HISTORIC PROPERTY PRESERVATION CREDIT

EVALUATION SUMMARY

JANUARY 2019
2019-TE7

THIS EVALUATION WILL BE INCLUDED IN COMPILATION REPORT SEPTEMBER 2019

Year enacted	1991
Repeal/Expiration date	January 1, 2020
Average Revenue impact (Tax Years 2013-2016)	$727,029
Average Number of Taxpayers	143
Average taxpayer benefit	$5,084
Is it meeting its purpose?	Yes, but to a limited extent

WHAT DOES THIS TAX EXPENDITURE DO?

The Historic Property Preservation Credit (Historic Property Credit) provides an income tax credit for taxpayers who make rehabilitation expenditures on a historic property. The tax credit is worth 20 percent of qualified rehabilitation expenditures, up to a maximum credit amount of $50,000. The Credit is nonrefundable, but may be carried forward for up to 10 years and new credits may only be claimed in years that the State is projected to realize at least 6 percent General Fund revenue growth, though credits carried forward can be claimed during these years.

WHAT IS THE PURPOSE OF THIS TAX EXPENDITURE?

Statute does not directly state a purpose for the tax expenditure. Therefore, we inferred that the purpose is to encourage taxpayers to undertake rehabilitation projects on historic properties by reducing taxpayers' costs for the projects.

HOW TO CLAIM THE CREDIT

WHAT DID THE EVALUATION FIND?

We determined that the Historic Property Credit is meeting its purpose of encouraging historic rehabilitation and reducing incurred costs by the taxpayer, but only for a limited group of taxpayers, since most are using the newer Historic Structures Credit (2014 Historic Structures Credit) that is more beneficial to most taxpayers.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

The General Assembly may want to consider harmonizing the Historic Property Credit's eligibility requirements with those under the 2014 Historic Structures Credit provided under Section 39-22-514.5, C.R.S.

HISTORIC PROPERTY PRESERVATION CREDIT

EVALUATION RESULTS

WHAT IS THE TAX EXPENDITURE?

The Historic Property Preservation Credit (Historic Property Credit) [Section 39-22-514, C.R.S.] provides an income tax credit for taxpayers who make expenditures to preserve a historic property that they own or lease. The credit amount is calculated as 20 percent of qualified rehabilitation expenditures, up to a maximum credit of $50,000 per qualified property. The credit is available for both residential and commercial properties that are at least 50 years old and meet at least one of the following criteria under Section 39-22-514(12)(f)(II), C.R.S.:

- Are designated individually or as a contributing property in the State Register of Historic Places.
- Are designated as a landmark by a certified local government.
- Are designated as a contributing property in a designated historic district of a certified local government.

To qualify for the credit, the taxpayer must:

- Own the qualifying property or be a tenant with a lease of at least 5 years.
- Have qualified rehabilitation expenditures that exceed $5,000.
- Complete the rehabilitation project within 24 months.

According to Section 39-22-514(12)(g), C.R.S., rehabilitation expenditures must comply with the guidelines set forth in the U.S. Secretary of the Interior's Standards for Rehabilitation. Generally, qualified rehabilitation expenditures include "hard costs" that are associated with the physical preservation of historic structures, such as site preparation, building materials, and labor. "Soft costs" are typically not allowed and include expenses such as appraisals, engineering fees, legal, accounting, as well as general maintenance of the property and additions or repairs to additions made after the property was designated as a historic property.

To take the credit, taxpayers must submit an application to History Colorado or a certified local government. The application includes project plans, specifications, and total estimated qualified rehabilitation expenditures. If the project qualifies for the credit, History Colorado or the certified local government issues a preliminary approval, confirms all requirements are satisfied once the work is completed, and then issues a certificate providing the credit amount. For taxpayers to apply credited amounts to their state income tax liabilities, they must complete a Department of Revenue form (Form 104CR for individuals, Form 112CR for corporations) and include the approved credit amount on the designated line for the Historic Property Credit. Each taxpayer must apply the credit to the earliest applicable tax year and any unused credit amount can be carried forward for 10 years. If the taxpayer sells the property within 5 years of the rehabilitation, the credit may be recaptured and the taxpayer is required to pay some or all of the credit back to the State.

Under Section 39-22-514(11.7), C.R.S., taxpayers can only claim new credits in years during which the previous year's December state revenue estimate issued by Legislative Council projects General Fund growth above 6 percent. However, the Department of Revenue has allowed taxpayers who claimed credits during the previous year, but who could not take the full credit amount due to insufficient tax liability, to claim credits carried forward regardless of whether the 6 percent growth projection occurred. The availability of the tax credit is posted on the Department of Revenue's website each year. Due to this requirement, the credit was not available for Tax Years 2011, 2012, 2016, or 2017, but based on the most recent fiscal forecast by Legislative Council, it will be available for Tax Year 2018.

WHO ARE THE INTENDED BENEFICIARIES OF THE TAX EXPENDITURE?

Statute does not directly state the intended beneficiaries of the Historic Property Credit. We inferred, based on statutory language and our review of the legislative history, that the credit was intended to benefit taxpayers who own or lease historic properties and wish to renovate those properties. In addition, because historic preservation projects help maintain or improve properties that may be of interest to tourists and increase the aesthetic quality or commercial viability of the properties, the credit may also benefit the community the property is located in by increasing property values and encouraging business activity in the area. According to History Colorado, in Fiscal Year 2018, there were nearly 17,000 structures in the state that were listed on the State Register of Historic Properties or that had received local designation as a historic property or as a historic property that contributes to a historic district.

WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

Statute does not explicitly state a purpose for the expenditure. Based on the legislative history of the provision and its statutory language, we inferred that the purpose of the Historic Property Credit is to encourage taxpayers to undertake preservation projects on historic properties by reducing taxpayers' costs for the projects.

IS THE TAX EXPENDITURE MEETING ITS PURPOSE AND WHAT PERFORMANCE MEASURES WERE USED TO MAKE THIS DETERMINATION?

We determined that the Historic Property Credit is meeting its purpose, but the impact of the credit has likely been small. While the credit may provide an additional incentive for some property owners or leaseholders to conduct rehabilitation work on their properties, the extent to which the credit has incentivized additional historic preservation work statewide has been relatively small.

Statute does not provide quantifiable performance measures for this expenditure. Therefore, we created and applied the following performance measure to determine the extent to which the credit is meeting its inferred purpose:

PERFORMANCE MEASURE: *To what extent has the Historic Property Credit encouraged historic property restoration by reducing taxpayer's incurred costs?*

RESULT: We found that for Tax Years 2013 through 2017 the Historic Property Credit was issued for 125 historic preservation projects that included a total of $16.2 million in qualified expenditures based on data provided by History Colorado. However, the number of credits issued has declined substantially in recent years. EXHIBIT 1.1 provides information on approved projects for Tax Years 2013 through 2017.

EXHIBIT 1.1.
HISTORIC PROPERTY CREDIT ISSUED
TAX YEARS 2013 THROUGH 2017

Tax Year	Credits Issued for Residential Properties	Credits Issued for Commercial Properties	Total Credits Issued for both Residential & Commercial Properties	Total Qualified Project Costs
2013	27	6	33	$3.2 million
2014	25	7	32	$4 million
2015	31	6	37	$6.6 million
2016	6	4	10	$0.8 million
2017	8	5	13	$1.6 million
TOTAL	**97**	**28**	**125**	**$16.2 million**

SOURCE: Office of the State Auditor analysis of History Colorado data.

According to History Colorado, the use of the credit has decreased substantially since Tax Year 2015 because of the passage of House Bill 14-1311 in 2014, which created a similar credit, available for projects that started after July 2015, that is often more attractive to property owners. Specifically, Section 39-22-514.5, C.R.S., created the 2014 Historic Structures Credit that provides the same credit amount for residential properties as is available under the Historic Property Credit. However, under the 2014 Historic Structures Credit, commercial properties receive a higher credit amount (25 percent of expenses versus 20 percent) that is capped at $1 million, as opposed to $50,000 for the Historic Property Credit. In addition, the 2014 Historic Structures Credit may be claimed by taxpayers regardless of whether the State reaches the 6 percent spending limit, which provides taxpayers with more certainty about when they will receive the benefit. History Colorado reported that taxpayers typically apply for the 2014 Historic Structures Credit, rather than the Historic Property Credit unless they are not eligible for it, since statute creates slightly different eligibility requirements for the two credits. Because this pattern is likely to continue, we focused most of our analysis of the Historic Property Credit on Tax Years 2016 and 2017, which are more likely to be representative of the relative use of the credit going forward.

In addition, because it is likely that some property owners would have gone forward with the rehabilitation projects that received the Historic Property Credit even if the credit was not available, the true impact is likely less than the average of $1.2 million in qualified expenditures for Tax Years 2016 and 2017. There are several factors that may decrease the relative incentive provided by the credit. First, because the credit only becomes available to taxpayers after they have completed the projects, taxpayers must already have the funds available to move forward with the projects before they receive the credit, making it more likely that they would move forward regardless of the credit. Second, the incentive provided is likely lower for projects that are scalable; that is, the taxpayer can decide how far to go with the renovation. For example, if the purpose of a project is to restore the exterior of a structure, a taxpayer could limit the work to repainting or could also choose to include additional work, such as restoring original woodwork, repairing windows, and tuck-pointing masonry. For these types of projects, a taxpayer may be more likely to view the credit as adding to the budget they are willing to spend on a project, rather than impacting the decision to go forward with a project itself. Conversely, for projects that are not as scalable, such as repairing a foundation, taxpayers may be more likely to see the credit as a deciding factor on whether to go forward with any preservation work at all. Third, the incentive provided by the Historic Property Credit is likely reduced due to only being allowed to be claimed during years where state revenue growth is projected to exceed 6 percent, which results in unpredictability for the taxpayer and likely reduces the attractiveness of the credit. Finally, for commercial or income producing properties, taxpayers are already incentivized by a similar federal tax credit, which taxpayers can take regardless of whether they take the Historic Property Credit, that is also worth 20 percent of qualified rehabilitation expenditures, which may alone provide an adequate incentive for some taxpayers to undertake a project.

We lacked data to determine the proportion of qualified rehabilitation expenditures on projects that are directly attributable to the credit; that is, expenditures that only occurred because the credit was available, as opposed to expenditures that taxpayers would have decided to incur regardless of the credit. Therefore, we calculated the amount of qualified rehabilitation expenditures that would be attributable to the credit assuming different levels of incentivization. EXHIBIT 1.2 shows the amount of qualified expenditures attributable to the Historic Property Credit, using the average annual expenditures associated with the credit for Tax Years 2016 and 2017 ($1.2 million), assuming a range of the proportion of expenditures incentivized by the credit.

EXHIBIT 1.2.
AVERAGE ANNUAL QUALIFIED EXPENDITURES ATTRIBUTABLE TO THE HISTORIC PROPERTY CREDIT BASED ON INCENTIVIZATION LEVEL
TAX YEARS 2016 -2017

PERCENT OF QUALIFIED REHABILITATION EXPENDITURES INCENTIVIZED BY CREDIT	AMOUNT OF QUALIFIED REHABILITATION EXPENDITURES ATTRIBUTABLE TO CREDIT[1]
0 Percent	$0
5 Percent	$60,000
10 Percent	$120,000
15 Percent	$180,000
20 Percent	$240,000
25 Percent	$300,000
30 Percent	$360,000

SOURCE: Office of the State Auditor analysis of History Colorado data.
[1]Based on $1.2 million in average annual qualified rehabilitation expenditures for Tax Years 2016 and 2017.

Although we were unable to determine the percentage of preservation expenditures that were incentivized by the credit, based on our review of History Colorado data, it appears that the credit amounts were high enough to provide a meaningful incentive for some taxpayers, especially for relatively smaller projects. Specifically, on average, taxpayers who qualified for the credit during Tax Years 2016 and 2017, were approved for an $18,000 credit after incurring about $105,000 in qualified rehabilitation expenditures. However, because the credit is capped at $50,000, the relative level of incentive it provides decreases after project costs exceed $250,000, which occurred for two of the 23 projects (9 percent) completed from Tax Year 2016 to 2017. Thus, the credit likely provides a more effective incentive for relatively smaller scale projects.

WHAT ARE THE ECONOMIC COSTS AND BENEFITS OF THE TAX EXPENDITURE?

THE HISTORIC PROPERTY CREDIT HAD AN AVERAGE ANNUAL STATE REVENUE IMPACT OF $727,000 DURING TAX YEARS 2013 THROUGH 2016. EXHIBIT 1.3 provides information on the total credits issued and claimed for Tax Years 2013 through 2017.

EXHIBIT 1.3.
HISTORIC PROPERTY CREDITS ISSUED AND CLAIMED
TAX YEARS 2013 THROUGH 2017

	2013	2014	2015	2016	2017	TOTAL
Taxpayers Issued Credits	33	32	37	10	13	125
Total Credit Amount Issued	$535,000	$581,000	$826,000	$149,000	$270,000	$2,361,000
Average Credit Amount Issued	$16,000	$18,000	$22,000	$15,000	$21,000	$19,000
Taxpayers Claiming Credits	183	175	137	76	N/A[1]	571
Total Credit Amount Claimed	$869,000	$863,000	$733,000	$444,000	$N/A[1]	$2,909,000
Average Credit Amount Claimed	$4,800	$4,900	$5,400	$5,800	$N/A[1]	$5,100

SOURCE: Office of the State Auditor analysis of Department of Revenue and History Colorado data.
[1]Department of Revenue has not published data for 2017.

Though we lacked data to determine how much taxpayers are likely to claim during Tax Year 2018, the overall revenue impact will likely decrease over time because as shown in EXHIBIT 1.3 the annual amount of credits issued declined significantly, from about $826,000 in Tax Year 2015 to $270,000 in 2017 (a 67 percent decrease) due to the passage of House Bill 14-1311. This will result in taxpayers having less Historic Property Credits available to apply to future tax years. However, they will likely take the credit available through House Bill 14-1311.

To assess the cost effectiveness of the Historic Property Credit, we calculated the cost to the State for every additional dollar of taxpayer spending that occurred on qualified preservation projects due to the credit (i.e., taxpayer spending on projects that would not have occurred but for the incentive provided by the credit). Because we did not have information to determine what percentage of taxpayer spending was actually attributable to the credit, as opposed to other factors, such as taxpayers' need or desire to improve their properties, real estate conditions, or business needs of commercial property owners, in EXHIBIT 1.4 we provide several scenarios that assume varying percentages of project spending being attributable to the credit.

For each scenario, we estimated the total credit amount claimed by taxpayers for every dollar of qualified rehabilitation expenditures incentivized by the credit (i.e., the cost to the State for every additional dollar of project spending incurred due to the incentive provided by the credit). To determine this amount for each scenario, we first estimated the cost of the credit to the State by reducing the $419,000 in total credits issued for Tax Years 2016 and 2017 by 10 percent to account for credits that were issued but will never be claimed, to arrive at $377,000 in estimated credits claimed for each scenario. We then calculated the estimated qualified rehabilitation expenditures attributable to the credit by multiplying the $2.4 million in total project costs during those years by the various levels of incentivization in the exhibit. We then calculated the cost to the State for every dollar of project spending incentivized by the credit by dividing the estimated credit amount claimed ($377,000 by the qualified rehabilitation expenditures at each level of incentivization.

EXHIBIT 1.4. HISTORIC PROPERTY CREDIT COST-EFFECTIVENESS ANALYSIS BY INCENTIVIZATION LEVEL TAX YEARS 2016 AND 2017			
Percent of Qualified Rehabilitation Expenditures Incentivized by Credit	Qualified Rehabilitation Expenditures Attributable to Credit	Estimated Credits Claimed	Cost to State per Dollar of Qualified Rehabilitation Expenditures Incentivized by the Credit
5 percent	$120,000	$377,000	$3.14
10 percent	$240,000	$377,000	$1.57
15 percent	$360,000	$377,000	$1.05
15.7 percent (Break Even)	$377,000	$377,000	$1.00
20 percent	$480,000	$377,000	$0.79
25 percent	$600,000	$377,000	$0.63
30 percent	$720,000	$377,000	$0.52
SOURCE: Office of the State Auditor analysis of History Colorado data.			

As shown, the Historic Property Credit can be seen as more or less cost effective depending on the percentage of project spending attributable to the credit, with the credit being more cost-effective, the more it incentivizes project spending. Based on the project spending and cost to the State of the credit, we estimate that about 16 percent of project spending would need to be incentivized by the credit for the State to be "breaking even." If a smaller proportion of spending is incentivized by the credit, then the State could potentially provide the same funds to property-owners who are determined to be otherwise unable to go forward with preservation projects in the form of grants and achieve a greater impact (though this analysis did not compare the potential administrative costs associated with this type of program as compared to the current credit and assumes the administrative costs would be the same under either option).

Additionally, to assess the broader impact of the credit on the State's economy, we conducted an economic impact analysis of the credit for each incentivization scenario using IMPLAN, an input-output economic modeling software. For each scenario shown in EXHIBIT 1.5, we calculated the potential number of jobs supported, and additional economic output created due to the credit and the additional project expenditures incentivized by the credit. We arrived at the figures shown by modeling the economic impact of the qualified rehabilitation expenditure amounts shown in EXHIBIT 1.4 using IMPLAN. We then added this to the economic impacts of these taxpayers subsequently receiving the credit and spending it, under the assumption that half of the credit amount would be spent on general consumer spending and the other half saved or used to pay debts. To provide points of comparison, we also modeled a scenario showing the economic activity if instead of providing the $377,000 in estimated credit costs to taxpayers who incurred project costs, the State refunded this amount directly to taxpayers. Under this scenario we assumed taxpayers would spend the credited amounts on general consumer spending according to the average spending-savings pattern of Colorado taxpayers depending on their income bracket. In addition, we modeled a scenario where instead of providing the credit, the State kept the revenue and spent it according to typical spending on state programs.

EXHIBIT 1.5.
IMPLAN ECONOMIC IMPACTS OF
HISTORY PROPERTY PRESERVATION CREDIT
TAX YEAR 2016 AND 2017

Impacts of Credit per Incentivization Rate			Impacts of Credit Amount through Tax Refund		Impacts of Credit amount through State Spending	
Percentage of Expenditures Incentivized by Credit	Jobs Supported	Economic Value-Added	Jobs Supported	Economic Value-Added	Jobs Supported	Economic Value-Added
5 Percent	3.0	$246,000				
10 Percent	4.5	$367,000				
15 Percent	6.0	$488,000				
15.7 Percent (Break Even)	6.2	$505,000	3.6	$291,000	6.0	$474,000
20 Percent	7.5	$610,000				
25 Percent	9.0	$731,000				
30 Percent	10.5	$852,000				

SOURCE: Office of the State Auditor analysis of History Colorado data and IMPLAN Economic Analysis.

As shown, even if the credit incentivizes a relatively small proportion of qualified rehabilitation spending, the credit provides a larger economic impact than if the State had refunded the money to taxpayers or kept and spent the funds associated with the credit. Specifically, at the break even point (i.e., 15.7 percent of expenditures incentivized by the credit), 0.2 to 2.6 more jobs are supported by the credit than under either of the other scenarios and $31,000 to $214,000 in additional economic value, a measure of how much more economic activity would occur, is added by the credit. It is important to note that the figures provided in the analysis for jobs supported do not necessarily represent new permanent jobs added to the state because the IMPLAN model combines both jobs created and jobs maintained under each scenario.

WHAT IMPACT WOULD ELIMINATING THE TAX EXPENDITURE HAVE ON BENEFICIARIES?

If the Historic Property Credit was eliminated, or allowed to expire on January 1, 2020, as currently provided in statute, some taxpayers would have less of an incentive to do historic rehabilitation work on their properties and may forgo or limit the scope of some projects. However, because the credit has been used less frequently in recent years and the 2014 Historic Structures Credit [Section 39-22-514.5, C.R.S.] provides taxpayers similar or greater benefits for most historic rehabilitation projects, the impact would be relatively small and mainly limited to taxpayers who meet the requirements of the Historic Property Credit, but not the requirements for the 2014 Historic Structures Credit.

ARE THERE SIMILAR TAX EXPENDITURES IN OTHER STATES?

Including Colorado, we identified 35 states that provide a historic property tax credit, though the credits vary substantially. Specifically:

- **TYPE OF PROJECTS COVERED**—30 states offer a credit for residential and commercial structures, while three states offer only a residential credit and one state offers only a credit for commercial properties.

- **CREDIT AMOUNT**—Tax credit amounts range from 5 percent to 50 percent of qualified rehabilitation expenditures, although a majority of states (31 states) have tax credit rates ranging from 20 percent to 35 percent of qualified rehabilitation expenditures.

- **TOTAL CREDITS CAP**—11 states have established caps on total state credits awarded, with the highest annual cap being $50 million and the lowest annual cap being $250,000. One state, Ohio, limits its credit to 100 projects each year, regardless of amount.

- **INDIVIDUAL CREDITS CAP**—17 states have established individual project caps, from $10,000 in Wisconsin for residential projects up to $5 million in seven states.

- **TRANSFERABILITY**—15 states allow credits to be transferred to another taxpayer, which allows credit holders to sell credits and receive the cash value of the credit before filing their taxes.

- **REFUNDABILITY**—6 states allow their tax credits to be refunded.

ARE THERE OTHER TAX EXPENDITURES OR PROGRAMS WITH A SIMILAR PURPOSE AVAILABLE IN THE STATE?

We identified the following other tax expenditures or programs related to historic properties that are available in the state.

2014 HISTORIC PROPERTY PRESERVATION CREDIT—In 2014, the General Assembly passed House Bill 14-1311 [Section 39-22-514.5, C.R.S.], creating an additional state income tax credit (2014 Historic Structures Credit) for costs incurred in the renovation and restoration of historic residential and commercial property with the intent of improving upon the Historic Property Credit. The credit was first available for Tax Year 2016 and is jointly administered by the Governor's Office of Economic Development and International Trade and History Colorado.

Although this credit is similar to the Historic Property Credit, it provides substantially larger credit amounts to taxpayers for projects on commercial properties (i.e., the new credit is capped at $1 million versus $50,000 for the Historic Property Credit) and is not contingent on state revenue growth projections exceeding 6 percent, providing greater certainty to taxpayers. For these reasons, it has overtaken the Historic Property Credit for most taxpayers who seek a credit for the rehabilitation of a historic structure. Specifically, during Tax Years 2016 and 2017, about $17.5 million in credits were issued or reserved on the basis of about $118.3 million in qualified project expenditures under the new credit, compared to about $419,000 in credits and $2.4 million in expenditures under the Historic Property Credit.

FEDERAL REHABILITATION TAX CREDITS—The federal Rehabilitation Tax Credit [26 USC 47] provides a credit against federal tax liabilities that is equal to 20 percent of qualified rehabilitation expenditures for certified historic structures that are business or income producing properties, with no cap on the credit amount. Owner-occupied residential properties do not qualify for the federal credit. Unlike the state credits, the federal credit allows "soft costs," such as architectural fees, engineering fees, and developer fees, as well as "hard costs" to be counted towards the credit. In Colorado, from Fiscal Year 2013 to 2017, there were 15 projects certified for the federal credit, resulting in almost $116.5 million in qualified rehabilitation expenditures.

ENTERPRISE ZONE VACANT COMMERCIAL BUILDING REHABILITATION CREDIT—The State provides a tax credit for owners or tenants of a building that is in an Enterprise Zone that is at least 20 years old and has been vacant for at least 2 years [Section 39-30-105.6, C.R.S.]. A taxpayer cannot take the Historic Property Credit or the 2014 Historic Structures Credit under Section 39-22-514.5, C.R.S., in combination with the Enterprise Zone Vacant Commercial Building Credit. According to Department of Revenue data, the State provided a total of about $1.4 million in credits under the Enterprise Zone provision from Tax Years 2013 to 2016, the most recent years for which data was available.

LOW-INCOME HOUSING TAX CREDIT—Historic preservation tax credits can be combined with other state and federal programs, such as the Low-Income Housing Tax Credit [Section 39-22-2102, C.R.S.], in order to further reduce capital costs while providing affordable housing options. In 2018, about $2.3 million of the almost $5 million awarded by the State through the Low-Income Tax Credit went to affordable housing projects in historic buildings.

STATE HISTORICAL FUND GRANTS—The State Historical Fund awards a portion of the State's gaming revenue to public and non-profit entities in Colorado engaged in a range of historic preservation activities by issuing competitive grants under Article XVIII, Section 9 of the Colorado Constitution and Sections 44-30-701, 702, and 1201, C.R.S. The Colorado Main Street Program has received about $2.2 million in grants from the State Historical Fund through Fiscal Year 2018 to supplement funding for historic preservation and economic development efforts. Colorado first participated in the program in 1982 through a pilot program, which is currently administered by the Department of Local Affairs. The program is affiliated with the National Main Street Center, a national organization promoting revitalization of central commercial districts across the country, through historic preservation. In 2014, a total of almost $20 million was distributed by the program to 14 participating communities and resulted in 98 building rehabilitations.

COLORADO HISTORICAL FOUNDATION—The Colorado Historical Foundation is a private, non-profit organization that supports history and preservation projects throughout the state through a Revolving Loan Fund, which partners with the State Historical Fund, to provide low interest rate loans as an additional source of funding for historic preservation. Loans are typically between $100,000 and $750,000, and the borrower must utilize loan proceeds for costs associated with construction to rehabilitate a designated historic property or as bridge loans to cover cash shortfalls for a qualified restoration or rehabilitation project.

WHAT DATA CONSTRAINTS IMPACTED OUR ABILITY TO EVALUATE THE TAX EXPENDITURE?

We did not identify any data constraints during our evaluation of the Historic Property Credit.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

THE GENERAL ASSEMBLY MAY WANT TO CONSIDER HARMONIZING THE HISTORIC PROPERTY CREDIT ELIGIBILITY REQUIREMENTS WITH THOSE PROVIDED UNDER THE 2014 HISTORIC STRUCTURES CREDIT PROVIDED UNDER SECTION 39-22-514.5, C.R.S. As discussed, the Historic Property Credit has largely been overtaken by the newer 2014 Historic Structures Credit, which provides the same or a larger benefit for most taxpayers. However, some taxpayers may continue to claim the Historic Property Credit because it provides broader eligibility requirements in some areas. For example, in order for commercial properties to qualify for the 2014 Historic Structures Credit, a taxpayer must generally be the owner of the property or have a leasehold interest of 39 years or more, while the Historic Property Credit allows taxpayers to qualify if they have a lease of at least 5 years. Also, for the 2014 Historic Structures Credit, qualified rehabilitation expenditures for commercial properties must exceed $20,000 versus $5,000 for the Historic Property Credit. In addition, residential properties that are income producing or that are not owner-occupied are eligible for the Historic Property Credit, but not the 2014 Historic Structures Credit.

Because of these differences, if the Historic Property Credit is allowed to expire on January 1, 2020, as currently scheduled, some taxpayers who currently only qualify for a Historic Property Credit will not have any credit available. The General Assembly may want to review the purpose of the 2014 Historic Structures Credit to determine whether statute should be amended to allow these taxpayers who currently only qualify for the Historic Property Credit to be eligible for the 2014 Historic Structures Credit. On the other hand, if the General Assembly extends the Historic Property Credit prior to its expiration, it may want to review the benefits this credit provides or its eligibility requirements to determine whether they should be aligned with the 2014 Historic Structures Credit. EXHIBIT 1.6 provides details on the differences between the credits.

EXHIBIT 1.6.
COMPARISON OF HISTORIC PRESERVATION STATE TAX CREDITS

Tax Credit Characteristic	Historic Property Credit [Section 39-22-514, C.R.S.] (Residential & Commercial)	2014 Historic Structures Credit [Section 39-22-514.5, C.R.S.] (Residential)	2014 Historic Structures Credit [Section 39-22-514.5, C.R.S.] (Commercial)
Eligible Properties	Property must be more than 50 years old and listed in State Register of Historic Properties or designated as a contributing property to an historic district by a Certified Local Government.		
Eligible Applicants	Property Owner or Tenant with lease of at least 5 years.	Property Owner or Tenant with lease of at least 5 years.	*Urban Community*: Property Owner or leasehold interest of at least 39 years. *Rural Community*: Property Owner or Leasehold interest of at least 5 years.
Eligible Projects	Qualified Rehabilitation Expenditures must exceed $5,000	Qualified Rehabilitation Expenditures must exceed $5,000	Qualified Rehabilitation Expenditures must exceed $20,000
Time Limits	Project must be completed within 24 months	No time limit	Project must be started within 12 months of credit award and project must be at least 20 percent complete within 18 months
Tax Credit Calculation	20% of Qualified Rehabilitation Expenditures	20% of Qualified Rehabilitation Expenditures	25% of Qualified Rehabilitation Expenditures up to $2 million; 20% of Qualified Rehabilitation Expenditures over $2 million
Disaster Relief	No additional benefits	Additional 5% credit for properties located in declared disaster areas within the past 6 years.	
Rural Provision	No additional benefits	Increases credit amount to 35% of Qualified Rehabilitation Expenditures for Rural Communities, which is defined as municipalities or unincorporated areas with a population of less than 50,000 not located within Denver metro area.	
Tax Credit Cap	$50,000 per property	$50,000 per property; resets every 10 years w/ new ownership	$1 million per year
Credit Carryforward	Credit may be carried forward for up to 10 years, but must be used in the first applicable tax year.		
Transferability	Non-transferable	Non-transferable	Owner is allowed to transfer all or a portion of credit to another taxpayer

SOURCE: Office of the State Auditor created based on Sections 39-22-514 and 514.5, C.R.S.