

¶590 Rehabilitation Credit

NEW LAW EXPLAINED

Rehabilitation credit limited to certified historic structures; claimed ratably over five years.— The rehabilitation credit is limited to 20 percent of qualified rehabilitation expenditures (QREs) of the taxpayer for qualified rehabilitated buildings and is claimed ratably over a five-year period beginning in the tax year in which the rehabilitated building is placed in service (Code Sec. 47(a), as amended by the Tax Cuts and Jobs Act). The definition of a "qualified rehabilitated building" remains a building and its structural components for which depreciation is allowable and that has been substantially rehabilitated and placed in service before the beginning of the rehabilitation (Code Sec. 47(c)(1), as amended by the 2017 Tax Cuts Act). However, the building must be a certified historic structure, but any expenditure attributable to rehabilitation of the structure is not a QRE unless it is a certified rehabilitation (Code Sec. 47(c)(2)(B)(iv), as amended by the 2017 Tax Cuts Act). For amounts paid .

COMPLIANCE TIP

The rehabilitation credit is part of the investment credit that a taxpayer claims on Form 3468, Investment Credit.

STATE TAX CONSEQUENCES

States with historic building rehabilitation credits that incorporate federal law for purposes of determining eligibility and/or credit amounts will be affected by the changes to Code Sec. 47. For example, Maine allows a credit for QREs incurred for a certified historic structure in the state that is equal to the taxpayer's federal rehabilitation credit (limited to \$100,000 annually per taxpayer). Therefore, any change in a taxpayer's federal rehabilitation credit resulting from the Code Sec. 47 amendments will also have a corresponding effect on the taxpayer's Maine credit. In addition, taxpayers in Wisconsin, which adopts the federal definitions of qualified rehabilitated buildings and qualified rehabilitation expenditures for its historic rehabilitation credit, may gain or lose eligibility for the state credit because of changes to Code Sec. 47.

Effective date. The amendments made by this provision generally apply to amounts paid or incurred after December 31, 2017 (Act Sec. 13402(c)(1) of the Tax Cuts and Jobs Act). Under a transition rule, in case of qualified rehabilitation expenditures (for either a certified historic structure or a pre-1936 building), with respect to any building owned or leased by the taxpayer at all times after December 31, 2017, the 24-month period selected by the taxpayer, or the 60-month period selected by the taxpayer under the rule for phased rehabilitation, begins no later than the end of the 180-day period beginning on the date of the enactment, and the amendments made by the provision apply to such expenditures paid or incurred after the end of the tax year in which such 24-month or 60-month period ends (Act Sec. 13402(c)(2) of the Tax Cuts Act).