

Investing in Michigan's Future

The Economic Benefit of Michigan's Historic Preservation State Tax Credit

Michigan is one of 20 states to offer its own tax credit for the rehabilitation of historic properties. Available only since 1999, **205 projects in 24 counties** already have applied for the credit, which offers 25 percent of qualified rehabilitation expenditures against state income or single business tax liability. The economic benefit of these projects is significant: rehabilitation expenditures of the 205 projects that have applied solely for Michigan's tax credit add up to over **\$8.0 million in direct spending**. These direct expenditures have triggered another \$9.1 million in indirect spending, for a total of over **\$17.1 million in total economic impact**. Given Michigan's large number of designated historic resources, the tax credit shows great potential for building wealth and creating new jobs throughout the state for many years to come.

The Role of Historic Preservation Tax Credits

Tax credits for the rehabilitation of historic properties are a vital economic development tool. Credits provide a significant financial benefit for the maintenance and rehabilitation of historic structures and assist owners in returning underutilized historic resources to active service within communities. Many types of historic properties, from hotels and warehouses to commercial buildings and private homes, have benefited from tax credit programs.

The most well-known preservation tax credit is the federal government's 20 per-

cent investment tax credit, which is, in the words of the National Park Service, one of the country's "most successful and cost-effective community revitalization programs."¹ Administered by the National Park Service in cooperation with the Internal Revenue Service and State Historic Preservation Officers, the program encourages private investment in historic rehabilitation by offering tax credits for qualifying historic preservation activities. The **20 percent credit** is available for rehabilitating historic buildings for **commercial, industrial, rental residential, or agricultural purposes**. Projects must conform to the Secretary of the Interior's Standards for Rehabilitation, which ensure that a consistent quality standard is applied to all projects utilizing the program.

In addition to the federal tax credit, many states also have established their own historic preservation tax credit programs; at least 20 such programs have been established since the early 1990's. These programs vary widely, from the percentage of the available credit to the types of targeted properties. Many of the state programs, such as North Carolina's, are intended to enhance those projects that already are eligible for the federal tax credit, specifically income-producing properties. Other state programs are targeted toward those projects that are not eligible for the federal credit, thereby broadening the range of eligible historic resources. Colorado's program, for instance, is open to owner-occupied residential properties, which are not eligible for the federal credit.



An Overview of The Michigan Historic Preservation State Tax Credit

The State of Michigan’s tax credit is available to **owner-occupied and income-producing properties** listed in the National Register, the State Register, or in a locally designated district. The state tax credit offers up to **25 percent of qualified rehabilitation expenditures** against state **income tax or single business tax liability**. For projects that are approved for the 20 percent federal tax credit, an additional five percent state tax credit is available.

Project eligibility is determined by the population of the community in which the resource is located and also by the type of historic designation the property has received. For communities with a population of **fewer than 5,000 residents**, the historic property must be listed on the State or National register, either individually or as a contributing resource in an historic district, or located within a local historic district. For communities **greater than 5,000 residents**, properties must be a contributing resource located within a local historic district. Regardless of the size of the community or listing status, the estimated rehabilitation cost must be at least **10 percent of the State Equalized Value (SEV)** of the property. As with the federal tax credit, the rehabilitation must comply with the Secretary of the Interior’s Standards for Rehabilitation.

The applications for both the Michigan and the federal tax credit programs follow a similar, three-part review structure. **Part I**

of the application process determines whether the resource qualifies as “historic,” as defined by the respective programs. **Part II**, filed before the work begins, provides a detailed scope of work and cost estimate. **Part III**, which formally certifies the project for the tax credit, documents actual rehabilitation costs and verifies compliance with the Standards once the project is completed.

In the **three years** the Michigan tax credit has been available, a total of 201 properties have applied for the credit, and **205 total applications have been filed** (some properties have taken advantage of the credit more than once). **Table 1** summarizes the number of state tax credit **projects filed and the number completed** since the program began accepting applications in 1999.

Table 2 summarizes the **total number and estimated rehabilitation costs** of the projects that have filed Part II of the state 25 percent tax credit application. The estimated rehabilitation costs included in Part II provide the most comprehensive estimate of the total rehabilitation costs of projects involved in the Michigan program, since only a small number of projects have completed Part III and filed final cost data. Currently, 189 projects have filed **Part II, resulting in a total estimated dollar amount of \$8,010,283**. Note the lower total of 189 projects, versus the 205 number reported in Table 1;



Eighth Street, Holland

Table 1: Application Status.

Projects filed, completed, and in process since 1999.

Calendar Year	Applications Filed	Projects Completed and Certified	Projects In Process
1999	19	2	17
2000	84	41	43
2001	102	48	54
TOTAL	205	91	114

Source: Michigan State Historic Preservation Office

Note: Projects in Process category is estimated, actual number is slightly lower due to closed or withdrawn applications.



this is because 16 projects have submitted only Part I and have not yet filed Part II.

While Part II provides estimated rehabilitation costs at the start of a project, Part III requires applicants to report their **actual rehabilitation costs** once a project has been completed. Table 3 lists the number and associated costs of projects that have filed Part III of the 25 percent tax credit application.

Some key facts stand out regarding Michigan’s 25 percent state tax credit program:

- State tax credit project expenditures range from a minimum of \$2,800 to a maximum of \$270,000. The **median cost** of a rehabilitation project taking advantage of the state tax credit program is **\$24,400**.
- The average estimated project cost is \$42,159, considerably greater than the median cost. This relationship between the median and the average reflects the fact that **most of the projects tend to be under \$50,000**, yet those in the higher cost range tended to be a great deal more expensive than the majority of projects.

Overall, direct expenditures of rehabilitation projects utilizing Michigan’s tax credit total \$8.0 million since 1999. Since then, that **\$8.0 million in direct rehabilitation expenditures** has generated an additional **\$9.1 million in indirect rehabilitation expenditures** within the state of Michigan, for a total of \$17.1 million in overall economic impact.²

This analysis focuses primarily on those projects that have utilized the 25 percent state tax credit. However, another set of projects that have utilized the 20 percent federal tax credit also are eligible for an additional five percent state tax credit. These approximately 67 additional “combination” federal/state tax credit projects involve direct rehabilitation expenditures of over \$101.4 million, raising the total economic impact of the state tax credit program significantly.

Calendar Year	Applications Filed	Estimated Rehabilitation Expenditures
1999	18	\$825,391
2000	79	\$3,827,021
2001	92	\$3,357,871
TOTAL	189	\$8,010,283

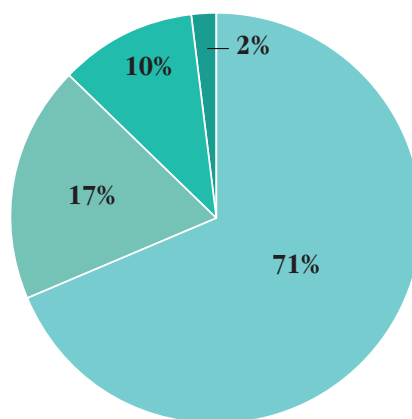
Source: Michigan State Historic Preservation Office

Table 2: Part II Applications.
Estimated expenditures of filed projects.

Calendar Year	Applications Certified	Final Rehabilitation Expenditures
1999	2	\$23,022
2000	48	\$1,929,677
2001	41	\$1,778,423
TOTAL	91	\$3,731,122

Source: Michigan State Historic Preservation Office

Table 3: Part III Applications.
Final expenditures of completed projects.



Estimated Expenditures of State Tax Credit Projects

- > \$200,000
- \$100,000–\$199,999
- \$50,000–\$99,999
- < \$50,000





The Long-term Potential of Michigan's Historic Preservation State Tax Credit Program

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In a relatively brief period, Michigan's state tax credit already has had a measurable statewide economic impact. A comparison of the successes of similar credits in other states offers a glimpse of the economic returns that Michigan might expect in the future.

A small handful of states have had historic preservation tax credit programs in place for several years. Wisconsin, for example, established its preservation tax credit program in 1992. From 1992 to 2000, 633 projects filed for **Wisconsin's** tax credit program, for a combined total of **\$16.0 million** in direct rehabilitation expenditures.³ Other states have established their programs more recently, yet have made tremendous progress in a relatively short time period. From 1996 to 2000, 543 projects have utilized **Virginia's** state tax credit program, for a total of **\$246.9 million** in direct rehabilitation expenditures.⁴ Michigan's tax credit has had more applications (205) in its first three years than the first three years of either Wisconsin's (57) or Virginia's (116) tax credit programs.

The State of **Colorado** recently **completed a detailed analysis** of the economic impacts of its tax credit. From **1991 to 2000**, 385 projects applied for Colorado's state tax credit program, for a total of \$32.4 million in direct expendi-

tures. However, by adding in the indirect impacts of those projects, the total economic impact is much greater, totaling about \$73.9 million since 1991 (**\$32.4 million in direct expenditures** plus **\$41.5 million in indirect expenditures**). In turn, a total of **1,022 jobs have been created** statewide due to state tax credit activities, with an associated \$25 million in household earnings for those workers.⁵

The Michigan program's excellent short-term track record to date, coupled with the state's high number of designated historic resources, suggests that the Michigan historic preservation state tax credit has the potential to contribute significantly to the vitality of Michigan's economy.

Historic rehabilitation is an important economic development tool that adds value to the lives of all Michigan residents by promoting an increased appreciation of the past and contributing to the economic health of the entire state. Public preservation initiatives, such as Michigan's state tax credit, can be used to leverage significant amounts of private capital, create local jobs, and stimulate economic activity from rural downtowns to large cities. Building by building, reinvestment in historic resources is helping to revitalize the past—and secure the future—of Michigan's communities.

¹ U.S. Department of the Interior, "Preservation Tax Incentives for Historic Buildings." National Park Service, Heritage Preservation Services, 1996.

² RIMS II (Regional Input-Output Modeling System) multipliers, developed by the U.S. Bureau of Economic Analysis, were used to generate

this data. RIMS II multipliers estimate the economic impact of one industry on the entire economy of a particular region. The "industry" used here, "Other Maintenance and Construction," contains data specific to the state of Michigan and provides a general estimate of the eco-

nomical impact associated with rehabilitation expenditures.

³ Wisconsin Historical Society, 2000.

⁴ Virginia Department of Historic Resources, 2001.

⁵ Colorado Historical Society, 2002.