit amount allowed is less than \$250,000, a qualified taxpayer may receive a refund of the amount of the credit that exceeds the taxpayer's tax liability. The amount of the refund shall be equal to 90 percent of the amount of the credit that exceeds the qualified taxpayer's tax liability.

Credit Recapture

Because of the credit assignment provision provided in the tax law noted above, any recapture of the credit will be the responsibility of the qualified taxpayer that received the certificate of completed rehabilitation and not the assignee.

Additional Information

www.michigan.gov/hpccredit

Contact Information

State Tax Credits:

Bryan Lijewski
Architect
State Historic Preservation Office
Michigan State Housing Development Authority
702 W. Kalamazoo, Box 30740
Lansing, MI 48909-8237

(517) 373-1631
lijewskib@michigan.gov

Federal & Combined Tax Credits:

Robbert McKay
Historical Architect
State Historic Preservation Office
Michigan State Housing Development Authority
702 W. Kalamazoo, Box 30740
Lansing, MI 48909-8237

(517) 335-2727
mckayr@michigan.gov

Daniel Schneider, AIA
Historical Architect
State Historic Preservation Office
Michigan State Housing Development Authority
702 W. Kalamazoo, Box 30740
Lansing, MI 48909-8237

(517) 373-7653
schneiderd2@michigan.gov