Rhode Island’s historic tax credit program is reopening – under a new name, and with a new set of rules. It is the result of a proposal introduced by Governor Lincoln D. Chafee as part of his fiscal year 2014 budget. The resulting legislation (H 5127 Aaa) was amended and passed by the General Assembly and signed into law on July 3, 2013.

“To further help our cities and towns, in my State of the State and Budget Address, I proposed modifying the historic tax credit program by providing access to abandoned tax credits. I want to thank the General Assembly for reopening the program in this year’s budget,” Governor Chafee said. “Through this initiative, Rhode Island’s economic climate and financial health move forward and the tax burden on businesses begins to see some reduction.”

The new program – involving “historic preservation tax credits” – will soon be available, with certain limitations, to qualified applicants in order to encourage redevelopment and reuse of historic buildings.

The historic tax credit program has generally been closed since 2008. Certain projects were essentially grandfathered and continue. However, some other projects have been “abandoned” – leaving about $34.5 million in credits available but unclaimed as of May 15, 2013. It is those unused credits that will soon be available to qualified applicants.

Application process

The new program generally provides a credit of 20 percent (25 percent in certain circumstances) for qualified rehabilitation expenditures (QREs) incurred on or after July 3, 2013, for new or existing historical rehabilitation projects. The application process will work as follows:

- Applications should be submitted – by mail or private delivery service – directly to the Rhode Island Division of Taxation on or after August 1, 2013. The application – a new form created just for this purpose – is posted on the Division of Taxation’s website.

- The Division of Taxation will place applications in a queue, starting August 1, 2013. (No applications will be accepted before then.) If the aggregate amount of credits requested in the applications exceeds available funds, the Division of Taxation will hold a drawing to determine which applications may later qualify for the credits.
- Applicants must also complete Parts 1 and 2 of the Rhode Island Historical Preservation & Heritage Commission’s application, which are available on the Commission’s website: www.preservation.ri.gov/credits. (Part 1 is used to determine whether a building is a certified historic structure. Part 2 is used to review proposed rehabilitation work.)

The Historical Preservation & Heritage Commission will notify the applicant and the Division of Taxation when Part 1 and Part 2 of the application are approved. The Division of Taxation will then notify applicants regarding the signature of a tax credit contract and any related matters.

The Division of Taxation plans to issue an emergency regulation on July 24, 2013, to provide applicants and others with detailed guidance about the program. For information about the program in the meantime, see the Commission’s website: www.preservation.ri.gov/credits. Or contact Donna Dube, principal revenue agent, Rhode Island Division of Taxation, One Capitol Hill, Providence R.I. 02908. Phone: (401) 574-8903. E-mail: Donna.Dube@tax.ri.gov

**Other points**

- The maximum project credit is $5 million. No building to be completed in phases or in multiple projects may exceed the maximum project credit of $5 million for all phases or projects involved in the rehabilitation of the building.

- Submit as complete and accurate an application as possible. Review of Parts 1 and 2 by the Commission can take 28 to 56 days; approval of the Commission’s application must be obtained within 90 days of application in order to qualify for the credits.

- To qualify for the credit, a project must incur QREs greater than the adjusted basis in the building as determined on or after July 3, 2013. Also, the structure’s owner must sign a contract with the Division of Taxation that sets terms of the tax credit agreement. Applicants must pay to the Division of Taxation a nonrefundable fee equal to 3 percent of the estimated QREs. For certain projects, the law requires that contractors or subcontractors have an apprenticeship program in place.

- In general, credits may be claimed by any person, firm, partnership, trust, estate, limited liability company, corporation, or other business entity that incurs QREs and meets certain other provisions of the law.

- By August 15 of each year, the Division of Taxation must publicly identify the original recipient of each historic preservation tax credit – including the recipient’s name, address, and amount of such credit received in the previous state fiscal year.

- In general, credits are allowed for the taxable year in which the certified historic structure is placed in service, and may be applied against the state business corporation tax, franchise tax, public service corporation tax, tax on banks, tax on insurance companies, and personal income tax. Credits may be carried forward and used for up to 10 years following completion of the project. Credits may be sold or assigned to a third party.

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