Historic Tax Credit Readiness Toolkit

Practical Guidance for Evaluating Historic Tax Credit Opportunities

OREGON STATE PARKS

Historic Tax Credits are helping transform Oregon's historic places.

From 2016-2026, rehabilitation projects using the federal Historic Tax Credit in Oregon have generated more than

$446 MILLION

IN INVESTMENT ACROSS

53 PROJECTS

Could your project be next?

With this toolkit, you can:

- **Evaluate the potential benefits of Historic Tax Credits** to determine whether they are good fit for your project.
- **Understand the practical considerations, opportunities, and limitations** before investing significant time and money.
- **Make more informed decisions** as you plan and advance your rehabilitation project.

Publication Information

Published by
Oregon State Historic Preservation Office
Oregon Heritage, Oregon Parks and Recreation Department

2026

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CONTINUUM

Funding for this project was provided in part through a grant from the Oregon Cultural Trust.

CULTURAL TRUST PARTNER

Important Limitations and Disclaimer

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This Toolkit is not an official publication of the National Park Service or the Internal Revenue Service, and the materials provided herein are not legal, tax, financial, accounting, or other professional advice. Every project is unique, and the usability and value of Historic Tax Credits and other incentive programs depend on project-specific circumstances. Furthermore, qualification for Historic Tax Credits and other incentive programs depends on satisfaction of all applicable program requirements, including required review and approval processes. Program requirements, regulations, guidance, and tax law may change over time.

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Learn More

To explore the federal Historic Tax Credit program in greater detail, please visit:

https://www.nps.gov/subjects/taxincentives/index.htm

https://www.irs.gov/businesses/small-businesses-self-employed/rehabilitation-credit-historic-preservation-faqs

Other State Resources

For historic rehabilitation projects providing housing, the State of Oregon also offers these additional resources:

Housing Accountability and Production Office (HAPO)

HAPO is a new initiative established by Senate Bill 1537 (2024) as part of the governor's housing production package. Information can be found at this web address: https://www.oregon.gov/lcd/hapo/pages/hapo.aspx.

HAPO works with local governments and housing developers to navigate complex state housing laws related to land use and permitting. Our services include providing funding to local governments, guidance, and technical support to minimize barriers to housing production and ensure compliance with state laws and regulations.

HAPO also partners with various state agencies involved in housing development to identify technical and financial resources that can overcome challenges and unlock opportunities for housing production.

For assistance, please email dlcd.hapo@dlcd.oregon.gov.

Oregon Housing and Community Services (OHCS)

OHCS is Oregon's housing finance agency and administers a variety of funding programs that support the development, preservation, and rehabilitation of affordable housing throughout the state. Resources include grants, loans, tax credits, technical guidance, and other development tools for housing projects. For projects involving affordable housing, OHCS may offer financing programs that can complement Historic Tax Credits.

Information can be found at this web address: https://www.oregon.gov/ohcs/development/pages/index.aspx

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Using This HTC Toolkit

THIS 1928 RETIREMENT HOME WAS LISTED IN THE NATIONAL REGISTER AND REHABILITATED USING HISTORIC TAX CREDITS IN 2020.

Every historic rehabilitation project is unique, but the key questions that determine whether the Federal Historic Tax Credit (HTC) is a good fit are often the same.

This toolkit is designed to help property owners, developers, and their advisors evaluate those questions early in project planning so they can make informed decisions before investing significant time and resources in project design, tax analysis, or the Historic Preservation Certification Application (HPCA).

The modules in this toolkit are organized to guide readers through the key decisions involved in planning a historic rehabilitation project. They begin with the fundamental questions of project eligibility and financial feasibility, then explain how the HTC works in practice, and conclude with best practices for planning a rehabilitation that meets the Secretary of the Interior's Standards for Rehabilitation.

Module 1 – Is the Historic Tax Credit Right for My Project?

Introduces the key questions to consider when evaluating whether HTCs are likely to benefit your project. It provides a framework for evaluating eligibility, project economics, ownership, and tax considerations while directing you to the tools and modules that explore each topic in greater detail.

Module 2 – Understanding Direct Use vs. Syndication of HTCs

Explains the primary approaches to realizing the value of Historic Tax Credits—direct use and syndication—and the circumstances in which each approach may be appropriate.

Module 3 – Understanding Passive Activity Limitations

Describes how passive activity rules can affect an owner's ability to use HTCs and why these rules should be evaluated early in project planning.

Module 4 – Preparing for a Conversation with Your Tax Advisor

Helps organize project information and identify the questions to discuss with a CPA or tax advisor to determine whether the credits are likely to provide meaningful value.

Module 5 – Planning a Successful HTC Rehabilitation Project

Provides best practices for planning a rehabilitation project to meet the Secretary of the Interior's Standards for Rehabilitation, including design coordination, documentation, agency consultation, and other strategies that contribute to a successful review.

Small Project Scenarios

The following case studies illustrate how the concepts presented throughout this toolkit apply to real rehabilitation projects. Each scenario highlights a different combination of project characteristics, ownership structures, tax considerations, and preservation issues to demonstrate how these factors can influence the feasibility and potential value of the Historic Tax Credit.

1. Barn Rehabilitation with Low Adjusted Basis
2. Rural Building Rehabilitation with Multiple Reviews and Owner's Small Business Use
3. Nonprofit Housing and Layered Financing in a Main Street Community
4. Longtime Nonprofit Owner-Occupant Rehabilitates Their Historic Building

Qualified Rehabilitation Expenditure Eligibility Guide

This guide provides a detailed reference for determining whether common rehabilitation costs are considered Qualified Rehabilitation Expenditures (QREs).

Excel Workbooks

Interactive Excel worksheets are included and are designed to help estimate Qualified Rehabilitation Expenditures and evaluate whether a project is likely to meet the Substantial Rehabilitation Test. These tools support preliminary project evaluation and should be used in conjunction with the guidance provided throughout this toolkit.

1. QRE Estimator Workbook
2. Substantial Rehabilitation Test Calculator

Is the Historic Tax Credit Right for My Project?

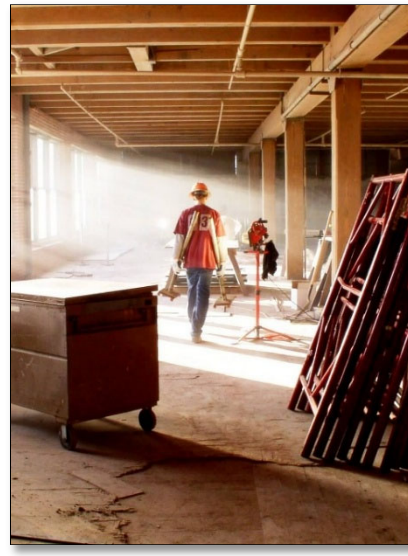
MODULE 1 OF THE HISTORIC TAX CREDIT READINESS TOOLKIT

Why Consider Historic Tax Credits?

Since its creation in 1981, the Federal Historic Tax Credit (HTC) has helped property owners across the country rehabilitate historic buildings, return vacant properties to productive use, and bridge project funding gaps. For qualifying projects, the HTC can provide a significant financial incentive while supporting the preservation of historic character.

Qualifying for the HTC is only part of the equation, however. Project scale, ownership structure, tax circumstances, and other financial considerations can all affect whether the credits will provide meaningful value. For smaller projects, in particular, determining whether the HTC is likely to be viable early in the planning process can help avoid investing significant time and money in design, tax analysis, or the application process before these questions have been explored.

This guide is intended to help property owners evaluate whether the program is likely to be a good fit and identify the questions and issues that should be explored early in project planning.



A HISTORIC WAREHOUSE IN THE PROCESS OF BEING ADAPTED FOR EDUCATION USE.

What is the Historic Tax Credit?

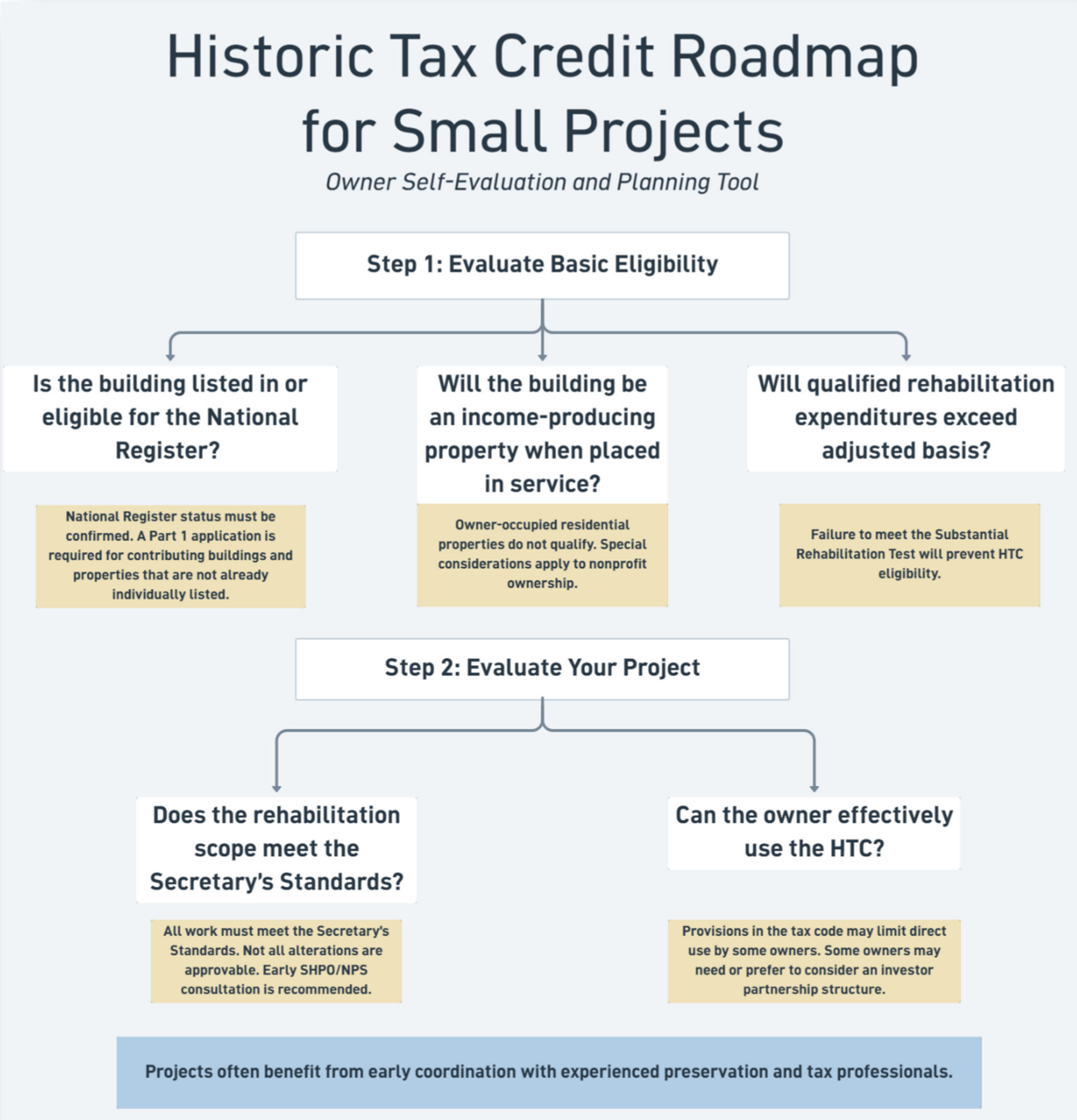
The Historic Tax Credit provides a 20% federal income tax credit for qualifying rehabilitation work on historic, income-producing buildings. For example: If your project includes $100,000 in eligible work, you may generate approximately $20,000 in tax credits. In other words, the HTC can help offset a portion of rehabilitation costs, making some projects more financially feasible. It can also be combined with other incentives and funding sources, like Oregon's *Special Assessment of Historic Property Program*, which offers a property tax incentive.

Getting Started with Your Evaluation

Owning a historic building and planning a rehabilitation does not necessarily mean that a project will qualify for the Historic Tax Credit or benefit financially from pursuing it. A project must satisfy several basic program requirements, but owners should also consider whether the proposed rehabilitation can meet the Secretary of the Interior's Standards and whether the credits can provide a meaningful financial benefit.

The roadmap on the next page provides a high-level overview of the key questions to consider when evaluating a potential HTC project. While every project is different, working through these questions early in the planning process can help identify issues that warrant further investigation.

This roadmap is an owner self-evaluation and planning tool, not a formal SHPO or National Park Service review process. The first step is to consider the basic requirements that determine whether a project can qualify. From there, the evaluation turns to two practical questions: whether the proposed rehabilitation is likely to meet the Secretary's Standards and whether the owner can effectively use the credits. The remainder of this toolkit examines these topics in greater detail and provides tools and resources to help you evaluate your project.



Four Key Questions

When evaluating whether HTCs are likely to be a good fit for your project, the following four questions provide a useful starting point.

1. Is the building eligible?

To be eligible for the Historic Tax Credit, a building must be:

- Listed in the National Register of Historic Places (individually or contributing to a historic district), or
- Eligible for listing and ultimately listed

If your building is not yet listed, it may still qualify—but listing must be completed within a limited timeframe in order to secure the credit.[1] If you are unsure about eligibility, start by contacting the Oregon State Historic Preservation Office's National Register coordinator at *ORSHPO.NationalRegisterProgram@oprd.oregon.gov*.

Beyond National Register eligibility, the property also must be depreciable and either be used in a trade or business, or held for the production of income. HTCs cannot be claimed for any portion of a property used as a personal residence.[2]

Additionally, buildings owned by nonprofit organizations may qualify for the HTC. However, because nonprofit organizations do not pay federal income tax, they face additional considerations in realizing the financial benefit of the credit. This typically involves partnership structures or other arrangements through which the credits can be used by a taxpaying entity, as described in the module *Understanding Direct Use vs. Syndication*.

2. Will you meet the investment threshold?

To qualify, your project must meet the Substantial Rehabilitation Test, which generally requires that Qualified Rehabilitation Expenditures (QREs) exceed the building's adjusted basis. For newly purchased properties, adjusted basis is often roughly equal to the purchase price minus the land value.

In simple terms, if you bought a property for $500,000 and the land was valued at $200,000, your qualified expenditures would have to exceed $300,000. However, the Adjusted Basis calculator provided with this toolkit provides additional information on the nuances of this calculation.

WORK ON THE VIEW POINT INN INCLUDED NEW STRUCTURAL FRAMING.

There are two important considerations, however:

- Not all project costs qualify. In general, work on or within the historic building is likely to qualify.
- Costs associated with new additions, site work, and landscaping are examples of project costs that do not qualify as QREs.

[1] This timeframe is generally within two years after the end of the tax year in which the building is placed in service.

[2] Properties that contain both personal residential and income-producing uses—such as an owner-occupied bed-and-breakfasts or a mixed-use building—may still qualify for HTCs for the portions of the building in business use. Areas used as a personal residence by the owner are not eligible for the credit and project costs must be allocated between qualifying and non-qualifying uses. For such projects, property owners should consult with a qualified tax professional early in the planning process.

As a result, the amount of money spent on the overall project is often higher—sometimes significantly higher—than the amount counted toward the HTC or used to satisfy the Substantial Rehabilitation Test.

The *Qualified Rehabilitation Expenditure Eligibility Guide* included in this toolkit provides additional information and examples of qualifying and non-qualifying rehabilitation expenditures.

WINDOW REHABILITATION WAS A PART OF THE APPROVED SCOPE OF WORK FOR THE SKIDMORE BLOCK.

3. Will the work qualify?

All work—both exterior and interior—must be reviewed and approved through the Historic Preservation Certification Application (HPCA) process involving the Oregon State Historic Preservation Office and the National Park Service.

This three-part application process includes the Part 1, which evaluates whether a property qualifies as a certified historic structure; the Part 2, which reviews the proposed rehabilitation work; and the Part 3, which confirms that the completed project was carried out in accordance with the approved plans.

Projects must meet the Secretary of the Interior's Standards for Rehabilitation, which are broad guidelines intended to preserve the historic character of the building while allowing for compatible modern-day uses. Because the Standards are not prescriptive, each project is reviewed on a case-by-case basis, based on its specific scope and conditions. The process takes time and early coordination is important. Module 5: *Planning a Successful HTC Rehabilitation Project* goes over some of the most important factors that lead to a successful review outcome.

Important: Historic Tax Credit review is separate from local historic preservation requirements. In Oregon, properties listed in the National Register may be subject to local historic design review regardless of whether HTCs or other preservation incentives are being pursued. Contact your local planning department to determine whether local review requirements apply to your historic rehabilitation project.

4. Can you effectively use the credits?

Even if your HTC project qualifies, the credits must align with your tax situation and ownership structure in order to provide meaningful value. Key considerations include:

- Do you have sufficient federal income tax liability to use the credits?
- Will passive activity limitations affect your ability to use the credits?
- Will you be able to use the credits as they are claimed over time?
- If you cannot use the credits directly, is the project large enough to support bringing in an outside investor?

These considerations can present significant challenges for small and mid-sized projects. Some property owners are able to use the credits directly, while others may need to consider a partnership structure that brings in an outside investor to monetize the credits. For smaller projects, however, the costs and complexity associated with syndication may outweigh its benefits.

These tax and ownership considerations are explored in greater detail in the next two modules. *Understanding Passive Activity Limitations* explains how passive activity rules can affect an owner's ability to use the credits, while *Understanding Direct Use vs. Syndication* explores the primary approaches to realizing their value and explains why syndication may not be practical for some projects.

Because every owner's tax situation is different, early consultation with a tax professional is strongly encouraged. The *Preparing for a Conversation with Your Tax Advisor* module can help property owners organize relevant project and financial information and identify questions to discuss with their tax advisor.

WORKERS BUILD A NEW ELEVATOR CORE WITHIN THE WAUCOMA HOTEL.

Common Outcomes

Projects that explore Historic Tax Credits typically fall into one of the following categories:

GOOD FIT

- The project meets the program requirements including National Register eligibility, rehabilitation standards, and investment threshold.
- The owner can realize the value of the credits, either through direct use or a viable investor partnership structure.
- The potential value of the credits justifies the level of time, cost, and coordination required— recognizing that the process can range from relatively simple and low cost for some small projects to more complex and expensive for some larger ones.

POTENTIAL CHALLENGES

- The project qualifies, but the owner cannot effectively use the credits due to tax limitations.
- The total amount of *qualifying* expenditures is lower than expected, reducing the value of the credits that was initially estimated.
- The project is too small to support the additional costs and complexity of bringing in an investor.

These challenges help illustrate how a project could meet all program requirements for the HTC and still not benefit from the credits in practice. Evaluating both qualification and potential benefit early can help ensure that your time and resources are focused on strategies that will meaningfully support your project.

The *Project Scenarios* included in this toolkit illustrate how outcomes can vary based on project scale, ownership structure, and the owner's ability to use the credits.

Final Thought

The Federal Historic Tax Credit can be a valuable tool for historic rehabilitation projects. Taking the time to evaluate feasibility early can help you make more informed decisions and focus on the strategies that will best support your project.

Understanding Direct Use vs. Syndication of HTCs

MODULE 2 OF THE HISTORIC TAX CREDIT READINESS TOOLKIT

How Will You Use the Historic Tax Credit?

If you are considering using the federal Historic Tax Credit (HTC) for your project, one of the first and most important questions is: *How will the tax credits actually benefit me?*

It is important to understand that the HTC is not a grant and does not provide construction funding during the rehabilitation process. Rather, it is a federal income tax credit that is generally realized after the rehabilitation is completed and the building is placed in service. As a result, property owners must consider not only whether their project qualifies for the credit, but also how they will ultimately realize its value.

There are generally two ways that the Historic Tax Credit is used:

- Direct use, which is where you use the credits yourself, or
- Syndication, where you bring in an investor to use the credits

OWNERS OF THIS HISTORIC FIRE STATION USED THE CREDITS THEMSELVES RATHER THAN SYNDICATING.

Understanding the difference between these two paths is critical, as not all projects are large enough or structured in a way that makes syndication feasible.

Option 1: Direct Use

In a direct use scenario, you (as the building owner) complete the rehabilitation project, earn the HTCs, and then claim those credits on your own tax return after the building is placed in service. The credits reduce your federal income tax liability. If the building is owned through a pass-through entity such as an LLC taxed as a partnership, the credits flow through to its members (subject to applicable tax rules and limitations).

This sounds simple—and it can be—but it only works if you are able to actually use the credits. Key questions to ask include:

- Do I have enough tax liability to benefit from the credits?
- Will the credits be subject to passive activity limitations and, if so, do I have sufficient passive income to use them? (See the *Understanding Passivity Activity Limitations* module.)
- If I can't use the credits right away, will I be able to use them in future years?

In some cases, owners generate credits but cannot use them effectively, which reduces or eliminates their value. However, the HTC is part of the IRS's general business credit, which generally allows a taxpayer to carry unused credits back one year and forward up to 20 years, subject to the rules under Internal Revenue Code §39.

DIRECT USE EXAMPLE

A taxpayer rehabilitated a historic apartment building, spending $3,000,000 in Qualified Rehabilitation Expenditures in 2023 and generating $600,000 in tax credits. Under current law, the credits must be spread evenly over five years (claimed "ratably"), beginning in the year the building is placed in service. In this example, it would be $120,000 of credits per year. This taxpayer meets the IRS definition of a real estate professional and, based on her specific circumstances, is not subject to passive activity limitations.

In the year the building was placed in service, her federal tax liability was $75,000. She applied $75,000 of the credits to her tax owed that year and carried the remaining $45,000 back to the prior tax year (2022), receiving a refund. In the following year, her tax liability was $90,000. She applied $90,000 of the next $120,000 credit installment to her tax that year and carried forward the remaining $30,000 in credits for 2023.

Because her annual tax liability is lower than the amount of credits generated each year, she continues to carry forward unused portions and expects it will take several additional years beyond the initial five-year credit period to fully utilize the credits.

Bottom line: Direct use is the simplest path, but it depends entirely on your personal tax situation.

Option 2: Syndication

Syndication provides an alternative to direct use by bringing an outside investor into the project. This approach may be used when an owner cannot effectively use the credits or when receiving investor equity better supports the overall financing strategy.

Put in very simple terms, this complex process generally involves the following:

- You create a legal ownership structure, often a partnership.
- An investor—usually a bank, insurance company, or other institutional investor—contributes equity to the project.
- In exchange, the investor receives an allocation of the credits.
- The investor's equity is contributed in installments as specified project milestones are reached.
- The investor remains a partner in the ownership structure for the five-year tax credit recapture period, after which an exit or buyout occurs.

KEY CONSIDERATIONS WITH SYNDICATION

While syndication can provide a way to realize the value of the credits or bring additional equity into a project, it comes with significant complexity. Syndication typically involves:

- Investor underwriting and due diligence processes similar in rigor to a construction loan, often with strong guarantor requirements.
- Legal and accounting costs to structure and close the transaction, as well as costs associated with structuring and executing the investor's eventual exit.
- Ongoing compliance requirements, which may include periodic reporting and, in some cases, audited financial statements.
- Providing the investor with a bona fide economic interest in the project, which may include a share of cash flow or other economic participation.
- Planning for the timing of investor equity contributions. (Other financing may be needed to fund project costs before all investor equity has been received.)

Because of this complexity, investors generally prefer sizeable projects that generate substantial tax credits in a single transaction. As of 2026, many investors in today's marketplace are reluctant to pursue projects generating less than approximately $2 million in credits, and some investors focus on projects generating $4 million or more.

Recent 2026 market data suggests pricing often falls in the high-$0.70s to upper-$0.80s per dollar of credit, although pricing varies with market conditions and project-specific factors such as project size, the economics of the proposed use, and the strength of the project team. Smaller projects also tend to receive lower pricing because transaction costs represent a larger share of the overall deal. For these reasons, it can be difficult for smaller projects to attract an investor or generate enough net equity to justify the costs and complexity of syndication.

Direct Use vs. Syndication: At-a-Glance Comparison

The table below summarizes some of the key differences between direct use and syndication.

	Direct Use	**Syndication**
Who uses the credits?	Property owner	Outside investor
How does the owner benefit?	Uses HTCs to reduce their own federal income tax liability	Receives equity from an investor in exchange for an allocation of HTCs
Outside investor required?	No	Yes
Transaction complexity	Low	Much higher
Legal and accounting costs	Typically much lower	Typically much higher
Investor due diligence & underwriting	Not applicable	Required
Best suited for	Owners who can effectively use the credits themselves	Owners seeking investor equity; projects large enough to support the cost/complexity of syndication
Common challenge	Insufficient tax liability or passive activity limitations may reduce the value of HTCs	Transaction costs and investor requirements may make smaller projects infeasible
Typical project size	Any size project where the owner can use the HTCs	Most commonly larger projects generating substantial HTCs
How financial benefit is received	Reduced federal income taxes after project completion	Investor contributes equity to the project, typically in installments tied to project milestones

Why This Matters for Small Projects

Direct use and syndication each offer a path to realizing the value of the Historic Tax Credit, but they work very differently. For small projects in particular, understanding how the value of the credits will be realized is just as important as determining whether the project qualifies. Evaluating these issues early can help property owners focus on the strategies that are most likely to support a successful rehabilitation project.

THE PALLAY APARTMENTS USED HISTORIC TAX CREDIT SYNDICATION TO FINANCE THIS HOUSING REHABILITATION PROJECT THAT INCLUDED LOW-INCOME HOUSING TAX CREDITS.

Understanding Passive Activity Limitations

MODULE 3 OF THE HISTORIC TAX CREDIT READINESS TOOLKIT

Why Understanding Passive Activity Matters for Historic Tax Credit Projects

If you are planning to use the federal Historic Tax Credit (HTC) directly, one of the most important factors to understand is something called the passive activity limitation rules. HTCs are valuable—but only if you can actually use them.

Passive activity limitations are one of the biggest reasons why small projects that "work on paper" may not actually work in practice for a specific owner. In simple terms, if your HTC project is treated as a passive activity, you may not be able to use the credits to offset taxes generated from your wages or other active income. For many small property owners, understanding this distinction is one of the most important parts of evaluating whether the HTC will provide meaningful value.

What Are Passive Activity Limitations?

For federal tax purposes, passive activities generally include trade or business activities in which the taxpayer does not materially participate, as well as most rental activities. Because passive activity rules can limit an owner's ability to use the HTC, understanding the difference between active and passive income is an important first step.

	Active Income	Passive Income
Common examples	• W-2 wages, salaries, and tips • Income from a business you operate • Self-employment income • Fees from professional services (e.g., attorney, doctor, consultant) • Income from a real estate development business in which you materially participate	• Rental real estate income • Income from limited partnerships in which you do not materially participate • Dividends, interest, and royalties • Capital gains from investments
How you participate	You materially participate in the activity. You are involved in the day-to-day operations and decisions.	You do not materially participate. Your involvement is limited to ownership or oversight.
IRS focus	You are actively working in the business or activity.	You are primarily an investor or owner, not actively participating.
Example in real estate	You develop, build, or rehabilitate properties as part of your trade or business, and you materially participate in those activities.	You own rental properties in which you do not materially participate (e.g., you hire others to manage the property and are not involved in day-to-day decisions).

REAL-WORLD EXAMPLES

These examples show how different types of income are generally classified for purposes of the passive activity rules.

- Lisa works as a nurse. Her wages are active income.
- Jun owns and operates a restaurant. Because he materially participates in the business, his business income is active income.
- Meredith is an attorney who also owns two historic rental properties. Her salary from practicing law is active income, while her rental income is generally treated as passive income.
- Darius is a real estate developer who actively manages rehabilitation projects. Because he materially participates in the development business, his development income is active income.

THE LADD CARRIAGE HOUSE—A FORMER STABLE—WAS REHABILITATED AS A RESTAURANT IN DOWNTOWN PORTLAND.

Why This Matters for Historic Tax Credits

Historic Tax Credits are generated by a rehabilitation project, but whether the credits are treated as passive or non-passive depends on how the property is used and how the owner participates in the activity. When a rehabilitated property is used as rental real estate, the credits are generally subject to passive activity rules because, under federal tax law, rental real estate is typically treated as a passive activity.

It's a common misconception to assume: "My project generated $100,000 in tax credits, so I can reduce my income taxes by $100,000." Not necessarily. If the credits are subject to passive activity limitations and you do not have sufficient passive income, your ability to use them may be limited. Generating tax credits does not necessarily mean you can use them immediately—or at all. Active and passive income are not freely interchangeable for purposes of these rules.

When Rental Real Estate May Not Be Treated as Passive

If you qualify as a real estate professional, passive activity limitations may not apply in the same way and the HTC may be more readily usable. Individuals who meet the IRS definition of a real estate professional and materially participate in their real estate activities are usually able to treat rental activities as non-passive. This requires that real estate activities make up a substantial portion of the individual's working time (typically more than 750 hours per year and more than half of total working hours), and that the taxpayer materially participates in those activities.

The Reality of Passive Activity When Using Historic Tax Credits

Consider this scenario: You are a small-scale real estate investor who also has a W-2 job. While you manage your rental buildings, you do not qualify as a real estate professional under the IRS's definition. Imagine you complete a rehabilitation project on a historic fourplex apartment building. The project qualifies for the HTC and generates $100,000 in credits.

You might expect that you could use the credits to offset the federal income tax liability associated with all your income, including the income from your day job. However, because you are subject to passive activity limitations, you can only use the credits to offset your passive income.

You also might expect that because your apartment building produces rental income, you would still be able to rapidly use your HTCs. However, in many cases, that rental income is:

- Limited, especially after expenses like maintenance, insurance, and property management
- Offset by depreciation, which often reduces taxable rental income to little or none

As a result, even though the building is operating, it may not generate enough taxable passive income to absorb the credits. In this case, the credits may need to be carried forward to future years, until you have sufficient passive income to use them.[1]

When Your Business Is Located in the Building

A different situation can arise when the building being rehabilitated is closely tied to an operating business. In some cases, a property owner may:

- Operate a business within the building (such as a retail store, restaurant, or service business), and
- Hold the building in a separate property-holding LLC

THE OWNERS OF THE COMPLETED LADD CARRIAGE HOUSE ALSO OPERATED THE RESTAURANT IN THE BUILDING.

In certain circumstances, it may be possible under IRS rules to make a grouping election, treating the building and the operating business as a single "economic unit" if they are sufficiently related. If structured appropriately, this may allow the activity to be treated as active rather than passive, potentially allowing the HTCs to be used against tax liability associated with the business activity. This type of determination is highly fact-specific and should be evaluated with help of a tax professional.

When Your Business Is Located in a Multi-Tenant Building You Own

This analysis becomes more complex when the historic building has both an operating business and rental components. For example: Your business operates on the ground floor, but apartments or offices on upper floors are leased to tenants. In these cases, your operating business may be considered active and the rental portions of the building may still be treated as passive. Whether and how these activities can be grouped—and whether credits can be fully utilized—again depends on the specific facts and structure of the project..

[1] Under current law, credits are claimed ratably over five years, beginning in the year the building is placed in service. Unused credits may generally be carried back one year or forward twenty years.

Why This Creates a Challenge for Small Projects

Large historic rehabilitation projects often address passive activity limitations through syndication structures involving tax credit equity investors, as discussed in the second module of this toolkit *Understanding Direct Use vs. Syndication.* However, for many small property owners, their projects are too small to support the costs associated with bringing in an investor.

Therefore, when owners do not have enough passive income to use the credits directly and the project is not large enough to attract an investor, this creates a situation where the project may qualify for credits, but the owners cannot fully or efficiently benefit from them.

What You Should Do Early

When evaluating a historic tax credit project, it is important to:

- Talk with your CPA or tax professional about whether the credits would be considered passive for you. Module 4 – *Preparing for a Conversation with Your Tax Advisor* is intended to support this discussion.
- Understand how much passive income you have or expect to have.
- Determine whether you can realistically use the credits within the allowed timeframe.
- Ask whether grouping strategies or real estate professional status may apply to your situation.

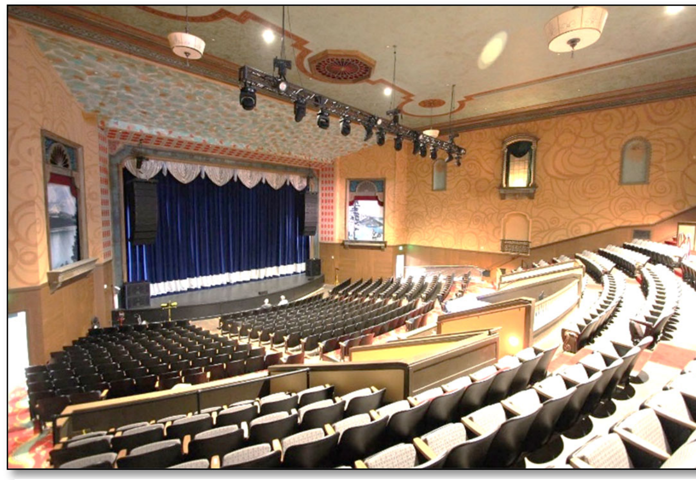
Passive activity limitations do not prevent a project from qualifying for the Historic Tax Credit, but they can significantly affect whether an owner is able to benefit from them. In other words, they must be investigated before assuming that a credit amount shown in a pro forma or financial analysis will translate into equivalent tax savings. Understanding these rules early—and discussing them with a qualified tax advisor—can help avoid situations where a project generates credits that cannot be efficiently used.

Preparing for a Conversation with Your Tax Advisor

MODULE 4 OF THE HISTORIC TAX CREDIT READINESS TOOLKIT

Purpose

Federal Historic Tax Credits (HTCs) can provide significant value, but only if they align with your tax situation and ownership structure. This guide is designed to help you prepare for a conversation with your tax advisor or CPA about whether HTCs may be useful for your project. This is one of the most important early steps in determining whether the credit is likely to provide meaningful value to your project.



THE HOLLY THEARE IN MEDFORD WAS A TAX CREDIT PROJECT COMPLETED IN 2025.

As you prepare, this guide is intended to help you:

- organize your thoughts
- gather relevant information
- ask informed questions

Important context: Most tax advisors are experts in *your* tax situation but may have limited experience with the Historic Tax Credit program. This guide is intended to help you have a more productive conversation together.

Gather Key Information

Before your meeting, take some time to estimate and organize the following:

- Use the *Substantial Rehabilitation Test Calculator* provided with this toolkit to estimate the adjusted basis of the building.
- Learn about Qualified Rehabilitation Expenditures (QREs) and estimate the QREs for your project using the *Qualified Rehabilitation Expenditure Eligibility Guide* and *QRE Estimator Workbook* in this toolkit.
- Estimate the amount of Historic Tax Credits your project could generate based on your preliminary QRE estimate.
- Determine whether your project appears to meet the Substantial Rehabilitation Test.
- Consider your anticipated project timeline, including when the building may be placed in service.
- If the property has not yet been purchased, gather any relevant property information including the purchase and sale agreement, if applicable.

What You Should Bring to the Meeting

Bringing the following information to your meeting can help your tax advisor more quickly evaluate whether HTCs are likely to benefit your project:

- Preliminary project budget
- Estimated QREs
- Adjusted basis estimate
- Ownership structure information
- Information about any business operating in the building
- Recent tax returns (if requested by your tax advisor)

THE SIGGLIN FLATS IS A FOUR-UNIT APARTMENT BUILDING LOCATED IN SOUTHEAST PORTLAND, REHABILITATED IN 2019.

Discussion Topics & Questions to Ask Your Tax Advisor

STEP 1: UNDERSTAND YOUR TAX SITUATION

You can likely answer many of these questions yourself:

- What is my approximate annual federal tax liability?
- Is my income relatively consistent, or does it vary significantly year to year?
- What type of income do I primarily have?
  - Active (e.g. wages, income from a business in which you materially participate)
  - Passive (e.g. income from rental activities or businesses in which you do not materially participate)

STEP 2: CAN I USE THE HISTORIC TAX CREDIT DIRECTLY?

- How does the amount of HTCs that my project may generate actually compare to my ability to use the credits?
- Would HTCs from this project likely be subject to passive activity limitations for me?
- If so, do I (or will I) have enough passive income to use them?
- If I am not subject to passive activity limitations, do I have sufficient federal income tax liability to use the credits?
- If I cannot use all of the credits immediately, how long might it take to fully utilize them?
- Is there a risk that I may not be able to fully use them?

STEP 3: OWNERSHIP STRUCTURE AND BUSINESS USE

- How does my current ownership structure affect my ability to use the credits?
- Would changes to the ownership structure improve my ability to use them?

If there are multiple owners:

- How would the credits be allocated?
- Would all owners be able to use their share of the credits?

If you will operate a business in the building:

- Does my use of the building as part of an active business affect how the credits are treated? (This concept can be particularly important when a business operates in a building that is owned separately, such as in a property-holding LLC.)
- Would it be appropriate to treat the building and the business as a single economic activity for tax purposes?
- How would that affect whether the credits are considered passive or active?

If your building includes both your business and space that you lease to others:

- How is the building treated for tax purposes if part of it is used for my business and part is leased to others?
- How are the business-use and leased portions treated for passive activity purposes?
- Would HTCs associated with the lease portions be considered passive, even if my business operates in part of the building?
- Is it possible or appropriate to treat the building and business as a single economic activity, and how would that affect the treatment of the credits?
- How would the allocation of expenses, income, and credits between business use and rental use impact my ability to use the credits?

STEP 4: TIMING AND CREDIT UTILIZATION

- If I begin claiming credits in the year the project is placed in service, how does that align with my expected income in that year?
- Are there timing considerations that could improve my ability to use the credits?

STEP 5: BIG PICTURE FEASIBILITY

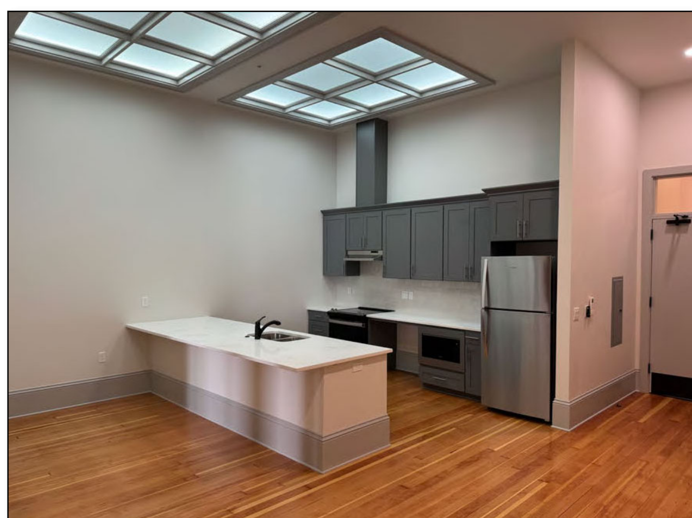
- Based on my tax situation and the credits my project may generate, is it realistic that I would benefit meaningfully from HTCs?

Reminder

Historic Tax Credit feasibility depends on multiple factors including:

- National Register eligibility
- Compliance with preservation standards and approval by the National Park Service
- Meeting the Substantial Rehabilitation Test
- Ability to use the credits

Taken together, these factors determine whether Historic Tax Credits are not only available, but actually useful for your project. Understanding these factors early can help you focus your time and resources on the strategies most likely to support your project and determine whether HTCs are a meaningful part of the overall funding approach.



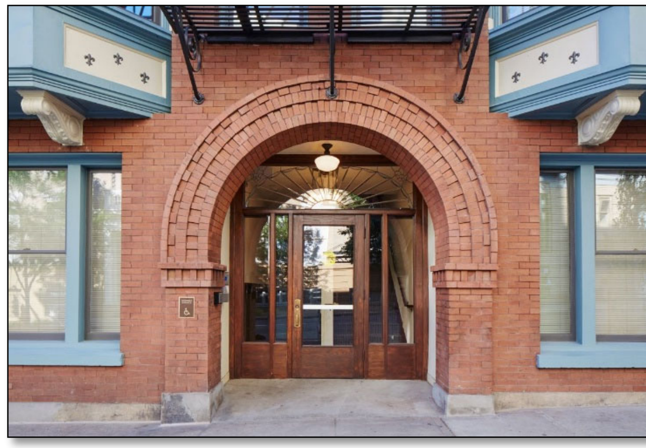
THE D'ARCY BUILDING IN SALEM WAS REHABILITATED TO INCLUDE MUCH-NEEDED DOWNTOWN HOUSING.

Planning a Successful HTC Rehabilitation Project

MODULE 5 OF THE HISTORIC TAX CREDIT READINESS TOOLKIT

Plan for Historic Tax Credit Success

Successful historic rehabilitation projects begin long before a Historic Preservation Certification Application (HPCA) Part 2 is prepared. The Part 2 application describes the proposed rehabilitation work and it is reviewed by the Oregon State Historic Preservation Office (SHPO) and the National Park Service (NPS) to determine whether the project meets the Secretary of the Interior's Standards for Rehabilitation. Early planning, a clear understanding of a building's historic character, and thoughtful coordination among the owner, design team, and SHPO/NPS can help avoid redesign, minimize delays during review, and improve project outcomes.



THE BRONAUGH APARTMENTS INCLUDED SEISMIC UPGRADE MEASURES THAT SEAMLESSLY TIED THE EXTERIOR BRICK TO THE OVERALL STRUCTURE, USING APPROVED MEASURES THAT DID NOT VISUALLY COMPROMISE THE EXTERIOR CHARACTER.

This guide highlights a few key best practices for planning a Historic Tax Credit project that meets the Secretary of the Interior's Standards for Rehabilitation. While every historic building presents unique circumstances, these recommendations are intended to help applicants identify potential issues early, make informed design decisions, and prepare projects for a more efficient review process.

Understand the Building's Character-Defining Features and Significant Spaces

A successful project begins with understanding the features, spaces, materials, and design elements that define a building's historic character. These character-defining features should be carefully considered in design decisions throughout the planning process. Early analysis can help the project team distinguish between features that should be preserved or repaired, and those that may be altered.

THE BASEMENT AUDITORIUM IN THE MALLORY AVENUE CHRISTIAN CHURCH WAS AN IMPORTANT SPACE IN THE BUILDING, ASSOCIATED WITH ITS HISTORIC SIGNIFICANCE.

The National Register nomination is often a good starting point for understanding a property's significance. Some nominations clearly identify character-defining features, while others describe the building's significance without explicitly listing them. During tax credit review, however, SHPO and NPS evaluate the building as it exists today, using the National Register documentation together with comprehensive existing-condition photographs submitted with the application.

Developing a shared understanding of the building's character early in the project helps the project team make informed decisions and can reduce the need for redesign later in the process. For complex rehabilitation projects, consider engaging a qualified historic preservation consultant to prepare a character-defining features assessment and treatment recommendations to guide the design process.

A NEW CORRIDOR INSERTED INTO A HISTORIC FENCE MANUFACTURING FACILITY WAS CAREFULLY DESIGNED TO PRESERVE VIEWS OF THE CHARACTER-DEFINING ROOFTOP LIGHT MONITOR.

Use National Park Service Guidance

The Secretary of the Interior's Standards for Rehabilitation provide the primary criteria for evaluating proposed work, but many common rehabilitation issues are addressed in greater detail through National Park Service technical guidance. These publications explain how the Standards are applied to specific building materials, systems, and treatment approaches, and can help inform design decisions early in project planning.

Applicants and design professionals are encouraged to consult applicable guidance before finalizing rehabilitation plans.

Key resources include:

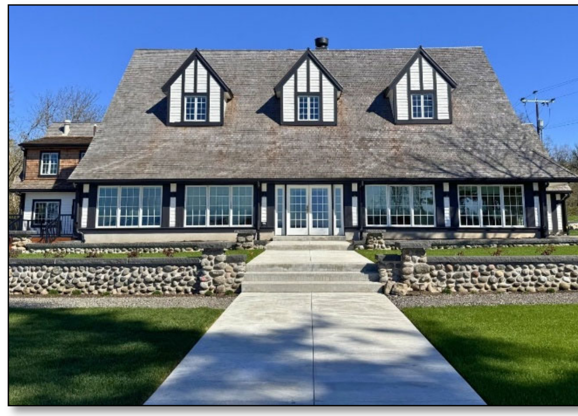
- **The Secretary of the Interior's Standards for Rehabilitation** – The standards used to evaluate proposed rehabilitation work. https://www.nps.gov/articles/000/treatment-standards-rehabilitation.htm
- **Preservation Briefs** – Technical guidance on the repair and rehabilitation of historic building materials and features. https://www.nps.gov/orgs/1739/preservation-briefs.htm
- **Interpreting the Standards Bulletins** – Guidance on how the Standards are applied to common rehabilitation issues, including windows, accessibility, additions, energy efficiency, and other frequently encountered topics. https://www.nps.gov/orgs/1739/its-bulletins.htm

Not every rehabilitation issue is addressed in published guidance and some projects present unique circumstances. When questions remain after reviewing available resources, applicants are encouraged to consult with SHPO early in the design process or seek the guidance of a consultant.

Coordinate the Design Team

Successful projects establish preservation goals early and communicate them to the entire design team. Architects, engineers, code consultants, interior designers, and contractors should understand the building's character-defining features and how proposed work may affect them. Early coordination among disciplines can help avoid conflicts that become difficult to resolve later in design.

Engage Agencies Early



Early consultation with SHPO and NPS identified a rehabilitation strategy that allowed this building's attached garage to be converted into habitable space.

Applicants are encouraged to contact SHPO early in project planning, particularly when proposed work involves complex design issues or treatments that may affect a building's character-defining features. Early coordination allows potential concerns to be identified before significant time and design effort have been invested and can help avoid redesign later in the project.

SHPO staff are available to discuss proposed treatments, answer technical questions, and provide guidance on how the Secretary of the Interior's Standards may apply to a particular project. While SHPO cannot guarantee National Park Service approval, early consultation often helps applicants develop rehabilitation strategies that are more likely to meet the Standards.

Applicants may also work with SHPO to request an NPS preliminary review of selected design concepts before preparing a complete Part 2 application. Preliminary reviews can help identify issues early and provide direction before construction documents are finalized.

A preliminary review may be appropriate for:

- Window replacement strategies
- Building additions, including rooftop additions
- Major accessibility improvements
- Significant interior alterations
- Mechanical system distribution in character-defining spaces
- Seismic upgrades that affect historic materials or spaces
- Other complex or unusual rehabilitation proposals

Applicants should allow sufficient time for preliminary review and incorporate any resulting feedback into the project design before submitting a Part 2 application.

Document Existing Conditions

Comprehensive documentation of existing conditions is essential for a successful Part 2 application. SHPO and the National Park Service rely on photographs and supporting documentation to understand the building's existing character and evaluate proposed treatments.

Photographs should clearly and comprehensively document the building's exterior and interior before work begins, including both areas affected by the proposed rehabilitation and areas that will remain unchanged. In addition to overall views, applicants should photograph significant architectural features, character-defining spaces, and areas of deterioration that support proposed repairs or replacement. Photograph more than you think you'll need. While the number of photographs submitted is highly dependent on building size and layout, for a multi-story commercial building it is not uncommon to submit around 100 photos.

Allow Time for Historic Review

Historic Tax Credit review should be integrated into the overall project schedule. Applications are most successful when they are submitted after the proposed rehabilitation has been sufficiently developed to clearly describe the scope of work, but before major design decisions have been finalized and before permitting or construction has begun. Incorporating historic review early in project planning provides greater flexibility to address review comments before design decisions become difficult or costly to change.

The amount of time required to complete the HTC process varies from project to project. While SHPO and the National Park Service maintain established review periods for Historic Preservation Certification Applications, the overall project schedule is often influenced by factors outside the review process.

Factors that can add time to the project schedule include:

- Preparing a National Register nomination for an unlisted property.
- Design revisions needed to meet the Secretary of the Interior's Standards for Rehabilitation.
- Multiple rounds of agency review for complex design issues such as additions, new construction, or significant alterations.
- Waiting until construction documents are complete or construction is underway before evaluating HTCs.
- Changes to the approved project scope during construction, which may require additional review and result in delays while revised treatments are evaluated.
- Poor coordination among project team members and consultants.

Early coordination with SHPO, thoughtful project planning, and—when appropriate—preliminary review of complex design concepts can help identify potential issues before they affect project schedules, permitting, or construction.

Design Considerations

Certain design decisions have a greater potential to affect a building's historic character and therefore warrant careful consideration early in project planning. The topics discussed below represent some of the most common areas where rehabilitation projects require additional analysis, coordination, or refinement to meet the Secretary of the Interior's Standards for Rehabilitation.

The appropriate treatment for any building depends on its character-defining features, significance, existing conditions, and the specifics of the proposed rehabilitation. While there is rarely a single acceptable solution, early planning and coordination can help identify approaches that are more likely to result in a successful project.

HISTORICALLY FINISHED INTERIORS

Many historic buildings were designed with finished interior spaces, including plaster walls and ceilings, decorative woodwork, and concealed structural systems. Removing these finishes to expose brick, structural framing, or other construction materials can fundamentally alter the building's historic character.

When planning interior rehabilitation, applicants should first understand how the space was historically finished and evaluate whether those finishes contribute to the building's significance. Exposing original construction materials is not necessarily an appropriate treatment simply because they are historic to the building.

BUILDING ADDITIONS AND ROOFTOP WORK

While additions are not appropriate for all historic buildings, when proposed additions should be designed to preserve the historic building as the primary visual focus while providing for compatible new construction. They should have some differentiation from the historic building while remaining compatible in scale, massing, materials, and design.

The location of an addition is often as important as its design. Rooftop additions should be set back from primary elevations to minimize visibility from the public right-of-way. Horizontal additions should be located where they avoid obscuring or overwhelming significant elevations and character-defining features.

Roof decks, rooftop mechanical, and solar installations are similarly reviewed for their visibility at street level.

Because additions can substantially affect a property's historic character, applicants are encouraged to discuss early conceptual designs with SHPO.

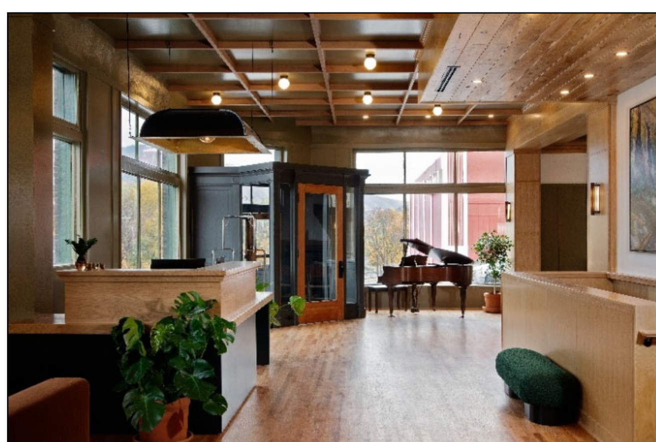
NEW BUILDING SYSTEMS

New mechanical, electrical, plumbing, and fire protection systems should be integrated into a historic building in a manner that minimizes visual impacts and avoids unnecessary damage to historic materials.

Mechanical distribution systems require particular consideration in character-defining spaces. While exposed ductwork may be appropriate in industrial or utilitarian buildings, it is incompatible with buildings that historically featured finished interiors. In these situations, concealed distribution through chases, new soffits, or other carefully designed solutions may be necessary. Where exposed ductwork is appropriate, painted spiral ductwork may provide a more compatible appearance than galvanized ductwork.

The historic plaster, light fixtures, and tile floor were preserved in this lobby with no exposed building systems introduced, including HVAC ductwork.

A preliminary review with NPS confirmed that a long-demolished historic roof terrace could be reconstructed on the Waucoma Hotel building without affecting approval.

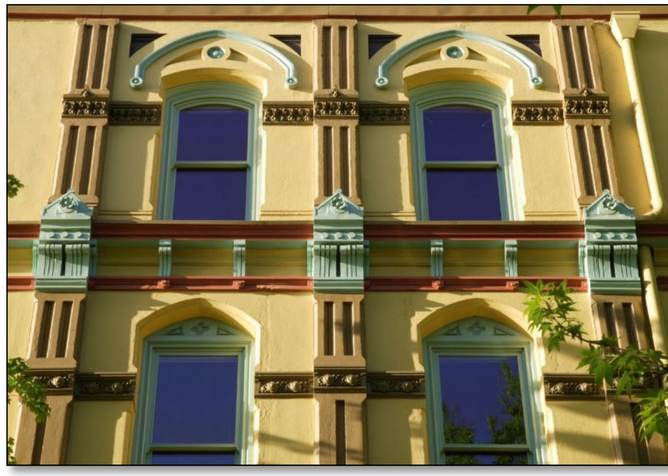


Concealing ductwork and piping within the ceiling preserved the historic character of the Hotel's interior.

WINDOW REPAIR AND REPLACEMENT

Historic windows are often among a building's most important character-defining features and receive careful review during the rehabilitation process. The Secretary's Standards emphasize repair whenever feasible. When replacement is proposed, applicants should demonstrate that deterioration is beyond feasible repair.

Replacement windows should closely match the historic windows in material, profile, dimensions, muntin configuration, and sightlines. Not all manufacturer-produced new windows—including those marketed as "historic"—are appropriate for every building. Depending on the historic windows' design, replacement units may require customization to closely match their appearance.



DUE TO HEAVY DETERIORATION, NEW CUSTOM WOOD WINDOW SASHES WITH INSULATED GLAZING UNITS WERE APPROVED FOR REINSTALLATION IN THE REFURBISHED WOOD FRAMES AT THE BICKEL BLOCK.

STOREFRONTS AND PRIMARY ENTRANCES

Historic storefronts and primary entrances often define a building's architectural character and are among its most prominent character-defining features. Even relatively modest changes to storefront glazing, entry configurations, transoms, doors, or architectural detailing can significantly affect a building's appearance and are carefully reviewed during the rehabilitation process.

Where historic storefront elements survive, projects should prioritize their repair and retention. Where surviving elements are beyond repair, replacement storefronts should reflect historic proportions, framing dimensions, and detailing. Where historic storefronts have been completely removed, applicants are encouraged to research historic configurations and develop new storefront systems that are compatible with the historic building.

ACCESSIBILITY IMPROVEMENTS

Accessibility improvements can often be successfully incorporated into historic buildings while preserving their historic character. Early planning allows accessibility solutions to be integrated into the overall rehabilitation rather than treated as isolated design challenges.

Projects should seek solutions that improve accessibility while minimizing impacts on character-defining features. Alternative approaches may sometimes achieve accessibility goals with fewer impacts to historic materials or spaces.

AN ADA RAMP AT THIS HISTORIC POST OFFICE BUILDING WAS CONSTRUCTED TO ONE SIDE OF THE ENTRANCE.

CODE IMPROVEMENTS

In coordination with SHPO, compatible new handrails and guardrail extensions were designed to meet the Secretary's Standards in this historic high school building.

Building code improvements are a part of most rehabilitation projects. With careful planning, code requirements can often be met while preserving a building's historic character. Because code-related work can affect character-defining spaces and features, preservation considerations should be integrated into the design process from the outset. New stairs, elevators, rated corridors, guardrails, exit enclosures, fire protection systems, and energy efficiency improvements should be planned to minimize impacts on significant historic materials and spaces. Evaluating multiple design options early in project planning often results in solutions that better balance preservation objectives with code requirements. In some cases, code appeals, alternative methods of compliance, or performance-based design approaches may provide solutions that better preserve historic materials and character while meeting the intent of the applicable code. Applicants are encouraged to explore these opportunities early in project planning. SHPO may be able to provide input or support preservation-sensitive approaches during discussions with the authority having jurisdiction.

Wrap Up & Project Planning Checklist

Successful historic rehabilitation projects begin with thoughtful planning. This module is intended to help applicants get started by highlighting key planning considerations and best practices for developing a successful rehabilitation project. It is not a comprehensive guide to completing the Historic Preservation Certification Application (HPCA), nor does it address every project type, rehabilitation treatment, or circumstance that may arise. Applicants are encouraged to use this information as a starting point, consult applicable National Park Service guidance, and work closely with SHPO throughout project planning and design.

The checklist below summarizes the key planning considerations discussed throughout this module and can be used as a quick reference during project planning and design. Completing these steps early can help identify potential preservation issues, improve coordination among the project team, and reduce the likelihood of redesign and delays during the Historic Tax Credit review process.

☐ Character-defining features identified

☐ Design team understands preservation priorities

☐ Relevant NPS guidance reviewed

☐ SHPO consulted on complex issues

☐ Preliminary review requested, if needed

☐ Existing conditions fully photographed

☐ Historic review incorporated into project schedule

☐ Permit drawings reflect treatments approved through HPCA review

☐ Major design decisions resolved through the HPCA review before final pricing

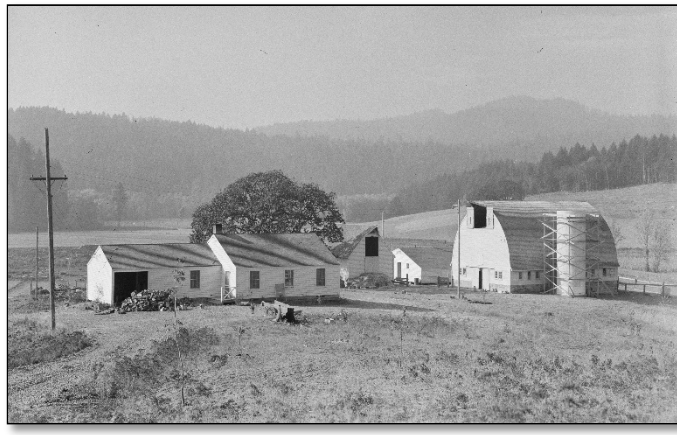
☐ Construction team understands approved preservation treatments

Barn Rehabilitation with Low Adjusted Basis

SMALL PROJECT SCENARIO #1

This scenario is based on a real project, but details have been changed or omitted to protect the privacy of the owners.

Overview



A long-time Oregon family has owned a working farm in a rural community for generations. At the center of the property is a historic timber-frame barn, listed in the National Register of Historic Places, that has been in continuous use for over 100 years. The family decided to make improvements to the barn and to explore using the federal 20% Historic Tax Credit (HTC).

To qualify for the HTC, a project must meet the Substantial Rehabilitation Test, which generally requires that the amount spent on qualifying rehabilitation work exceeds the building's adjusted basis. In simple terms, the adjusted basis is generally calculated as the purchase price of the building excluding the land value, plus capital improvements, and reduced by depreciation taken over time. (The actual calculation can be more complicated; please refer to the calculator provided with this toolkit and consult with a tax advisor on your own adjusted basis calculation.)

For many property owners—especially those who have purchased their buildings more recently—this results in a relatively high adjusted basis, meaning they must invest a significant amount in rehabilitation work to qualify for the credit. In the case of this barn, the building's adjusted basis had been reduced to a very low level because of its long ownership history and depreciation over time. This created an opportunity: because the adjusted basis was so low, the owners only needed to meet the $5,000 statutory minimum threshold for the Substantial Rehabilitation Test. As a result, they were able to qualify for the HTC with a relatively modest rehabilitation project.

Rehabilitation Work Completed

The family completed approximately $52,000 in rehabilitation work, including:

- Repairing and reinforcing deteriorated timber framing
- Replacing failing roofing with in-kind materials
- Stabilizing sections of the foundation
- Repairing original wood siding and repainting
- Upgrading the electrical service to support ongoing farm use

The project met the Secretary of the Interior's Standards for Rehabilitation and all of the work was treated as Qualified Rehabilitation Expenditures (QREs), resulting in $10,400 in HTCs.

Using the Historic Tax Credit

In order to qualify for the credit, a property must have an income-producing use when the project is complete. In this case, the farm is an active business operation and the barn is directly tied to that activity. The owners worked with their CPA to ensure that the farm and related activities were appropriately structured and reported for federal tax purposes. Because the ability to use HTCs depends on the owner's particular tax circumstances, this planning was important. Based on the owners' participation in the farm business and their tax circumstances, the credits could be applied against income generated by the farm.

Key Takeaways

- The historic barn was preserved and continues to support the farm's ongoing operations.
- The building's very low adjusted basis made it possible to satisfy the Substantial Rehabilitation Test with a modest scope of work.
- The owners' particular business and tax circumstances allowed them to make full use of the historic tax credits.

Remember: Every project is different and tax outcomes depend on factors such as ownership structure, adjusted basis, income sources, and tax liability.

Learn More

To learn more about the topics discussed in this scenario, please see the following resources in this toolkit:

- Substantial Rehabilitation Test Calculator
- Module 2: *Understanding Direct Use vs. Syndication of HTCs*
- Module 3: *Understanding Passive Activity Limitations*
- Module 4: *Preparing for a Conversation with Your Tax Advisor*

Rural Building Rehabilitation with Multiple Reviews and Owner's Small Business Use

SMALL PROJECT SCENARIO #2

This scenario is based on a real project, but details have been changed or omitted to protect the privacy of the owners.

Overview

A historic property in rural Oregon had suffered extensive fire damage and years of exposure to the elements, requiring substantial rehabilitation before it could be returned to productive use.

What made the project unique was that its historic designation provided important land-use flexibility while also introducing preservation requirements that shaped the rehabilitation. Because the property was listed in the National Register of Historic Places, local land use regulations allowed certain commercial uses that would not otherwise have been permitted on the site. This flexibility made it possible for the owners to relocate their wellness retreat business to the property and integrate it with other related business activities. At the same time, the rehabilitation was required to comply with preservation requirements that limited the extent of exterior alterations and expansion and guided the restoration of the property's historic appearance.

The project was subject to local historic design review as part of the land use approval process. In addition, the owners elected to pursue the federal 20% Historic Tax Credit (HTC), which required a separate review through the Oregon State Historic Preservation Office (SHPO) and the National Park Service (NPS) to ensure the project met the Secretary of the Interior's Standards for Rehabilitation. Although the local land use review process and the tax credit design review process focused on preserving the property's historic qualities and relied on similar preservation principles, they involved different agencies, decision-makers, procedures, and timelines.

As a result, the project team was required to navigate multiple preservation review processes while adapting the building for a new use. The design challenge was to restore character-defining features and historic qualities while accommodating modern building systems, accessibility improvements, life-safety requirements, and the operational needs of a contemporary wellness retreat center.

Rehabilitation Work Completed

The rehabilitation was extensive due to the severity of the fire and water damage. While the remaining historic features were repaired and retained, other building components had deteriorated beyond feasible repair and required replacement in a manner consistent with the historic character of the property.

The rehabilitation included:

- Replacement of damaged structural framing
- Replacement of windows and doors with historically appropriate units matching the historic appearance of the originals, as the originals were heavily damaged and could not feasibly be repaired
- Full roof replacement
- Repair and restoration of exterior materials and significant character-defining interior finishes based on historic photographs and surviving historic materials
- Installation of entirely new electrical, plumbing, and mechanical systems necessary to support the new use

Leveraging Oregon's Special Assessment Program

Before beginning rehabilitation, the owners applied for Oregon's Special Assessment of Historic Property Program. At that time, the building had relatively little assessed value due to the extent of the damage. By enrolling in the program before rehabilitation improvements were completed, the owners were able to take advantage of the property's low pre-rehabilitation assessed value and defer reassessment that would normally accompany a major construction project. This resulted in reduced property taxes during the 10-year special assessment period, creating a meaningful financial benefit during construction and the early years of operation.

Ownership Structure and Tax Considerations

The project was eligible for the HTC because it met the Secretary of the Interior's Standards for Rehabilitation, satisfied the Substantial Rehabilitation Test, involved an income-producing property, and was listed in the National Register of Historic Places.

One challenge remained: determining how the owners could effectively utilize the credits.

The property itself was held in a separate property-holding LLC—a common arrangement for real estate assets. However, this type of arrangement can create challenges when using HTCs because credits generated by real estate activities are often subject to passive activity limitations.

The owners worked with their CPA to evaluate whether the property-holding entity and operating business could be treated as a single economic unit for tax purposes. Because the activities shared common ownership, were operationally connected, and supported one another economically, the owners and their CPA determined that grouping was appropriate under applicable IRS rules. This allowed the rehabilitation activity to be treated as part of the owners' active business rather than as a passive investment activity.

As a result of the grouping election, the owners were able to use the HTC directly to offset tax liability associated with their active business income. The credits were claimed ratably over the five-year credit period. Without the grouping election, the credits would have been limited to offsetting income generated within the property-holding entity, significantly reducing their practical value to the owners.

Key Takeaways

- Historic status can provide benefits beyond tax credits. In some jurisdictions, historic properties may qualify for land-use flexibility or other regulatory incentives that can be as important to project feasibility as the tax credit itself.
- Local historic review and federal Historic Tax Credit review are separate regulatory processes. Even when they rely on similar preservation standards, they will involve different agencies, procedures, timelines, and approval requirements.

- Enrolling in Oregon's Special Assessment program before rehabilitation allowed the owners to take advantage of the property's low pre-rehabilitation assessed value and reduce property taxes during the early years of operation.
- Ownership structure and tax treatment can significantly affect an owner's ability to use the HTC. Early coordination with a qualified tax advisor can help identify potential opportunities and limitations.
- In some situations, grouping a property-holding entity with an operating business may allow HTCs to be used more effectively and make direct use of the credit more viable.

Remember: Every project is different and tax outcomes depend on factors such as ownership structure, adjusted basis, income sources, and tax liability. Additionally, property tax benefits vary by property and land use incentives vary by jurisdiction.

Learn More

To learn more about the topics discussed in this scenario, please see the following resources in this toolkit:

- Module 2: *Understanding Direct Use vs. Syndication of HTCs*
- Module 3: *Understanding Passive Activity Limitations*
- Module 4: *Preparing for a Conversation with Your Tax Advisor*

Nonprofit Housing and Layered Financing in a Main Street Community

SMALL PROJECT SCENARIO #3

Overview

In downtown Astoria, Oregon—a designated Main Street community with one of the highest concentrations of historic buildings in the state—sat the long-vacant Merwyn Building. Once a prominent hotel at the center of the district, it had fallen into significant disrepair.

At the same time, Astoria was facing a growing need for workforce and affordable housing, particularly within its walkable downtown core. By strategically combining multiple funding sources—including Historic Tax Credits (HTCs), Low-Income Housing Tax Credits (LIHTCs), and Main Street funding—a project that would rehabilitate the building into affordable housing became financially feasible.

MERWYN BUILDING BEFORE REHABILITATION IN DOWNTOWN ASTORIA.

MERWYN BUILDING UPON COMPLETION

Project Vision and Scope

Innovative Housing—an experienced affordable housing developer—led the project and initiated a collaborative effort involving a range of local and regional partners, including the Main Street program.

The Merwyn project required approximately five years of planning, financing, permitting, and construction between Innovative Housing's initial involvement in 2016 and completion in 2021.

When it opened, the Merwyn provided 40 new apartments in downtown Astoria, including 36 affordable units for individuals in need of stable housing.

With a total project cost of approximately $7 million, the rehabilitation also included repairing the building's exterior envelope, preservation of historic lobby spaces, corridors, and architectural features, and upgrades to building systems.

The Role of Main Street Funding

Because Astoria participates in the Oregon Main Street program, the Merwyn project was eligible for a $100,000 Oregon Main Street Revitalization Grant. While modest relative to the total project cost, this funding played a critical role. It provided early-stage capital that helped demonstrate project viability and leverage additional funding sources. For many small or rural projects, this type of early funding can be the difference between a project moving forward and remaining stalled.

Pairing Historic Tax Credits with Low-Income Housing Tax Credits

The rehabilitation project also generated approximately $1.5 million in federal Historic Tax Credits. On its own, this very likely would not have been enough to support a cost-effective tax credit equity investment for a project of this size. Furthermore, direct use of the tax credits was not an option because the project was led by a nonprofit housing developer.

What made the Merwyn project feasible was the ability to pair the HTCs with Low-Income Housing Tax Credits. By combining these two programs, the project was able to attract a tax credit investor interested in the larger combined credit package. This type of financing structure is common in affordable housing but requires specialized expertise to assemble.

An Important Distinction

Not all nonprofit historic rehabilitation projects can use this approach, however. Projects involving nonprofit organizations that have long owned and occupied their historic buildings are structured differently from nonprofit affordable housing projects. These nonprofit owner-occupants—often theaters, museums, or other cultural facilities—may be subject to additional IRS rules governing "disqualified leases," which can complicate their ability to monetize HTCs. See Small Project Scenario #4 for an example.

Key Takeaways

While the $7 million project was relatively large in the context of a small town, it was still modest compared to many urban HTC developments. At this scale, HTCs alone may not generate enough equity to support a cost-effective syndication, particularly given transaction costs and the complexity of tax credit financing.

For some projects, Historic Tax Credits can be most effective when they are:

- Combined with other programs, such as the Low-Income Housing Tax Credit or New Markets Tax Credits.
- Supported by Main Street or other early-stage grant funding.
- Structured by teams experienced in assembling layered financing packages.

By combining HTCs with other funding sources, the Merwyn Building project achieved the financial structure needed to attract an equity investor and move forward.

Learn More

To learn more about the topics discussed in this scenario, please see the following Toolkit resources:

- Module 2: *Understanding Direct Use vs. Syndication of HTCs*
- Small Project Scenario #4 – *Longtime Nonprofit Owner-Occupant Rehabilitating Their Historic Building*

Longtime Nonprofit Owner-Occupant Rehabilitates Their Historic Building

SMALL PROJECT SCENARIO #4

This scenario is based on a real project, but details have been changed or omitted to protect the privacy of the owners.

Overview

For decades, a historic theater served as a venue for films, lectures, educational programs, and other community events. The building's systems had reached the end of their useful lives, while interior finishes also required restoration and refurbishment. Because the building was listed in the National Register of Historic Places, the ownership organization explored whether the federal Historic Tax Credit (HTC) could help fund a portion of the rehabilitation.

As the project team began evaluating options, it became clear that the building's ownership and occupancy would significantly affect how the HTC could be structured and used. Because the theater had long been owned and occupied by the nonprofit, the project was faced with HTC syndication and utilization challenges that do not arise in every tax credit rehabilitation.

The Challenge

As a nonprofit, the theater did not have federal income tax liability to use the HTC directly. To monetize the credit, the organization explored bringing in an outside investor who could use the credits in exchange for providing equity to help finance the rehabilitation. To do so, the project would need to be structured so that a newly formed taxable entity owned the building during the rehabilitation and throughout the five-year tax credit period. The investor would participate in that taxable ownership structure and, in return for its investment, receive the Historic Tax Credits. The nonprofit would then lease the building back so it could continue operating the theater.

This general type of investment structure is commonly used to monetize HTCs and can work well for many projects, including certain nonprofit-sponsored projects, such as the housing project described in Small Project Scenario #3. However, when a nonprofit has long owned and occupied the same historic building and intends to continue occupying and operating it after rehabilitation, special IRS rules apply. When structuring the investment, a lease back to the nonprofit owner-occupant may be treated as a “disqualified lease” if the transaction does not satisfy applicable IRS requirements. When that happens, the project cannot monetize the Historic Tax Credits through a typical tax credit investment structure, even though the rehabilitation itself otherwise qualifies for the credit.

Evaluating Potential Solutions

The theater's project team worked with experienced advisors to evaluate alternative ownership and operating structures. Several concepts were explored to determine whether the project could comply with IRS requirements while still allowing the nonprofit to continue fulfilling its mission and building rehabilitation goals. These concepts included:

- Modifying the lease structure through alternative lease terms and durations to address IRS requirements, while accepting increased legal, financing, and operational uncertainty.
- Restructuring ownership and occupancy so that larger portions of the building were occupied by unrelated third parties.
- Using an alternative ownership and operating structure that avoided leasing the building back to the nonprofit during the compliance period, while temporarily shifting building operations into the taxable ownership structure.

Each option involved important tradeoffs related to legal complexity, taxation, governance, business finances, operational control, and risk allocation. As a result, there was no simple "off-the-shelf" solution. Determining whether any of these approaches was appropriate required careful analysis. Ultimately, the theater nonprofit determined that pursuing the credits was not the most practical financing strategy and instead focused on expanding its capital campaign and other funding sources to complete the project.

Remember: Others may reach a different conclusion based upon their circumstances. The appropriate solution depends on the nonprofit's goals, governance, financing needs, risk tolerance, and the specific facts of the project.

Key Takeaways

While every project is unique, this scenario demonstrates several important considerations that apply to longtime nonprofit owner-occupant projects:

- Historic Tax Credits can often be successfully used in nonprofit-sponsored projects, but because nonprofits cannot use the credits directly, these projects require a structure that allows a taxable entity or investor to utilize them.
- Additional IRS rules may significantly complicate that structure when a nonprofit has long owned and occupied the same historic building and intends to continue occupying and operating it after rehabilitation.
- Early coordination with experienced HTC attorneys, tax advisors, and related consultants is essential to evaluate potential structures before major project decisions are made.

Legislative Note

This scenario reflects current federal HTC law as of 2026. Legislative changes have periodically been proposed that would make it easier for nonprofits to monetize the credits. If and when such changes are enacted, such changes could significantly alter how projects like this one are structured.

Learn More

To learn more about the topics discussed in this scenario, please see the following resources in this toolkit:

- Module 2: *Understanding Direct Use vs. Syndication of HTCs*
- Small Project Scenario #3 - *Nonprofit Housing and Layered Financing in a Main Street Community*

Qualified Rehabilitation Expenditure Eligibility Guide

for Historic Tax Credit Rehabilitation Projects

What are Qualified Rehabilitation Expenditures?

Qualified Rehabilitation Expenditures (QREs) are the project costs that are eligible for the federal 20% Historic Tax Credit (HTC). Because not all rehabilitation costs qualify, understanding QREs is an important step in evaluating whether HTCs are a viable incentive for your project.

How to Use This Guide

This guide is intended to be used in conjunction with the Historic Tax Credit QRE Estimator workbook, which can help property owners develop a preliminary estimate of QREs.

Before using the QRE estimator, it is strongly recommended that readers review this QRE guide in its entirety. While the estimator can help organize project costs, determining whether a particular cost is QRE-eligible often depends on project-specific circumstances and understanding of the distinction between building rehabilitation, site improvements, new construction, personal property, and other non-eligible activities.

Property owners should also be aware that qualifying costs alone are not enough to claim the credit. To qualify, a project must also meet the Substantial Rehabilitation Test, which generally requires that qualified rehabilitation expenditures exceed the building's adjusted basis (or $5,000, whichever is greater). This toolkit includes a separate *Substantial Rehabilitation Test Calculator* to help property owners understand and evaluate this requirement.

For most projects, the following sequence can help property owners efficiently evaluate Historic Tax Credit feasibility:

1. Review the modules within the Toolkit to determine whether HTCs are likely to be a viable incentive for your project.
2. Read this *QRE Eligibility Guide* to understand the general principles governing Qualified Rehabilitation Expenditures.
3. Use the *QRE Estimator Workbook* to develop a preliminary estimate of QRE-eligible and non-eligible costs.
4. Use the *Substantial Rehabilitation Calculator* to determine whether the project is likely to meet the investment threshold required for the credit.
5. Discuss the results of the *QRE Estimator Workbook* and the *Substantial Rehabilitation Test Calculator* with your tax advisor before making significant financial or project-planning decisions.

How to Think About QRE-Eligible Costs

A simple way to think about Qualified Rehabilitation Expenditures is to focus on the historic building[1] itself. Costs are generally eligible if they are incurred to repair, improve, or replace components of the existing building—from the foundation up to the roof—and become a permanent part of it. This includes both the physical construction work and the professional and financing costs directly tied to that work. In tax terms, these types of eligible costs are referred to as “capitalized” costs or “capital improvements.” This simply means the cost becomes part of the building itself and adds long-term value, rather than being treated as a short-term expense.

Costs are generally not eligible if they relate to the site outside the building, new additions or expansions, movable items like furniture or equipment, or ongoing maintenance rather than long-term improvements.

It is very common for rehabilitation projects to include both QRE-eligible and non-eligible costs. For example, a project may include rehabilitation of the historic building together with construction of a new addition, site improvements, or other work that is not eligible for the HTC. As a result, total QREs are often less than total project costs.

Regardless of whether a cost is QRE-eligible, all rehabilitation work must be reviewed and approved by the National Park Service (NPS) through the Historic Preservation Certification Application (HPCA) process to confirm that it meets the Secretary of the Interior's Standards for Rehabilitation. The project is reviewed as a whole—it is not possible to receive approval for only selected portions of the rehabilitation.

This guide addresses only whether project costs are generally treated as QREs for federal tax purposes. QRE eligibility and HPCA review are separate determinations. A scope of work may be approved by NPS but not qualify as a QRE for federal tax purposes. Conversely, costs that are QRE-eligible must be part of a rehabilitation approved by the National Park Service in order to count toward the Historic Tax Credit.

Important Note

This guide is intended as a practical planning resource to help property owners develop preliminary estimates of QREs. It summarizes general principles and common cost categories but is not a substitute for professional tax or accounting advice. Whether a particular cost qualifies as a QRE depends on the specific facts and circumstances of the project, applicable tax law, capitalization and allocation rules, and how the costs are treated for federal tax purposes. Property owners should consult a qualified CPA or tax advisor regarding project-specific questions before relying on these classifications for financial planning or tax reporting purposes. This is not an official publication of, or reviewed or endorsed by, the Internal Revenue Service or the National Park Service.

[1] Not all historic resources that resemble buildings are treated as buildings for Historic Tax Credit purposes. While National Register nominations classify resources as buildings, structures, sites, objects, or districts, HTC eligibility depends on whether the resource meets the tax definition of a building. This generally means that it is a structure that encloses space within which people live, work, or carry on activities. Structures that are designed exclusively for storage, industrial processes, or other purposes that do not enclose any space for people—such as grain silos, grain storage bins, water towers, bridges, etc.—are typically treated as non-building structures, regardless of whether they are historically significant and/or are proposed for new uses. Therefore, rehabilitation work on these non-building structures is typically not QRE-eligible, even if the structure is made habitable (e.g. grain storage bin rehabbed as an office). Property owners with an existing National Register nomination may find it helpful to review the resource classification identified in the nomination, although that classification alone does not determine HTC eligibility.

Eligible Rehabilitation Costs

The construction costs listed below are generally eligible as QREs only to the extent they are associated with the rehabilitation of the historic building itself. Unless otherwise noted, the examples below are intended to refer to components of the historic building rather than site improvements, detached structures, or enlargement-related work. Individual circumstances may affect eligibility and the examples below should be viewed as general guidance rather than definitive determinations.

A. Building Envelope & Structural Components

- Structural reinforcement or repair of floors, beams, columns, and foundations, including seismic upgrade measures integrated into the building's structural systems
- Waterproofing and damp-proofing of foundation or below-grade walls[2]
- Building-integrated drainage[3]
- Retaining walls that are structurally integrated with the building
- Extensive repair, rebuilding, or replacement of damaged, deteriorated, or previously removed historic building fabric[4]
- Masonry repair, repointing, façade restoration
- Terra cotta, stone, brick, or cast-stone repair or replacement
- Other types of exterior wall repair (wood siding, concrete, etc.)
- Ornamental metal repair
- Historic window repair or replacement (when approved by NPS)
- Exterior doors and frames
- Storefront systems
- Exterior stairs serving building entrances (not freestanding stair towers or site circulation stairs)
- ADA ramps permanently attached to the building

[2] Excavation immediately adjacent to the building that is necessary to complete otherwise QRE-eligible rehabilitation work—such as foundation repair or below-grade waterproofing—may be included as part of those costs, depending on the circumstances. Excavation associated with site development, grading, landscaping, site utilities, or other non-building improvements is generally not QRE-eligible.

[3] Building-related infrastructure generally may qualify when it is immediately adjacent to the building and necessary for the operation or rehabilitation of building systems. This includes features such as gutters, downspouts, foundation drains, and utility connections serving the building. However, site-wide infrastructure and distribution systems are typically treated as non-eligible site improvements. For drainage and stormwater systems, elements integrated with the building and necessary to manage water at the roof and foundation are generally considered part of the building, while dry wells, detention systems, and site-wide drainage piping are typically non-eligible. Similarly, utility connections serving the building may qualify when limited to the immediate building area, whereas site-wide utility distribution generally does not.

[4] Extensive repair, rebuilding, or replacement work is typically eligible as a QRE when it is part of the rehabilitation of the historic building. This can include substantial replacement of materials due to damage, deterioration, or the reinstatement of previously removed historic features when supported by adequate historic documentation and approved through the NPS review process. As long as the work is part of the rehabilitation of the historic building rather than new construction or enlargement, these costs may be eligible. Work treated as new construction—such as rebuilding a demolished building or creating a new building volume—would generally not qualify as a QRE.

- Canopies or awnings permanently anchored to the building
- Historic signage[5]
- Exterior façade lighting mounted on the building
- Asbestos, lead-based paint, or hazardous material abatement
- Exterior painting performed as part of a capital rehabilitation activity
- Repair/rehabilitation of masonry chimneys/smokestacks integrated into the building
- Roof replacement, flashing, gutters, downspouts

B. Interior Building Elements

- Stairways (within the building envelope)
- Elevator systems (within the original building envelope)
- Wall repairs, and new demising walls and partitions, including gypsum board/drywall and plaster wall systems
- Interior doors and frames
- Interior painting performed as part of a capital rehabilitation activity
- Tile and other permanent wall finish systems
- Trim, baseboards, paneling, wainscoting, and other millwork
- Ceiling systems that are considered permanent parts of the building interior
- Flooring repairs and new flooring that is permanently installed (tile, wood, stone, terrazzo, wall-to-wall carpet, etc.)
- Built-in cabinetry, casework, and shelving[6]
- Built-in fireplaces and venting

C. Mechanical, Electrical & Plumbing (MEP) Systems

- HVAC systems (rooftop units, chillers, boilers, air handlers, split systems)
- Ductwork and distribution systems
- Electrical service upgrades and panels, conduit, and wiring[7]
- Permanent lighting fixtures / systems
- Plumbing supply, waste, and vent systems within the building[8]
- Plumbing fixtures and permanent restroom accessories
- Gas piping for appliances or fireplaces

[5] Rehabilitation of historic signs that are attached to and associated with the historic building may be QRE-eligible. New signage, tenant signage, and freestanding signs are generally not eligible.

[6] Built-in cabinetry, casework, and shelving can include reception desks permanently attached to walls and/or floors; built-in bar counters and back bars; restaurant service stations; built-in storage systems; and other permanently installed cabinets, casework, shelving, and countertops.

[7] Electrical systems and related components that are part of the building are generally QRE-eligible. Utility company fees, off-site utility infrastructure, and site-wide electrical distribution systems are generally not QRE-eligible. See Footnote #2 regarding utility trenching.

[8] Plumbing systems and related components that are part of the building are generally QRE-eligible. Site utility infrastructure outside the building—including water and sewer mains, laterals, and other site distribution—is generally not QRE-eligible. See Footnote #2 regarding excavation associated with building rehabilitation.

- Fire alarm systems
- Fire suppression and sprinkler systems
- Commercial kitchen exhaust systems
- Make-up air systems

D. Life Safety, Accessibility Improvements, and Other Code Upgrades

Compliance with current building codes does not, by itself, determine either Historic Tax Credit approval or QRE eligibility. Code-required work must still satisfy the Secretary of the Interior's Standards for Rehabilitation and costs are generally eligible only to the extent they are associated with rehabilitation of the historic building itself. Work that constitutes an addition, enlargement, site improvement, or other non-eligible activity may not qualify as a QRE even when required by code and approved by the National Park Service.

- Fire-rated walls and assemblies
- Fire-rated doors and hardware
- Egress stair construction within the original building envelope
- Guardrails and handrails attached to the building
- Platform lifts integrated into the building
- ADA-compliant restrooms
- Other accessibility improvements integrated into the building
- Emergency lighting systems
- Exit signage required by building code

E. Detached Historic Buildings

Some historic properties contain multiple buildings, such as farms, mill complexes, and institutional campuses. In these situations, more than one historic building may potentially generate QREs. To be eligible for the HTC, each building must be a certified historic structure, as determined through the Historic Preservation Certification Application Part 1 process. In addition, each building must meet the tax definition of a building (as defined in Footnote #1) and be depreciable for tax purposes, meaning it is used in a trade or business or held for the production of income. Once a building has been certified as a historic structure, individual project costs must still be evaluated to determine whether they constitute QRE-eligible or non-eligible expenditures, as outlined in this guide.

F. Soft Costs and Financing Costs That May Be Eligible

The eligibility of soft costs and financing costs depends on whether they are properly capitalized and directly allocable to the rehabilitation of the building. Because these determinations are governed by tax and accounting rules and can vary by project, property owners should consult with a qualified CPA regarding the treatment of specific costs.

- Architectural services
- Structural and mechanical, electrical, and plumbing engineering
- Building envelope consulting
- Lighting design (for QRE-eligible lighting)
- Acoustical consulting (for QRE-eligible acoustical improvements)

- Interior design related to capitalized building finishes
- Developer fees[9]
- Owner's representative / construction manager
- Historic preservation consulting
- NPS application/review fees for the Historic Preservation Certification Application
- Environmental consulting related to hazardous materials
- Construction-related legal services
- Construction-related accounting
- Special inspections / third-party testing
- Permit and local review fees directly related to the rehabilitation of the historic building[10]
- Builder's risk insurance
- Construction-period loan interest[11]
- Construction loan fees and other capitalized financing costs incurred during the rehabilitation period[12]
- Construction period taxes[13]
- Utilities consumed during construction

[9] Developer fees may be QRE-eligible when they are reasonable, properly capitalized, and attributable to the rehabilitation. "Reasonable" generally means that the fee reflects fair market value for development services and is consistent with typical industry ranges for similar projects. Developer fees may be paid in cash or deferred, including through a promissory note. However, any deferred portion must represent a bona fide obligation that is expected to be repaid, with appropriate documentation and terms. Fees that are excessive or structured without a realistic expectation of repayment may not be fully eligible.

[10] Fees associated with site development, subdivisions, zoning changes, new buildings, or other non-QRE activities are generally not eligible. Property owners should consult with a tax professional regarding allocation of specific governmental fees.

[11] Construction-period interest may be eligible only to the extent it is capitalized into the depreciable basis of the rehabilitated building. Interest attributable to acquisition costs or to period after the building is placed in service generally is not QRE-eligible.

[12] Certain financing-related costs associated with construction financing may be QRE-eligible if they are properly capitalized to the rehabilitation rather than treated as separate financing expenses. Costs associated with permanent financing, refinancing, property acquisition, syndication, or investor transactions are generally not eligible.

[13] Construction-period property taxes may be QRE-eligible when properly capitalized to the rehabilitation. Property taxes treated as current expenses rather than capitalized are not QREs. These costs should be evaluated with a tax professional.

Ineligible Project Costs

In general, costs are not QRE-eligible when they are associated with land, site improvements, new construction, personal property, building operations, or other expenditures that are not directly attributable to the rehabilitation of the historic building itself. Many of the ineligible costs listed below may be necessary, code-required, and approved by NPS through the Historic Preservation Certification Application review process, but that does not make them QREs.

A. Acquisition

Costs associated with acquiring the property are generally not eligible as QREs, including acquisition financing costs, acquisition loan interest, brokerage fees, and closing costs.

B. Site Work & Landscaping

- Site grading
- Temporary erosion-control and flood-protection measures
- Stormwater management systems that are related to the site (bioswales, rain gardens, drywells, etc.)[14]
- Water and sewer infrastructure[15]
- Septic systems
- Parking lots and paving
- Landscaping and planting
- Irrigation systems
- Site and landscape lighting
- Patios and hardscape
- Sidewalks and walkways[16]
- Retaining walls separate from the building
- Site walls, fencing, and gates
- Pools, ponds, and fountains

C. Enlargements / Additions

In general, work that increases the total volume of the building is treated as an enlargement, and expenditures attributable to that enlargement are not QRE-eligible. This includes rooftop additions, horizontal additions, and below-grade expansions (such as new or enlarged basements). It also includes new porches, decks, and porticos, as well as constructing additions that were designed in the historic period but never built. The fact that the construction of an addition is approved through the Historic Preservation Certification Application process does not make the addition QRE-eligible.

[14] See footnote #3 for clarification on the difference between how building drainage is treated vs. stormwater management systems.

[15] See footnote #3.

[16] ADA ramps and small entry landings directly attached to the building may be eligible, but sidewalks and accessible routes across the site—such as paths from parking areas or public sidewalks to the entrance—are generally treated as non-eligible site improvements.

When enlargement work is combined with rehabilitation of the existing building, costs must be reasonably allocated between QRE-eligible and non-eligible work. It is strongly recommended that this allocation be considered early in the project. Owners should work with their contractor to identify and track enlargement-related costs separately—either through upfront estimating or clear cost breakdowns during construction—rather than relying solely on reconstruction of costs after project completion.

D. Building Moving Costs and Demolition of Existing Detached Structures

Except in cases where a site is threatened or destroyed, building moving costs are generally not eligible as QREs. [17] Costs associated with demolishing detached structures on the project site are generally not QRE-eligible.

E. Construction of New Detached Structures and Replacement Buildings

Any kind of detached new building or structure is not eligible as a QRE, including:

- Detached storage buildings
- Detached mechanical buildings[18]
- Trash enclosures
- Freestanding canopies not structurally attached to the building
- Pool or spa/hot tub structures
- Gazebos
- Monument signs
- Construction of a replacement building after demolition of the historic building, even if it is a historic replica.

F. Rehab Work on Non-Building Detached Historic Structures and Features

The HTC applies only to buildings that meet the IRS tax definition of a building, are "certified historic structures," and are depreciable for tax purposes. [19] While some properties—such as mill complexes, agricultural properties, and institutional campuses—include multiple contributing resources, not all of these are necessarily eligible for QREs. Structures and features such water towers, silos, gazebos, fountains, bridges, and landscape elements are generally not considered buildings and would, therefore, not be eligible as QREs. Note that "contributing" status alone does not make a feature QRE-eligible; the feature must also meet the tax definition of a building and be depreciable.

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[17] The IRS has published guidance (https://www.irs.gov/pub/irs-sbse/qualified-rehabilitation-expenditures.pdf) stating that where a current site is threatened or destroyed, costs of moving the historic building can be a QRE. Property owners contemplating a building move should consult with a qualified tax professional regarding the applicability of this exception.

[18] If a new detached mechanical building is constructed to house HVAC equipment serving the historic building, the building itself is not QRE-eligible. However, the HVAC equipment inside and the systems connecting it to the historic building may be eligible, because they function as part of the historic building's mechanical system.

[19] See Footnote #1 for the tax definition of a building.

G. Furniture, Fixtures & Equipment (FF&E) and Personal Property

- Furniture
- Curtains, draperies, shutters, blinds, shades
- Rugs
- Decorative art and branding elements
- Televisions, monitors, and audio systems
- Appliances considered personal property and not permanently attached to the building
- Equipment such as restaurant equipment and refrigeration, medical equipment, etc.
- Backup generators that are not treated as permanent building systems
- Solar panel systems, battery storage systems, wind turbines, geothermal systems[20]
- Cellular equipment
- Fabric window/storefront awnings
- New signage, except where it qualifies as part of a capital rehabilitation of the building façade[21]

H. Technology & Low-Voltage Systems

Technology and low-voltage systems/equipment are generally not QRE-eligible, including the following:

- Data cabling[22]
- Wi-Fi systems
- Audio-visual equipment
- Security cameras
- Access control systems
- Guest keycard systems
- IT server equipment

I. Ineligible Soft Costs and Financing Costs

- Landscape architecture
- Civil engineering related to the building site as opposed to the building
- Septic design
- Site-related consulting, monitoring, and testing services (such as archaeological monitoring, geotechnical investigations, soils testing, compaction testing, etc.)[23]

[20] Renewable energy systems are generally treated as equipment rather than rehabilitation of the historic building.

[21] New exterior tenant signage, branding, and wayfinding elements are typically treated as non-eligible costs, even when attached to the building. An exception usually applies to signage required by building codes—such as exit or life-safety signage—which may be considered part of the building. Restoration of historic signage that is integral to the building façade may be treated as part of façade rehabilitation in certain cases, as discussed in Footnote #5.

[22] Permanently installed wiring or other components that are treated as part of the building may be eligible and should be evaluated separately.

[23] These services are most often associated with site work, utility infrastructure, drainage improvements, or building enlargements and are therefore generally not eligible. Costs may be eligible only when they are directly related to

- Interior design related to furniture, fixtures, and equipment.
- Business consulting (such as restaurant or hotel consulting)
- Marketing and branding
- Feasibility studies
- Real estate brokerage fees and leasing expenses
- Surveys
- Appraisals
- Property taxes (if treated as current expenses and not capitalized)[24]
- Entitlement and governmental review fees associated with site development, zoning changes, subdivisions, or other non-QRE activities
- Systems Development Charges
- Construction loan interest attributable to periods after the building is placed in service[25]
- Permanent financing costs and interest unrelated to the construction-period rehabilitation
- Tax credit syndication costs and investor sourcing fees
- Partnership structuring legal fees
- Tax preparation

QRE-eligible rehabilitation work, such as monitoring foundation repairs, adjacent utility trenching, or structural stabilization.

[24] See footnote #13.

[25] Interest incurred after the placed-in-service date is generally not treated as a capitalized rehabilitation cost and is therefore not eligible as a QRE, even if the construction loan has not yet converted to permanent financing.

Cover Photos of Historic Tax Credit Projects in Oregon

Top row: Waucoma Hotel (Hood River) and Malmgren Garage (Talent).

Second row: Postal Employees Credit Union (Portland), D'Arcy Building (Salem), View Point Inn (Corbett).

Third Row: Holly Theater (Medford) and United States Post Office (Bend).