



## HISTORIC REHABILITATION TAX CREDIT PROGRAM

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### What is a Tax Credit?

A tax credit lowers the tax owed by an individual. A tax credit differs from a tax deduction in that an income tax deduction lowers the amount of income subject to taxation, while a tax credit is a dollar-for-dollar reduction in income tax liability. In other words, a tax credit of one dollar reduces the amount of income tax owed by one dollar. Taxpayers are urged to seek the advice of a qualified tax professional before proceeding with any tax credit rehabilitation project.

### Federal Historic Rehabilitation Tax Credit program

- 20% tax credit for the certified rehabilitation of certified historic structures.
- 10% tax credit for the rehabilitation of non-historic, non-residential buildings built before 1936.
  - Buildings listed in the National Register of Historic Places are not eligible for the 10% credit. Buildings located in and listed as contributing to a National Register are presumed to be . Historic and are therefore not eligible for the 10% credit. Non-contributing buildings in National Register Historic Districts that were built before 1936 are eligible for the 10% tax credit.

### State of Kentucky Historic Preservation Tax Credit Program

- (up to a ) 30% tax credit for the certified rehabilitation for owner-occupied certified historic residential properties. A minimum investment of \$20,000 is required, with the total credit not to exceed \$60,000
- (up to a ) 20% tax credit for the certified rehabilitation for all other properties, requiring a minimum investment of \$20,000 or the adjusted basis, whichever is greater. The total credit for a project must not exceed \$400,000. "Other" properties include commercial and industrial buildings, income-producing properties, historic landscapes and properties owned by governments and non-profit organizations

### What is a "Certified Rehabilitation?"

A building must be rehabilitated according to the Secretary of the Interior's Standards for Rehabilitation to be considered a "certified rehabilitation." This applies to the Federal 20% rehabilitation tax credit and the Kentucky 30% and 20% tax credits. The Federal Tax Credit must be certified by the Department of the Interior (National Park Service) and the Kentucky Tax Credits must be certified by the Kentucky Heritage Council before a tax credit can be approved.

The standards are intended to provide guidance to historic building owners and building managers, preservation consultants, architects, contractors and project reviewers prior to rehabilitation. According to these standards, "rehabilitation" is "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."

### **What is a "Certified Structure?"**

A certified historic structure is a building that is listed individually in the National Register of Historic Places —OR— a building that is located in a registered historic district and certified by the National Park Service as contributing to the historic significance of that district. The "structure" must be a building—not a bridge, ship, railroad car, or dam.

### **What is the application process?**

The Kentucky Heritage Council reviews all tax credit projects, Federal and Kentucky, for eligibility and should be consulted regularly to ensure that the proper standards are followed throughout the course of rehabilitation. Applying for the credit is a three-part process:

**PART 1** is the preliminary application, Evaluation of National Register Status, to determine if the proposed property is historic and listed in the National Register or in a National Register district.

**PART 2** is the Description of Proposed Rehabilitation, which outlines in detail the proposed rehabilitation work.

**PART 3** is the Request for Certification of Completed Work form, submitted once the rehabilitation work is completed.

Parts 1 and 2, the preliminary application and the description of proposed rehabilitation, may be submitted simultaneously. However, **any work done prior to certification of these applications by the Heritage Council or**

**Department of the Interior is done at the applicant's own risk**, and may result in disqualification of the project. **Photographic documentation of the project prior to rehabilitation and at each phase of the certification process is required.**

Guidelines for the new Kentucky Historic Preservation Tax Credit are modeled on the Federal Historic Rehabilitation Tax Credit program. If a Federal Tax Credit is also being sought, the appropriate corresponding federal tax credit forms should be attached to the state forms. This will avoid substantial delays in approving rehabilitation projects

Applications may be submitted at any time during the year.

Kentucky Tax Credits will be allocated to approved Part 2 projects received by April 29 of each year. The apportionment formula will be applied if the total amount of approved credits exceeds the \$5 million cap.

### **For more information contact**

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