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Tax credits: Reviving Colorado, one historic building at a time

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If you're in the business of redeveloping older buildings and aren't aware of federal and state incentive programs surrounding the rehabilitation of historic structures, you could be missing out on key financing opportunities for your project. By combining both the Federal Historic Tax Credit and the newly authorized State Rehabilitation Credit, a developer has the potential to help fund as much as 45 percent of his project's cost through income tax credit incentives.

While the 10 percent and 20 percent Federal Historic Tax Credits have been available for a number of years, Colorado House Bill 14-1311, otherwise known as the Colorado Job Creation and Main Street Revitalization Act, has recently authorized an increased state income tax credit for expenditures related to the rehabilitation and preservation of historic buildings. Supporters of the new bill, including Reps. Leroy Garcia and Tim Dore, as well as state and private preservation offices, saw a unique opportunity to create more jobs here in Colorado, while also promoting local development of projects that might otherwise be invested in other states with larger incentive programs.

Previously, the state tax credit was capped at $50,000 per project, but the new act authorized up to a $1 million credit for rehabilitation projects. In total, the new act authorized $35 million of tax credits over the next four years, with the intention that these projects will not only help to bring new life to historic structures and landmarks, but also will create jobs in towns and cities across the state.

In order to prevent a small number of projects from taking all of the credits, safeguards were put into place to ensure that projects both big and small are given the same opportunity to receive the state income tax credits. First, the $35 million of tax credits are broken down to specific tax years. The total allocation of these credits for 2016 is $5 million, with $10 million being allocated to each tax year 2017 to 2019. From there, the tax credits are further divided into two pools based on project size. The first pool is for smaller rehabilitation projects with projected qualified rehabilitation expenditures, or QREs, of less than $2 million. The second pool is for larger projects, which would have projected QREs over $2 million. The amount of state tax credits that are allocated to each pool are split 50-50 based on the authorized credits for the year. In 2016, each pool has $2.5 million of credits available, and in 2017 to 2019 each pool has $5 million of credits available.

As with many government-regulated initiatives, there are of course hoops to jump through and guidelines to follow. The building being rehabilitated must be at least 50 years old and must be designated as a historic structure by the National Park Service, History Colorado or a local landmark preservation commission. In an effort to help streamline the application process, the state has created an application that is completed and submitted online. This application can be found on the www.advancecolorado.com website, along with up-to-date information about the credit, such as the amount of credits that have been applied for and the amounts already reserved. It's important to note that even if the total amount of state credits for the year have already been applied for or reserved, it is still beneficial to apply as soon as possible. Once all of the yearly credits are reserved, the remaining applicants go on a waiting list for the next year's credits. Applications can stay on the waiting list for up to two years, after which point their application expires and they must reapply if the credit is still available.

As for the calculation of the state tax credit, it works similar to the federal historic tax credit program; the credit is the product of the amount of QREs put into a project times the credit percentage. The amount of the Colorado income tax credit is equal to 25 percent of QREs spent up to $2 million, plus 20 percent of QREs spent over $2 million, with a maximum credit of $1 million that can be claimed by any one project. For projects that are in an area that has been declared a state and/or federal disaster area within the last six years, an additional credit of 5 percent is available, increasing the percentages to 30 percent of QREs spent up to $2 million, plus 25 percent of QREs spent over $2 million.

Generally speaking, QREs are expenses that are directly related to the repair or improvement of the historic structure, including architectural features. In addition to the hard costs of rehabilitation, soft costs such as construction period interest and taxes, professional fees for engineers and architects, and even developer fees are all considered QREs eligible for the credit. Another important note is that if applying for a credit of $250,000 or more, an audit of the project's QREs is required by a certified accountant.

If project costs are incurred before the credits are applied for or reserved, they may still qualify as eligible QREs. As long as the costs are incurred after July 1, 2015, and meet the definition of a QRE, the status of the credit application isn't a factor in determining whether an expense is eligible for the credit.

If excess QREs are spent during the rehabilitation project, the state will only issue a certificate for the amount of credits previously applied for and reserved. The applicant must apply again for the additional expenses, and if funds are still available for the year, the credits are automatically approved and the applicant is issued a second credit certificate for the excess costs. If the applicant does not spend as much on the project as initially planned, any unused credits are placed back into the pool for others to use.

If a taxpayer is awarded state income tax credits and they cannot all be utilized in one tax year, the credits carry forward for up to 10 years. In addition to the 10-year carryforward, the credits also are fully transferrable, creating an additional avenue to help fund the rehabilitation project by selling them. By combining state tax credit with the federal tax credit for historic rehabilitation, it creates a two-fold incentive for property owners who can either absorb the credits directly or who seek to monetize the credits via a tax credit investor.

Not only is the increased state income tax credit projected to help incentivize the rehabilitation and resurrection of many historic buildings and main streets across the state, but it also has the added benefit of providing some very valuable tax perks along the way.▲