HISTORIC TAX CREDIT OVERVIEW

Federal and state HTC programs in CRE transactions

Better context. Better conviction.

Sample — Executive Summary & Section 1

Forthcoming Q4 2026 · Editorial board: Mark Kuklis

Historic Tax Credit Overview

A practitioner reference -- Valore Registry

The federal rehabilitation credit under IRC §47 is a 20% credit on qualified rehabilitation expenditures (QREs) incurred in the substantial rehabilitation of a certified historic structure. The credit was reshaped by §13402 of the Tax Cuts and Jobs Act (P.L. 115-97), enacted December 22, 2017. The TCJA repealed the 10% credit for pre-1936 non-historic buildings and required that the 20% credit for certified historic structures be claimed ratably over five years beginning in the placed-in-service year, rather than in full in the year placed in service as under prior law.

EXECUTIVE SUMMARY

This brief covers federal and state historic tax credit mechanics for practitioners structuring, syndicating, or underwriting HTC transactions. Three things to know going in: (1) The credit is claimed ratably over five years -- not in the placed-in-service year -- which changes both the bridge loan market and investor pricing. (2) The master-tenant syndication structure introduced by Rev. Proc. 2014-12 carries a §50(d) income inclusion that is a real after-tax cost; model it explicitly. (3) The federal credit alone rarely pencils in 2025 -- state HTC stacking is often the difference between closing and not. Intended for developers, investors, CRE attorneys, and analysts working transactions above $5M in total project cost.

1. Federal HTC mechanics

Final regulations published at T.D. 9915 (Sept. 15, 2020) confirmed that a single "rehabilitation credit determined" is computed in the placed-in-service year and 20% of that single amount is claimed in each of the five tax years constituting the credit period. This is not five separately determined credits; it is one credit allocated ratably. The basis adjustment under IRC §50(c) is taken in full in the placed-in-service year. The §50(d) lessee income inclusion in master-tenant structures is similarly anchored to the placed-in-service year and is included over the shortest cost-recovery period applicable to the property (typically 39 years for nonresidential real). A TCJA transition rule preserved the pre-2018 single-year claim for QREs incurred under projects in which the taxpayer owned or leased the building continuously after December 31, 2017 and the applicable 24- or 60-month measurement period began no later than 180 days after December 22, 2017. That transition rule is now largely expired and applies only to a vanishing tail of pre-TCJA projects.

20%	~$0.79	5 years	5 years
Federal credit on QREs	Average equity pricing per $1 of credit (2024, Novogradac)	Ratable claim period (post-TCJA)	Recapture exposure window (§50(a))

Eligibility and substantial rehabilitation

A "certified historic structure" under IRC §47(c)(3) is a building that is individually listed on the National Register of Historic Places or is certified by the Secretary of the Interior as contributing to the historic significance of a registered historic district. The building must have been placed in service as a building before the rehabilitation began, and depreciation (or amortization in lieu) must be allowable. The substantial rehabilitation test under IRC §47(c)(1)(C) requires QREs during a 24-month measuring period (60 months for phased projects under §47(c)(1)(C)(ii)) that exceed the greater of $5,000 or the adjusted basis of the building and its structural components. The 24- or 60-month window must end within the taxable year for which the credit is claimed.

Qualified vs. non-qualified expenditures

QREs are amounts properly chargeable to a capital account for property that is depreciable real property and that constitutes the building or its structural components. The statute and Treas. Reg. §1.48-12 exclude several categories that practitioners routinely misclassify:

- Acquisition costs are excluded.
- Site work -- sidewalks, paving, fencing, landscaping, parking lots -- is excluded because it is not part of the building or structural components.
- Enlargement costs are excluded under IRC §47(c)(2)(B)(i). The credit applies only to rehabilitation, not new construction or additions.
- Personal property, FF&E, appliances, cabinetry, and tacked carpeting are excluded.
- Soft costs (architectural and engineering fees, developer fees, construction interest and financing fees, construction management) are QREs to the extent allocable to qualified rehabilitation work and properly capitalized.
- Tax-exempt use property is disqualified under IRC §47(c)(2)(B)(v) where the building is leased to a tax-exempt entity, subject to the §168(h)(1)(B) "qualified rehabilitated lease" exception (lease term not exceeding the recovery period, no §168(h)(6) election in place).

> **ACQUISITION COSTS VS. QRES**
> Acquisition costs are not QREs -- ever. The total project cost in the source-and-use table includes acquisition; the QRE figure cannot. This misclassification appears in approximately 30% of first-time developer pro formas and inflates the projected credit by a material amount.

The certification process

The three-part process is governed by 36 CFR §67. Part 1 is the Evaluation of Significance, establishing that the building is a certified historic structure (not required if the building is already individually listed). Part 2 is the Description of Rehabilitation, submitted before or during construction, describing in detail every proposed treatment to historic features. Part 3 is the Request for Certification of Completed Work, submitted at completion to confirm conformity with the Secretary of the Interior's Standards for Rehabilitation, codified at 36 CFR §67.7. Review proceeds through the State Historic Preservation Office first, then the National Park Service. NPS retains final authority; the SHPO recommends.

NPS publishes a 30-day target review window for each part. In practice, complete Part 2 review frequently runs 60 to 120 days. Texas and Virginia SHPO guidance instructs applicants to budget at least 60 days combined for SHPO and NPS review; the observed range is materially wider. Experienced practitioners planning construction financing treat 180 days of review time as a conservative but defensible planning assumption for Part 2 in backlogged SHPOs. The August 2023 transition to mandatory electronic submission of all federal application materials did not eliminate timing variance.

The federal credit is claimed on IRS Form 3468 (Investment Credit) attached to the federal income tax return for each year of the five-year credit period. The NPS project number is listed on the return. Pass-through entities pass QRE information to partners or shareholders, who then claim the credit at the partner level over the five-year ratable period.

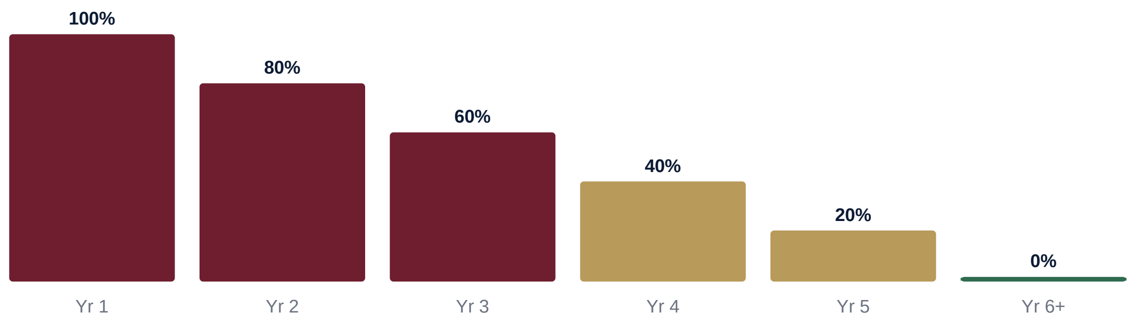
Recapture

IRC §50(a) imposes a five-year recapture period beginning on the placed-in-service date. The recapture percentages decline ratably:

Year after placed in service	Recapture %
Before 1st anniversary	100%
1st to 2nd	80%

Year after placed in service	Recapture %
2nd to 3rd	60%
3rd to 4th	40%
4th to 5th	20%
After 5th	0%

HTC RECAPTURE EXPOSURE BY YEAR HELD



Share of the credit subject to recapture on a disposition or qualifying event, by year after placed-in-service. Zero after year 5.

Figure 1. Federal HTC recapture step-down (IRC §50(a)). Example anchor: $10M QREs → $2M federal credit → full $2.0M at risk in Year 1; safe harbor reached after the 5th anniversary.

RECAPTURE DOLLAR EXPOSURE

Percentages in the table are applied to the full credit amount, not just the year's ratable portion. On a $10M QRE project: $2M federal credit → $2.0M at risk before the first anniversary. Triggering events include disposition, partnership interest reduction exceeding one-third, NPS decertification, casualty loss without timely restoration, and conversion to non-qualifying use. Recapture flows to the partner who claimed the credit -- which is the foundation of every credit indemnity negotiation in HTC syndications.

Recent program data

For NPS fiscal year 2024 (ending September 30, 2024), the NPS certified 853 completed Part 3 projects representing approximately $6.15 billion in estimated qualified rehabilitation expenditures. An additional 1,099 proposed projects (Parts 1 and 2) were approved. The five-year average annual estimated QREs from 2015 through 2024 was approximately $6.40 billion. The median Part 3 project QRE in FY2023 was $1.3 million; 44% of FY2024 Part 3-certified projects had QREs of less than $1 million and 11% under $250,000. New York led the five-year aggregate (FY2020--2024) with 491 Part 3 approvals and $5.07 billion in QREs, followed by Louisiana (409 projects), Virginia (404), and Missouri (351); on QRE volume, Illinois ($3.02 billion), Pennsylvania ($2.30 billion), and Massachusetts ($1.97 billion) trailed New York. The cumulative program total reached 50,116 certified projects representing over $127 billion in private investment in rehabilitation costs through FY2024.

NPS publishes rejection rates only sparsely; in industry practice, outright Part 2 or Part 3 denials are uncommon for experienced sponsors with consultants on file, while extensive amendment cycles are routine.

That’s the sample.

The full **Historic Tax Credit Overview** brief runs the complete reference end to end — every section, all tables, full citations.

Forthcoming Q4 2026

Founders’ price **$9** · $12 retail · 14-day refund

Join the waitlist at valoreregistry.com to be notified at release.