



# Tax Reform's Impact on the Historic Tax Credit

LEANNE KEMMER, TAX CONSULTANT

The Tax Cuts and Jobs Act (TCJA) made changes to the Historic Tax Credit Program. Those changes impact the 10% federal historic tax credit (HTC) for the substantial rehabilitation of non-certified structures originally placed in service before 1936, and the timing of claiming the 20% federal HTC for the substantial rehabilitation of certified historic structures.

## PRE-1936 NON-CERTIFIED STRUCTURES

### PRE TCJA LAW

Previously, the law allowed taxpayers to claim a 10% federal HTC for the substantial rehabilitation of non-certified structures originally placed in service before 1936.

### POST TCJA LAW

Repealed.

## CERTIFIED HISTORIC STRUCTURES

### PRE TCJA LAW

Previously, the law allowed taxpayers to claim a 20% federal HTC for the substantial rehabilitation of a certified historic structure for the taxable year in which the rehabilitated building was placed in service. A certified historic structure is a building that is listed in the National Register, or that was located in a registered historic district and certified by the Secretary of the Interior to the Secretary of the Treasury as being of historic significance to the district.

### POST TCJA LAW

The 20% federal HTC is claimed ratably over a 5-year period beginning with the taxable year in which the rehabilitated building is placed in service.

Trust earned.



The ratable share of the 20% federal HTC that may be claimed each year of the five-year period is based on the amount of Qualified Rehabilitation Expenditures (QREs) incurred to substantially rehabilitate a certified historic structure.

## EXAMPLE

Let's assume the owner of a certified historic structure incurs \$600,000 of QREs to substantially rehabilitate the structure. The historic tax credit is \$120,000 ( $\$600,000 \times 20\%$ ). However, the owner may only claim \$24,000 per year over a five-year period, beginning with the taxable year in which the structure is placed in service.

These changes are effective for amounts paid or incurred after Dec. 31, 2017.

### Transition Rule

Under a transition rule, taxpayers can continue to follow pre-TCJA law when the following two conditions are met:

1. The building must be owned or leased by the taxpayer during the entirety of the period after December 31, 2017, and
2. The 24-month period, or 60-month period, selected by the taxpayer to determine whether the building has been substantially rehabilitated, begins no later than June 20, 2018.

A building is treated as having been substantially rehabilitated when the QREs during a 24-month period, or 60-month period, selected by the taxpayer exceed the greater of the adjusted basis of the building as of the beginning of such period, or \$5,000. Upon election, a taxpayer may select a 60-month period when the architectural plans and specifications completed before rehabilitation begins call for a phased rehabilitation.

The transition rule doesn't apply to QREs paid or incurred after the end of the taxable year in which the 24-month, or 60-month period, ends.

## TRANSITION EXAMPLE

Let's assume the owner of a certified historic structure acquired the property on December 31, 2017 and selected April 1, 2018 as the beginning of the 24-month period in which to apply the substantial rehabilitation test.

Assuming the substantial rehabilitation test is met, the owner may claim the 20% federal HTC for the taxable year in which the certified historic structure is placed in service.

However, had the owner acquired the property after Dec. 31, 2017 or selected a date after June 20, 2018 to begin to apply the substantial rehabilitation test, then the transition rule would not apply.

### For further clarification and a discussion of your situation

The Freed Maxick Tax Team has significant experience and expertise when it comes to helping building owners qualify and claim historic tax credits as well as other federal and state credits and incentives. For a confidential discussion call us at 716.847.2651 or click here:



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