

SUMMARY OF FEDERAL 20% REHABILITATION TAX CREDIT

What is the 20% Rehabilitation Tax Credit?

The National Park Service (NPS), the Internal Revenue Service (IRS), and the South Dakota State Historic Preservation Office (SHPO) jointly administer the 20% rehabilitation tax credit program for the rehabilitation of historic buildings in South Dakota. The program offers a 20% tax credit on the qualified expenditures of a substantial rehabilitation of a certified historic structure. The tax credit applies to the building owner's federal income tax for the year in which the project is completed and approved. Unused tax credit may be carried back 1 year or carried forward 20 years.

Example: 20% of a \$50,000 rehabilitation = \$10,000 tax credit

What is a "certified historic structure"?

A "certified historic structure" is a building that is listed on the National Register of Historic Places either individually or as a contributing resource in a listed historic district. The building must be income-producing, and the rehabilitation must meet the Secretary of the Interior's *Standards for Rehabilitation*.

Private, owner-occupied residences are not eligible for this program.

What are "qualified expenditures"?

Rehabilitation work on the interior or exterior of the building is "qualified expenditures." Purchase price, landscaping, site work, and new additions to the building are not "qualified expenditures." For a more detailed list of "qualified expenditures," see the NPS website at <https://www.nps.gov/tps/tax-incentives/before-apply/qualified-expenses.htm>.

How much money must be spent in order to qualify for the 20% tax credit?

To be considered a "substantial rehabilitation," the rehabilitation expenditures must exceed either the "adjusted basis" of the building or \$5,000, whichever is greater. "Adjusted basis" is calculated as the purchase price minus the value of the land minus any depreciation already taken by the current owner plus any capital improvements already made.

Example (recent purchase):

\$60,000 (purchase price)

- \$7,000 (land)

\$53,000 (adjusted basis)

Rehabilitation expenses must exceed \$53,000 to qualify for the program.

Example (long-time ownership):

\$60,000 (purchase price)

- \$7,000 (land)

- \$40,000 (depreciation)

+ \$5,000 (capital improvement)

\$18,000 (adjusted basis)

Rehabilitation expenses must exceed \$18,000 to qualify for the program.

When can a rehabilitated building be sold?

The owner must keep the building at least five years after the rehabilitation is completed in order to avoid any recapture of the tax credit. The recapture amount ranges from 100% of the tax credit if the building is sold within the first year to 20% of the tax credit in the fifth year.

How do I apply?

The rehabilitation must be certified by completing an application and submitting it to the SHPO for review and transmittal to the NPS for final review and approval. It is strongly recommended that owners contact the SHPO and submit an application prior to beginning any work.

To download an application form for this program, visit the NPS website at <http://www.nps.gov/tps/tax-incentives/application.htm>.

For more information, contact:

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