

RESOURCES

For information about planning your rehab project and about the RITC's specific requirements and regulations, contact (the sooner the better):

Indiana Division of Historic Preservation and Archaeology

251 East Ohio Street, Suite 880
Indianapolis, Indiana 46204
317-232-1646

Historic Landmarks Foundation provides advice about easements, the RITC and other aspects of saving and restoring historic buildings. From six office locations, the Foundation offers educational and financial programs and consults with individual and business owners of historic property regarding preservation strategies and restoration techniques:

Historic Landmarks Foundation of Indiana State Headquarters

3402 Boulevard Place
Indianapolis, IN 46208
(address after spring '91: 340 W. Michigan St., Indianapolis, IN 46202)

Regional Offices

Indianapolis	317-638-5264
North - South Bend	219-232-4534
South - Jeffersonville	812-284-4534
East - Cambridge City	317-478-3172
West - Greencastle	317-653-4927

Here are two recommended booklets:

A Guide to Tax-Advantaged Rehabilitation.

National Trust for Historic Preservation and Dewey, Ballantine, Bushby, Palmer & Wood, 1986.

Preserving America's Heritage: The Rehabilitation Investment Tax Credit.

Touche Ross & Co. and the Ohio State Historic Preservation Office, 1987.

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William Bosecker, a general contractor, followed the Secretary of the Interior's Standards for Rehabilitation and qualified for the RITC in his restoration of the Rusche House in Evansville's Riverside Historic District. Bosecker also used rental rehab funds from the city of Evansville in his \$186,000 restoration of the property, an 1867 double tenement house ravaged by arson fires. The Riverside Neighborhood Improvement Fund rescued the charred landmark from demolition and sold it to Bosecker for \$1 and the promise of restoration. The neighborhood development group also made Bosecker a loan to help him create five rental housing units in the historic property.

PERSPECTIVE FROM A HOOSIER SENATOR

Dear Friend:

There are few things about which the people of Indiana feel more strongly than pride in our state and its heritage...unless it is making sound investments. That is why potential participants in historic rehabilitation projects should consider investment tools which can be profitable **and** make one proud of fostering Hoosier heritage.

For nearly a decade, thousands of investors across America have been using a federal tax incentive to make quality rehabilitations of historic properties. Indeed, it is hard to find a city or town or neighborhood that has not been improved by use of the Rehabilitation Investment Tax Credit [RITC].

The RITC is a popular incentive for small and medium-sized rehabilitation projects for all types of structures. In fact, nearly 75% of tax-encouraged historic rehabs have budgets of less than \$500,000; more than 40% are less than \$100,000. These efforts are the mainstream of the preservation movement.

Historic Landmarks Foundation of Indiana encourages all who are interested in the RITC to go beyond reading this informative brochure, and take advantage of the excellent technical and professional assistance available in Indiana.

Sincerely,

Richard G. Lugar
United States Senator



3402 Boulevard Place
Indianapolis, Indiana 46208

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TAX INCENTIVES
FOR HISTORIC
PRESERVATION

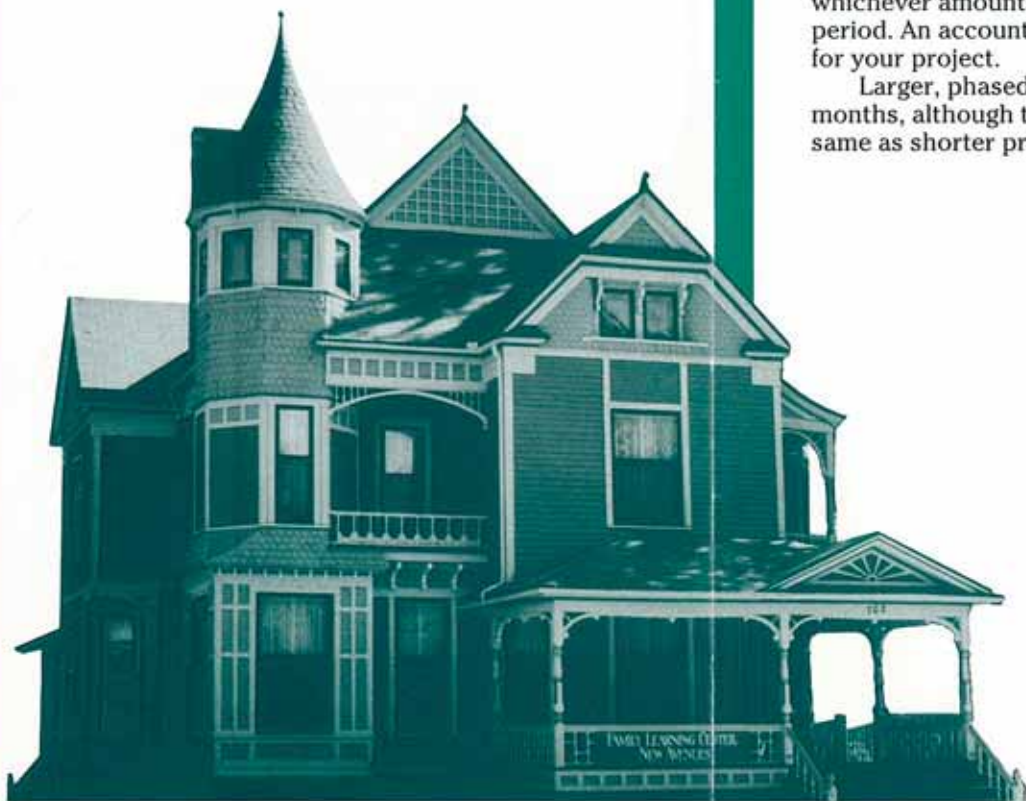


WHAT'S THE RITC?

The Rehabilitation Investment Tax Credit is a reduction in the amount of federal income taxes you would otherwise have to pay. It's triggered by rehabilitation of certain buildings and works like this:

Assume you spend \$100,000 fixing up the old apartment building you bought for rental income. If your property is an official historic building (more about that later) and if your rehab work meets certain standards (more about that, too), then you'll be granted a \$20,000 credit to use dollar-for-dollar against your tax liability. So, instead of paying X on your federal taxes, you'll pay X minus \$20,000.

There are rules on how much of your credit you can use in a year, when you can first use your credit, and what happens to your credit if you sell your rehabbed property. It's smart to do more research and to consult an expert before you do anything.



WHAT KIND OF PROPERTY QUALIFIES?

The 20% RITC is for work performed on "certified historic structures." That's any commercial, industrial or residential building listed in the National Register of Historic Places. It can also be a building which contributes to the character of a local or national historic district. (Indiana has thousands of buildings in this category, and the list continues to grow.)

There's also a more restrictive 10% credit for non-historic, nonresidential buildings built before 1936.

Both kinds of buildings have one thing in common: They're income-producing.

Check the **Resources** section at the end of the brochure for additional guidance on a building's qualifications for use of the RITC.

WHAT KIND OF INVESTMENT QUALIFIES?

The tax law says you have to perform "substantial rehabilitation." This is a common tax term, and it means spending more than \$5,000 or the property's "adjusted basis"—whichever amount is greater—over a 24-month period. An accountant can tell you the specifics for your project.

Larger, phased projects can stretch over 60 months, although the approval process is the same as shorter projects.

Partners in the Family Learning Center took advantage of the RITC to transform the 1892 Frederickson House into the corporate headquarters for their multi-site clinical counseling practice. The partnership hired South Bend Heritage Foundation, which had saved the building by moving it to the West Washington Historic District, to act as general contractor on the \$330,000 renovation project.

WHAT KIND OF REHAB WORK QUALIFIES?

For the 20% RITC, you've got to perform a "certified rehabilitation." To define what's "certified" and what's not, the tax law adopted a set of common sense do's and don'ts called the **Secretary of the Interior's Standards for Rehabilitation**. In a nutshell, the Secretary's Standards say...

- Don't change anything you don't have to change;
- If you have to change something, make sure it doesn't alter the significance of the property; and,
- Don't do anything that can't be reversed—like sandblasting.

The Indiana Division of Historic Preservation and Archaeology [DHPA] is where you start the process of getting your historic rehab plans reviewed and approved. They check your proposed rehab work and the photos you take of the building (inside and out) before you start your rehab to see how that compares to the **Secretary's Standards**. From there, the plans and photos go to the National Park Service in Philadelphia for final approval.

The advice you'll get from the DHPA is not only excellent...it's free. The National Park Service assesses a reasonable fee (based on the size of the rehab project) once you actually make an application for certification.

While the work is in progress, the DHPA usually visits the project. After the work is finished, the taxpayer makes a final report showing that the work was done as proposed. Almost 90% of the RITC projects processed through the Indiana DHPA get final approval.

WHO QUALIFIES?

The credits can benefit just about any investor...with certain exceptions concerning the size and sources of the investor's earnings.

Generally speaking, the credits are best suited for:

- 1) corporations, or
- 2) individual taxpayers who have:
 - an adjusted gross income of under \$200,000; and,
 - no net "passive income" (earnings from something other than wages or portfolios).

That's because the 1986 tax act adopted "passive-activity" rules on the kinds of individual

RITC—can be taken. There's an exception for the historic rehab credit, allowing up to \$25,000 of passive income liability to be offset by the credit; but that exception is phased out for incomes over \$200,000 and disappears altogether at \$250,000.

For individuals with an adjusted gross income under \$200,000 and no net "passive income," the historic rehab credit is available in any year up to \$7,000. Unused credit can be carried back 3 years and forward 15 years.

Since the 1950s, aqua and white corrugated aluminum panels had obscured the Art Deco architecture of the vacant former Sears store in downtown Indianapolis (below and on cover). Mansur Development Corporation used the RITC in its \$10 million restoration of the 1929 building, keystone of the Lockerbie Marketplace office and retail complex. O'Malia's, an upscale food market, is the primary tenant in the restored landmark.



ARE THERE OTHER TAX INCENTIVES FOR REHAB?

A preservation easement works tax-wise the same as just about any other charitable donation.

To get an easement deduction on a "certified historic property," the IRS expects an owner to put voluntary restrictions on changes that can be made to the property's appearance, restrictions that lower the property's fair market value. Those restrictions must be granted to a qualified historic preservation organization (such as Historic Landmarks Foundation of Indiana) which then administers and enforces the agreement.

Protecting the appearance of the historic property is good for the public, so the IRS rewards the owner who places the restrictions by granting a deduction. The deduction is figured according to the effect the easement had on lowering the fair market value.

There are also federal rehab incentives for rural and low-income housing.

