

State of Louisiana
Residential Rehabilitation Tax Credit
RS 47:297.6

Program Guidance

Effective January 1, 2006, homeowners may qualify for a 25% tax credit against their individual State income taxes when they rehabilitate their historic home. Owners of vacant and blighted property will be eligible for a 50% credit. The property must be (or become) the owner's primary residence. The State Residential Rehabilitation Tax Credit Program encourages taxpayers to preserve and improve their homes by offering a tax credit on rehabilitation costs associated with residences which meet Program requirements. It has been authorized at \$10 million in total credits per year and is effective through December 31, 2015. The credit will be granted on a first come, first served basis.

The Program is administered by the Louisiana Division of Historic Preservation (Division) and the Louisiana Department of Revenue. It is the responsibility of the Division Director to determine which buildings qualify for the Program, if the planned rehabilitation work meets the U.S. Secretary of the Interior's Standards for Rehabilitation, if the rehabilitation work was carried out in accordance with the approved scope of work, and if other Program requirements have been met. All work must be approved for rehabilitation and not primarily remodeling.

While the Division determines if the building qualifies for the credit, the Department of Revenue handles all fiscal matters. The credit is earned only after the rehabilitation work is completed and the qualifying expenditures are finalized.

THE CREDIT

A tax credit is a direct, dollar for dollar reduction in the amount of money a taxpayer must pay in state income taxes for a given year. The tax credit for qualifying rehabilitation expenditures will be divided into five equal portions, with the first portion being used in the taxable year in which the rehabilitated building is placed in service, and the remaining four portions used once a year for the next four years. For the purposes of this program, the "placed in service" date is the project completion date. To obtain the full credit, the taxpayer who initially earned the credit must continue to own and occupy the building as the taxpayer's primary residence. If the building is sold during the five-year credit period, all unused credit will immediately become void. The credit award is capped at \$25,000 per structure.

For further guidance and information regarding the State Residential Historic Rehabilitation Tax Credit, please contact: Tax Act Staff, Louisiana Division of Historic Preservation, P.O. Box 44247, Baton Rouge, LA 70804; Phone (225) 342-8160; Fax (225) 342-8173; www.louisianahp.org

HOW IS THE VALUE OF THE CREDIT CALCULATED?

For this Program, the Credits are calculated as a percentage of the Eligible Rehabilitation Expenditures. If the residential structure is owned and occupied by two or more individuals, the credit will be divided between the owner-occupants in proportion to their contribution to the eligible costs and expenses, unless they agree to an alternate division. Owners are responsible for maintaining accurate records to show contribution amounts.

If the credit is claimed on only a portion of the building, as in the case of a mixed-use structure, only those Eligible Rehabilitation Expenditures that are properly allocable to this portion may be included as part of the estimate and actual accounting of project expenditures. This is allocated on a square foot percentage basis.

HOW ARE THE CREDITS AWARDED?

Each year, beginning January 1, 2006 and ending December 31, 2015, \$10 million in tax credits is made available for rehabilitation projects which meet the Program guidelines and have an approved State Residential Tax Credit Certificate of Completion. Once all available funds for credits have been assigned, the Division of Historic Preservation will not assign any additional credits until January 1 of the following year. If the total amount of credit applied for (to Revenue) in any particular year exceeds the aggregate amount of tax credits allowed for that year, the excess will be treated as having been applied for on the first day of the subsequent year. Any credits forfeited due to non-compliance with the Program requirements will be re-assigned to eligible projects. The Department of Revenue will not award credits until the Division of Historic Preservation approves the Certificate of Completed Work.

WHICH PROPERTIES QUALIFY FOR TAX CREDITS?

For the purposes of the State Residential Rehabilitation Tax Credit Program, a Louisiana building meets the criteria for a Qualified Residence if it is:

- A contributing element to a National Register District, as determined by the Division Director;
- A contributing element to a locally designated historic district, as determined by the Division Director;
- A contributing element to a Main Street District, as determined by the Division Director;
- A contributing element to a Cultural District, as determined by the Division Director;
- A contributing element to a Downtown Development District, as determined by the Division Director;
- A residential structure that has been listed or that is eligible for listing on the National Register of Historic Places, as determined by the Division Director; or,
- A vacant and blighted building at least 50 years old.

WHICH PROPERTIES ARE CONSIDERED VACANT AND BLIGHTED?

A building is considered vacant and blighted if it has been unoccupied for six months, and if at least one of the following conditions exists:

- The building conditions pose a danger to the community;
- The building is not being properly maintained;
- The building is becoming dilapidated;
- The building is attracting illegal activity;
- The building is a fire hazard; or,
- The building is a factor in depreciating property values in the neighborhood due to its poorly maintained state.

WHICH PROPERTIES DO NOT QUALIFY FOR THE PROGRAM?

- Condos
- Secondary homes

- Corporate housing
- Buildings that are not the owner's primary residence
- Buildings that are solely commercial
- Buildings that are less than 50 years old (unless individually listed or eligible for listing in the National Register)

HOW DOES A REHABILITATION PROJECT QUALIFY FOR TAX CREDITS?

A rehabilitation project qualifies for tax credits if:

- the work is carried out on a building which has been determined to be a Qualified Residence;
- if it is rehabilitated according to the Secretary of the Interior's Standards for Rehabilitation (Standards), as determined by the Division of Historic Preservation;
- if the rehabilitation work has not been completed prior to the submission of the Part A application
- if the costs of the rehabilitation exceed ten thousand dollars (\$10,000);
- if the rehabilitated building is the owner's primary residence; and,
- if the work is primarily rehabilitation and not remodeling.

Only one State Residential Historic Rehabilitation Tax Credit is allowed per building.

WHAT ARE ELIGIBLE REHABILITATION EXPENDITURES?

Any expenditure for a structural component of a building will qualify for the rehabilitation tax credit. Structural components include walls, partitions, floors, ceilings, permanent coverings such as paneling or tiling, windows and doors, components of central air conditioning or heating systems, plumbing and plumbing fixtures, electrical wiring and lighting fixtures, chimney and fireplace repair, stairs, elevators, sprinkling systems, fire escapes, and other components related to the operation and maintenance of the building.

In addition to the above-named "hard costs," there are "soft costs" which also qualify. These include construction period interest and taxes, architect fees, engineering fees, and construction management costs.

WHAT ARE INELIGIBLE EXPENSES?

Ineligible expenses include: acquisition costs, appliances, cabinets, carpeting (if tacked in place and not glued), decks, demolition costs (removal of a building on property site), enlargements costs (increasing total volume), fencing, financing fees, furniture, landscaping, cost of moving building (if part of acquisition), outdoor lighting remote from building, parking lots, paving, porches and porticos (not part of original building), retaining walls, sidewalks, signage, storm sewer construction costs, and window treatments.

REHABILITATION VS. REMODELING

Rehabilitation and remodeling are seemingly interchangeable terms. For the purposes of the State Residential Historic Rehabilitation Program, however, they are quite distinct. Rehabilitation is defined as "the process of returning a property to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural, and cultural values."

Remodeling is defined as “giving a new shape to something.” For Program purposes, this means alterations that are primarily cosmetic in nature or that enhance a property that is for the most part already in good condition.

Example 1: Rewiring the entire house or a portion thereof to meet Code (rehabilitation) instead of solely adding high-speed Internet access, and wiring for cable and audio systems (remodeling).

Example 2: Repairing an existing fireplace and chimney (rehabilitation) instead of adding them to a building that never had them (remodeling).

The entire project must consist primarily of rehabilitation work or it will not qualify for this program.

THE APPLICATION PROCESS AND FEES

The Louisiana Division of Historic Preservation will maintain all application files for this program. Certain information within the files will be kept confidential. The confidential information will include, but is not limited to, social security numbers and copies of personal checks.

WHAT ARE THE FEES?

At the time of the Proposed Rehabilitation Application submission, the applicant must forward to the Division a required \$250.00 fee for processing. The Division accepts payment in the form of personal checks, cashiers checks, money orders, or certified checks. Proposed Rehabilitation applications not accompanied by the required fee payment will be held by the Division for up to 60 days or until payment is received, whichever comes first. Only upon receipt of the fee will the Division process the Proposed Rehabilitation application. The Division may return the Proposed Rehabilitation application after 60 days if no fee is received. The Proposed Rehabilitation Application fee is for review and handling only, and in no way determines the outcome of the review and the approval process.

PRELIMINARY APPLICATION-A

In order to establish initial eligibility for this Program, a completed Preliminary Application must be submitted. A determination regarding the Preliminary Application is usually rendered in writing by the Division of Historic Preservation within thirty (30) days of receipt of an adequately documented application.

PROPOSED REHABILITATION APPLICATION-B

To determine if the proposed rehabilitation work will meet the Secretary of the Interior’s Standards for Rehabilitation, a completed Proposed Rehabilitation Application must be submitted for review. The Proposed Rehabilitation Application contains general information about the project as well as a description of each of the features which will be impacted by the project, their existing conditions, and the nature and estimated cost of the proposed work.

If, after review of the Proposed Rehabilitation Application, the proposed work is determined to be consistent with the Standards, the Division Director will approve the Proposed Rehabilitation Application. If the proposed work is found to be inconsistent with the Standards, the applicant is provided with an opportunity to revise the project to bring it into compliance with the Standards.

Although it is not required that the Proposed Rehabilitation Application be submitted before the start of rehabilitation work, it is *strongly* recommended. Applicants who proceed with rehabilitation work without an approved Proposed Rehabilitation Application are proceeding at their own risk. Certain requirements, known as Conditions, may be placed on a project by the Division as part of the approved Proposed Rehabilitation Application. Documentation of satisfaction of these conditions must be provided when the project is completed. A determination regarding the Proposed Rehabilitation Application is usually rendered in writing by the Division of Historic Preservation within thirty (30) days of receipt of an adequately documented Proposed Rehabilitation Application.

CERTIFICATE OF COMPLETION-C

After completion of the project, the applicant must submit a State Residential Tax Credit Application Certificate of Completion. Upon receipt of this application, the owner is then placed provisionally in line for the credit. Provided that the application is complete, the review period is usually 30 days. During the review period, the Division determines if the project was completed according to the approved Proposed Rehabilitation Application and the Secretary's Standards for Rehabilitation. A site inspection may be required.

If the Program requirements have been met as determined by the Division, then the Certificate of Completion is approved and the applicant qualifies for the tax credit, and his or her place in line for the credit is then confirmed.

However, if the completed project does not meet Standards and all other program requirements, then the project is denied and the provisionally awarded place in line is forfeited.

An accounting of the Eligible Rehabilitation Expenditures for the project must be submitted with the Certificate of Completion. As part of their review, the Department of Revenue may ask applicants to provide further information on project costs.

APPEALS

Applicants whose submissions, at any of the three application stages, have been officially denied by the Director may appeal to the Assistant Secretary, Louisiana Office of Cultural Development. Written notice of the intent to appeal must be received by the Office of Cultural Development within ten business days following the date that the Director's official denial is mailed. The full appeal must be received no later than 30 calendar days following the end of the period to file a notice of appeal. Appeals must be in writing and must detail specific reasons the Director's findings should be partially or completely reconsidered or overturned. At his or her discretion, the Assistant Secretary may hold a hearing in connection with the appeal.

The Assistant Secretary may:

- Sustain the Director's findings,
- Overturn part or all of those findings,
- At his or her discretion, mediate between the Director and the applicant to arrive at a mutually satisfactory resolution, or
- Decline to consider the appeal.

The Assistant Secretary's final response to any appeal must be issued no later than 90 days after receiving the full appeal. There are no further administrative appeal mechanisms past the Assistant Secretary's final response.

Each building is considered unique due to its construction and location. Therefore, no previous decision(s) rendered by the Division Director or the Assistant Secretary of the Office of Cultural Development may be precedent setting.

WHERE CAN FURTHER INFORMATION BE OBTAINED?

Application forms can be requested from the Tax Act Staff, Louisiana Division of Historic Preservation, P.O. Box 44247, Baton Rouge, LA 70804; Phone (225) 342-8160; Fax (225) 342-8173; www.louisianahp.org. The Division will also provide copies of the Secretary of the Interior's Standards for Rehabilitation and Guidelines for Rehabilitating Historic Buildings at no cost.

The National Park Service's website features a wide variety of preservation-related articles and guides. <http://www.nps.gov/history/hps/tps/index.htm>