Remember Preservation Tax Credits?

Amid all the discussion about the need to create jobs in a struggling economy, we've heard surprisingly little about an important incentive: the federal historic preservation tax credit program. Since 1976, this program has allowed building owners to deduct 20 percent of their federal income taxes for expenses connected with the careful rehabilitation of buildings that are at least 50 years old and that have been certified as "historic." A separate 10 percent tax credit is available for non-historic structures built before 1936. These two credits amount to the nation's largest community reinvestment program—and among its least well known.

On the federal level, the program is administered jointly by the National Park Service (which oversees the National Register of Historic Places) and the Internal Revenue Service. It's up to the historic preservation offices in each state to certify that construction methods and materials are appropriate for each project. The program's goals were clearly stated in the original legislation, the National Historic Preservation Act of 1966 (amended in 1976 and 1986): to preserve historic buildings, stimulate private investment, create jobs, and revitalize communities.

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The tax credits have contributed to the financial feasibility of tens of thousands of rehabilitation projects—including rental housing, office buildings, and retail developments in downtowns and neighborhoods in big cities and small towns. In all, the program has leveraged almost $60 billion in private investment since 1977. In addition, approximately 30 states have implemented their own historic tax credits, which complement the benefits provided by the federal credits.

And the results have been excellent, according to the Center for Urban Policy Research at Rutgers University, which has researched the program in at least eight states. The Rutgers studies show that a $1 million investment in certified historic rehabilitation projects is likely to have a greater effect on employment, income, gross state product, and state and local taxes than a similar $1 million investment in new construction. These statistics, and others, are documented in *The Second Annual Report on the Economic Impact of the Federal Historic Tax Credit*, published last May by the Historic Tax Credit Coalition, headquartered in Washington, D.C.

It's in the realm of moderate- and low-income housing that the historic tax credits have had the most notable effect. That's in large measure thanks to creative developers who have usually combined the historic credits with two other federal incentives: New Market Tax Credits and the Low Income Housing Tax Credit. In many cases, they've added state historic tax credits to come up with innovative, multilayered financing packages. Such multiple layering is a feature of almost all current residential rehab projects, says Bill MacRostie of MacRostie Historic Advisors, a prominent development planning firm that has worked on tax credit projects all over the country. Despite this good record, however, MacRostie and others in the field note that many communities have failed to take full advantage of the credits.

In fact, only $688 million worth of credits were used in fiscal year 2010, far less than the total of the New Market or Low Income Housing programs. Until the current recession put the damper on development, $9 billion in Low Income credits had been certified and the most recent round of New Market allocations totaled $3.5 billion.

Why the disparity? Planners and developers suggest several reasons, including a 20 percent limit on rehab expenditures, leasing restrictions in projects that use historic tax credits (no renting to nonprofits or government tenants, for instance) and the strict age requirement (qualifying buildings must be at least 50 years old). Federal legislation proposed in Congress in 2009 would have increased the 20 percent credit to 30 percent for a $5 million rehab project, going up to 22 percent for a project that would cut energy use by a third. The proposed legislation would also have allowed looser lending requirements and would have encouraged the simultaneous use of state tax credits.

A long recession like this one is a good time to take a close look at old and new sources of funding for rehab projects. A prime candidate is the federal historic tax credit program. It's a means to get Americans employed again—and to preserve the buildings that give our communities their special character.

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