

Historic Preservation Tax Credit Program Fiscal Year 2023

Introduction

Iowa Code section 404A.5 charges the Iowa Economic Development Authority (IEDA) with developing and submitting an annual report to the Legislature on the Historic Preservation Tax Credit Program. This report includes information regarding awards and claims made under this program, the current liability to the State, and the potential impact on local property taxes as a result of completed projects.

This report includes data from July 1, 2022, through June 30, 2023. Information in this report includes a compilation of data from IEDA, including the State Historic Preservation Office (SHPO), a division of IEDA.

Program Description

Iowa's Historic Preservation Tax Credit program was created by the Legislature in 2000. Administrative rules for the program can be found at 261 IAC Chapter 49. The maximum amount of credits that can be allocated to applicants is capped at \$45 million per year. A minimum of five percent, \$2,250,000, of the available credits each year are to be set aside for new qualified rehabilitation projects with estimated final qualified rehabilitation expenditures of Seven Hundred Fifty Thousand Dollars (\$750,000) or less ("Small Projects"). *Iowa Code* section 404A.4

Created to encourage the redevelopment and reuse of historic structures across Iowa, the program provides state tax credits for the sensitive rehabilitation of these structures. Since program inception, the Historic Preservation Tax Credit program has been utilized in the rehabilitation of a variety of buildings, varying in size, style and type. Through this program, underused or vacant schools, warehouses, factories, retail stores, apartments, hotels, houses, offices, residences, and other buildings have been returned to useful life in a manner that maintains their historic character.

To be eligible, the building that is the subject of the application for the Historic Preservation Tax Credit must meet at least one of the following criteria:

- Listed on the National Register of Historic Places (National Register) or determined by the SHPO to be eligible for listing.
- Designated as of historic significance to a district listed in National Register or eligible to be listed on the National Register.
- Designated a local landmark by city or county ordinance.
- A barn constructed prior to 1937

The program provides a state tax credit equal to 25% of the "qualified rehabilitation expenditures" associated with the project. Per *Iowa Code* section 404A.1, "qualified rehabilitation expenditures" (QREs) are expenditures that meet the definition of "qualified rehabilitation expenditures" in Section 47 of the Internal Revenue Code, provided that expenditures incurred by an eligible taxpayer that is a nonprofit organization shall be considered QREs if they are expenditures for structural components, architectural and engineering fees, site survey fees, legal expenses, insurance premiums, or development fees. Expenditures financed by federal, state or local grants or forgivable loans, unless allowed in Section 47, are not QREs. *Iowa Code* section 404A.1.

The project must be completed within thirty-six (36) months of the Commencement Date, which is a date set forth in the agreement between IEDA and the applicant. 261 IAC 49.12 The Commencement Date shall not be later than the end of the fiscal year in which the agreement is entered into. 261 IAC 49.12

Work completed on the project must meet the United States Secretary of the Interior's Standards for Rehabilitation (SOI Standards) to ensure that character defining features and spaces of the structure are

maintained. Iowa Code section 4.4A.3 Planned and completed work is reviewed by SHPO to ensure compliance with these standards.

Only an eligible taxpayer may apply for the state tax credit. An eligible taxpayer is defined at *Iowa Code* section 404A.1 and in the administrative rules as “the owner of the property that is the subject of a qualified rehabilitation project, or another person who will qualify for the federal rehabilitation credit allowed under section 47 of the Internal Revenue Code with respect to the property that is the subject of a qualified rehabilitation project.” A nonprofit entity may be an eligible taxpayer but may not be a governmental body. *Iowa Code* section 404A.1

Tax credits may be used to offset the applicant’s Iowa income tax liability. These credits can be claimed against individual, corporate, franchise, moneys and credits and insurance premium taxes. Credits are transferrable. Iowa Code section 404A.2. As set out at Iowa Code section 404A.2, for a tax credit claimed by an eligible taxpayer or transferee with an agreement entered into on or after July 1, 2014, the following percentage of any credit in excess of the taxpayer’s or transferee’s tax liability for the tax year may be refunded:

- For Calendar Year 2023, 95% of the tax credit is refundable.
- For Calendar Year 2024, 90% of the tax credit is refundable.
- For Calendar Year 2025, 85% of the tax credit is refundable.
- For Calendar Year 2026, 80% of the tax credit is refundable.
- For tax years beginning on or after January 1, 2027, 75% of the tax credit is refundable.

Application process

As set out at 261 IAC 49.12, Projects completed with assistance from the Historic Preservation Tax Credit program often involve multiple partners and funding sources. A significant amount of planning is necessary to ensure projects are designed and completed in compliance with federal rehabilitation standards and state program requirements.

Applications for the Historic Preservation Tax Credit program involve the following steps,:

Part 1: The applicant submits information on the proposed project. SHPO staff evaluate the building’s integrity and historic significance to determine eligibility. SHPO often consults with the National Park Service. IEDA staff reviews property ownership to determine if the applicant is an eligible taxpayer.

Part 1.5 Meeting: Once it has been determined that the property and applicant are eligible under the program requirements, SHPO and IEDA staff will meet with the applicant to discuss the proposed project and the scope of work. Discussions focus on work design. SHPO offers feedback to the applicant that will assist in developing rehabilitation plans. IEDA staff provides guidance on ownership and project financing.

Part 2: The applicant submits proposed work to SHPO for review and evaluation. SHPO staff determines if the proposed rehabilitation work meets SOI Standards. During this application phase, the applicant and SHPO may negotiate how to complete work to ensure that it meets the standards. The applicant may revise the scope of work based on this review.

Part 2B: The applicant may submit an application for registration for the Historic Preservation Tax Credit. IEDA reviews the application to assess the project’s planning and financial readiness. IEDA and SHPO consult during the review of Part 2B applications. SHPO reviews the project’s construction timeline.

- IEDA accepts Part 2B applications for *Large* (new qualified rehabilitation projects with estimated final qualified rehabilitation expenditures of Seven Hundred Fifty Thousand Dollars (\$750,000) or more) projects twice per year, typically spring and fall. Applications are scored competitively.
- IEDA accepts Part 2B applications for *Small* projects on an ongoing, noncompetitive basis.

Upon Part 2B application approval, the project is registered for tax credits. IEDA and the applicant enter a contract that establishes the Commencement Date and the terms and conditions that must be met to receive the tax credit. The contract also sets out the maximum amount of the tax credit.

Part 3: The applicant submits the Part 3 application upon project completion. The Part 3 application describes the completed work and final qualified expenditures and provides assurance that all program requirements have been met. SHPO evaluates work for compliance with the SOI Standards. IEDA reviews financing, expenditures, and other submitted information.

After SHPO confirms that completed work was done in compliance with SOI Standards and IEDA determines the amount of QREs, IEDA issues a tax credit certificate to the applicant.

Current Program Status

From July 1, 2022, through June 30, 2023:

- IEDA registered 40 projects for tax credits. Tax credits allocated in FY 2023 totaled \$49,349,968*.
- IEDA issued tax credits for 20 projects totaling \$15,524,678.

The Historic Preservation Tax Credit program continues to experience high demand. IEDA received \$77 million in requests for credits during the two Part 2B large project application rounds in FY 2023. Based on feedback and interest from communities and developers, we anticipate this demand will continue in FY 2024.

*This amount exceeds the \$45 million cap because it includes tax credits that were awarded and then declined or revoked that may be awarded during the fiscal year in which the declination or revocation occurs and/or tax credits not awarded in FY 2022 that were carried over as provided at Iowa Code section 404A.4(3)a.