

Stack 45% Back on Your Historic Building.

Combined federal & state tax credits for commercial rehabilitation

If you own an income-producing historic building in the Flat Rock Historic District, you may qualify for two separate tax credits on the same rehabilitation work. The federal and state programs are independent but can be combined – and together they return a significant share of your investment.

THE COMBINED BENEFIT

Up to 45% back on qualifying rehabilitation.

20% federal credit + 25% Michigan state credit, stacked on the same qualified rehabilitation expenditures (QREs). Available for income-producing commercial, mixed-use, and rental properties that undergo certified historic rehabilitation.

FEDERAL CREDIT

20%

Historic Rehabilitation Tax Credit

Administered by:

National Park Service & IRS (coordinated by Michigan SHPO)

Building must be:

Income-producing; a “certified historic structure” – on the National Register OR a contributing resource in an NPS-certified historic district

Minimum spend:

“Substantial rehabilitation” – QREs must exceed the greater of your building’s adjusted basis OR \$5,000, within a 24-month window

How you claim it:

Ratably over 5 years (4% per year) beginning the year your project is placed in service. IRS Form 3468.

Authority:

Internal Revenue Code § 47

MICHIGAN STATE CREDIT

25%

State Historic Tax Credit

Administered by:

Michigan State Historic Preservation Office (SHPO)

Building must be:

Income-producing; a contributing resource in a local historic district (**Flat Rock’s district qualifies**), or listed on the National or State Register

Minimum spend:

10% of State Equalized Value (SEV) as determined by local assessor

How you claim it:

All in the year your Certificate of Completion is issued. Credits may be assigned to other taxpayers.

Authority:

Public Act 343 of 2020 (MCL 206.676)

A REALISTIC EXAMPLE

Rehabilitating a two-story downtown commercial building

Owner purchased 4 years ago for \$225,000 (land valued at \$45,000); took \$25,000 depreciation. Adjusted basis now \$155,000. QREs easily exceed that – substantial rehab test passes.

Roof replacement, flashing, chimney rebuild	\$68,000
Facade restoration, masonry tuckpointing, storefront replication	\$95,000
Window restoration (22 historic wood windows)	\$52,000
Mechanical, electrical, plumbing upgrades (code-compliant)	\$88,000
Interior rehabilitation for tenant space	\$34,000
Architectural fees & soft costs (QRE-eligible)	\$13,000
Total Qualified Rehabilitation Expenditures (QREs)	\$350,000
Federal 20% Historic Rehabilitation Tax Credit	\$70,000
Michigan 25% State Historic Tax Credit	\$87,500
Combined credits returned to owner	\$157,500

What Commercial Owners Should Know

The rules that differ from residential — and the timing you need to plan around

⚠️ CRITICAL TIMING NOTE FOR 2026

State credit applications for commercial are NOT being accepted in 2026.

Michigan SHPO has announced that due to overwhelming 2025 demand, the Large and Small Commercial categories are filling a priority list for 2026 allocations. **New commercial applications will be queued for 2027.** This does not affect the federal 20% credit, which remains available year-round. Plan accordingly — this flyer helps you position now for when the state window reopens.

Five Requirements You Must Meet

- ▶ **Income-producing use.** The building must be used for business, commercial, industrial, agricultural, or rental purposes. Owner-occupied personal residences don't qualify. A Bed & Breakfast does. Mixed-use with storefront below and apartments above does.
- ▶ **National Register certification (for the federal credit).** Simply being in Flat Rock's local district is *not sufficient* for the federal credit — the local district must additionally be certified by the National Park Service as substantially meeting National Register requirements. This is a separate certification the City can pursue after district establishment.
- ▶ **Substantial rehabilitation.** For the federal credit, your QREs must exceed the greater of (a) the building's adjusted basis or (b) \$5,000, within a 24-month measuring period (60 months for phased projects).
- ▶ **Meets the Secretary of the Interior's Standards.** Work is reviewed against federal preservation guidelines (36 C.F.R. Part 67). Certified rehabilitation means your project has been reviewed and approved by NPS (federal) and/or SHPO (state).
- ▶ **Five-year compliance period.** Both credits carry recapture risk if the building is sold or substantially altered within 5 years of being placed in service. The state credit vests pro-rata at 20% per year.

THE APPLICATION PROCESS — START BEFORE YOU BUILD

Both credits use a **three-part application** (Part 1: eligibility; Part 2: proposed work & preapproval; Part 3: completion certification). The federal and state applications are separate but run parallel. **Do not start substantial rehabilitation work before receiving preapproval letters.** Also important: a building determined eligible for National Register listing at the start of your project does not need to be officially listed until the credit is claimed — but the listing (or certification) must be in place by claim time, or credits are recaptured.

BEFORE YOU COMMIT

Talk to your accountant & tax attorney early.

Historic tax credits interact with depreciation, passive activity rules, at-risk rules, and alternative minimum tax in ways that matter. The **federal credit reduces your depreciable basis dollar-for-dollar.** The **state credit can be freely assigned to other taxpayers** and may have resale value. For pass-through entities (LLC, S-corp, partnership), credit allocation to owners follows specific rules. A 30-minute early conversation with a CPA familiar with historic tax credits will often save tens of thousands of dollars in unexpected tax consequences or missed optimization.

POSITIONING YOUR BUILDING FOR THE CREDIT STACK

We Can Help You Plan

The **Flat Rock Historic Preservation Commission** is available to help commercial owners understand the program, time their applications, and coordinate with both Michigan SHPO and the National Park Service. If you're considering a rehabilitation project on a building in the proposed district, reach out early — positioning correctly from day one saves months of avoidable delays.

Contact: **Lesley Gilliland Harkai**, HD Study Committee Chair · historicdistrict@flatrockhistory.org
Michigan SHPO: miplace.org/historic-preservation · NPS Federal Program: nps.gov/subjects/taxincentives

General information, not tax or legal advice. Federal credit authority: IRC § 47, Treas. Reg. 1.47-7. State credit authority: Public Act 343 of 2020, MCL 206.676. Consult a qualified tax professional and your State Historic Preservation Office before starting any rehabilitation project. Program details current as of 2026 and subject to legislative and regulatory change.