
To encourage preservation of historic buildings, Minnesota allows tax credits (or grants in lieu of the credit) to individuals and entities that spend substantial amounts rehabilitating qualifying buildings. This credit and grant program (“Historic Structure Rehabilitation Credit” or “Historic Credit”) mirrors the similar federal income tax credit and is administered in much the same way. The program was enacted in 2010 and is scheduled to expire after fiscal year 2030.

Qualifying projects

To qualify for a credit or grant, the project must also qualify for the federal tax credit. That requires projects to:

- rehabilitate a building that is certified as a historic structure by the National Park Service (NPS)—i.e., the building either must be on the national register of historic places or be certified as contributing to a registered historic district;
- be an income-producing property (e.g., rental housing qualifies but owner-occupied residences do not); and
- spend “substantial” amounts on rehabilitation that meets NPS standards.

Credit rate

The credit rate is 20 percent. (The federal credit rate is also 20 percent, so the combined state and federal credit can equal up to 40 percent of qualifying expenses.) The grant in lieu of the credit equals 90 percent of the credit, so its effective rate is 18 percent (20% x 90% = 18%). No maximum or “cap” applies.

Qualifying rehabilitation expenditures

The credit only applies to expenditures to rehabilitate a qualifying building and its structural components. The amount spent must be substantial, which federal law defines as the greater of (1) \$5,000 or (2) the tax basis of the property. The credit cannot be used to pay for:

- acquiring the property;
- personal property (e.g., equipment that doesn’t become part of the building);
- enlargement or expansion of the building; or
- site work.

Administration of the credit

The federal and state credits are jointly administered by the tax administrators (the federal Internal Revenue Service and Minnesota Department of Revenue) and the agencies responsible for historic preservation (NPS and Minnesota State Historic Preservation Office or SHPO). To receive the tax credits or grants, projects must go through a multi-part certification process administered by SHPO and NPS. This process generally must begin before work starts on the project. Credits are paid only after

completion of work and when the project is “placed in service.” Detail on these processes (for both the federal and Minnesota credits) is available on the websites of the NPS and SHPO.

Credits offset income tax liability

The Minnesota credit is allowed against any of the following taxes: the individual income, corporate franchise, or insurance premiums taxes. The credit is refundable and the taxpayer may assign or sell the credit (once) to another individual or entity.

Beginning with applications for credit allocation certificates in 2018, the credit amount must be claimed in five equal installments, which mirrors the federal rules put in place by Congress in the 2017 Tax Cuts and Jobs Act.

The federal and state credits are direct subtractions from tax liability, so they provide a dollar-for-dollar reduction in tax liability under the respective federal and state taxes. Because the Minnesota credit is refundable, the full amount is paid regardless of the amount of the tax liability.

Grant option

The Minnesota program allows projects to claim a grant (equal to 90 percent of the credit amount) instead of a credit. The grant is paid by SHPO and no differences in qualifying rules apply to a grant versus a tax credit. The grant may be paid to an entity other than a taxpayer.

Fiscal impact

The table shows Minnesota Management and Budget’s February 2024 forecast of the tax credit and the grant-in-lieu-of-credit amounts for fiscal year 2020 through fiscal year 2023.

Fiscal year	Tax Credit (in thousands)	Grant (in thousands)
2020	\$27,083	-
2021	\$25,246	-
2022	\$54,975	-
2023	\$10,941	-

Location of projects

According to the most recent economic impact report on the credit prepared by the University of Minnesota Extension, most projects have been located in Hennepin and Ramsey Counties, where many historic buildings are located and where recent robust real estate development has occurred. However, qualifying projects are located in 20 Minnesota counties, with the counties of St. Louis, Winona, Otter Tail and Stearns having the most projects in greater Minnesota.



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