Eligibility Requirements

Additional factors and conditions that determine eligibility

There are **4 factors** that can help you decide whether your rehabilitation project would meet the basic requirements for the 20% tax credit.

1. The historic building must be listed in the National Register of Historic Places or be certified as contributing to the significance of a "registered historic district."

Buildings may be listed individually in the National Register of Historic Places or as a part of a historic district. Contact your local historic district commission, municipal planning office, or State Historic Preservation Office (SHPO) to find out if your building is listed.

If your property is located in a National Register district or a certified state or local district, it still must be designated by the National Park Service as a structure that retains historic integrity and contributes to the historic character of the district, thus qualifying as a "certified historic structure." Not every building in a district is contributing. When historic districts are designated, they are usually associated with a particular time period or "period of significance," such as "mid-1800s to 1935." In such a district, a 1950 office building would not contribute and would not be eligible for a 20% rehabilitation tax credit.

You can request the National Park Service to designate your building a "certified historic structure" by completing and submitting Part 1 of the Historic Preservation Certification Application.

Learn more about the application process.

2. The project must meet the "substantial rehabilitation test."

In brief, this means that the cost of rehabilitation must exceed the pre-rehabilitation cost of the building. Generally, this test must be met within two years or within five years for a project completed in multiple phases.

The cost of a project must exceed the greater of $5,000 or the building’s adjusted basis. The following formula will help you determine if your project will be substantial:

- A — B — C + D = adjusted basis
- A = purchase price of the property (building and land)
- B = the cost of the land at the time of purchase
- C = depreciation taken for an income-producing property

- D = cost of any capital improvements made since purchase

For example, Mr. Jones has owned a small Victorian rental cottage for a number of years. He originally purchased the property for $150,000 and, of that purchase price, $70,000 was attributed to the cost of the land. Over the past years, he has depreciated the building for tax purposes by a total of $41,000. He recently replaced the air conditioning system at a cost of $1,500. Therefore, Mr. Jones's adjusted basis is $40,500 (or 150,000 — 70,000 — 41,000 + 1,500).

Mr. Jones intends to spend $50,000 to install a new roof, repair rotten siding, upgrade the wiring, and rebuild the severely deteriorated front porch, which will qualify as a substantial rehabilitation project. If he completes the application process and receives certification from the National Park Service that the rehabilitation meets the *Secretary of the Interior's Standards for Rehabilitation*, Mr. Jones will be eligible for a 20% credit on the cost of his rehabilitation, or a $10,000 credit.

Some expenses associated with a project may not qualify for the tax credit, such as a new rear addition, new kitchen appliances, and landscaping.

Learn more about qualified expenses.

3. The rehabilitation work must be done according to the Secretary of the Interior's Standards for Rehabilitation.

These are ten principles that, when followed, ensure the historic character of the building has been preserved in the rehabilitation. The Standards are applied to projects in a reasonable manner, taking into consideration economic and technical feasibility.

Learn more about the Standards for Rehabilitation.

4. After rehabilitation, the historic building must be used for an income-producing purpose for at least five years. Owner-occupied residential properties do not qualify for the federal rehabilitation tax credit.

The 20% credit is available only to properties rehabilitated for income-producing purposes, including commercial, industrial, agricultural, rental residential or apartment use. The credit cannot be used to rehabilitate your private residence.

However, if a portion of a personal residence is used for business, such as an office or a rental apartment, in some instances the amount of rehabilitation costs spent on that portion of the residence may be eligible for the credit.

There are additional factors that determine if a property is eligible for this program.