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MEMORANDUM

Redevelopment Authority Citizens Committee and Historic Resources Commission
Meeting of December 3, 2018

TO: Redevelopment Authority Citizens Committee
and Historic Resources Commission **Item 3.C**

FROM: Hope Sullivan, AICP
Planning Manager

DATE: November 27, 2018

SUBJECT: Presentation by Jim Bertolini, Historian, and Kristen Brown, Architectural Historian, both of the State Historic Preservation Office, regarding the Federal Tax Credits for Rehabilitating Historic Buildings.

The Federal government has a number of programs to encourage the preservation of historic buildings. One of these programs is the Federal tax credit program, administered by the National Park Services in partnership with the State Historic Preservation Office.

Historian Jim Bertolini and Architectural Historian Kristen Brown, both of the State Historic Preservation Office, will provide an overview of the program.

Attached please find documents from the National Park Service providing in depth descriptions of the program.

Historic Preservation Tax Incentives



National Park Service
U.S. Department of the Interior
Technical Preservation Services

This booklet describes the Federal Historic Preservation Tax Incentives in general terms only. Every effort has been made to present current information as of the date given below. However, the Internal Revenue Code is complex and changes frequently. Furthermore, the provisions of the tax code regarding at-risk rules, passive activity limitation, and alternative minimum tax can affect a taxpayer's ability to use these tax credits. *Readers are strongly advised to consult an accountant, tax attorney, or other professional tax advisor, legal counsel, or the Internal Revenue Service for help in determining whether these incentives apply to their own situations.* For more detailed information, including copies of application forms, regulations, and other program information, contact one of the offices listed on pages 26-29.

Department of the Interior regulations governing the procedures for obtaining historic preservation certifications are more fully explained in Title 36 of the Code of Federal Regulations, Part 67. The Internal Revenue Service regulations governing the tax credits for rehabilitation are contained in Treasury Regulation Section 1.48-12. These sets of regulations take precedence in the event of any inconsistency with this booklet.

Technical Preservation Services

National Park Service

2012

Cover: German Bank, Dubuque, Iowa (1901). After rehabilitation for continued commercial and residential use. Courtesy State Historical Society of Iowa. Photograph: John Zeller.

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Preservation Tax Incentives

Historic buildings are tangible links with the past. They help give a community a sense of identity, stability and orientation. The Federal government encourages the preservation of historic buildings through various means. One of these is the program of Federal tax incentives to support the rehabilitation of historic and older buildings. The Federal Historic Preservation Tax Incentives program is one of the Federal government's most successful and cost-effective community revitalization programs.

The National Park Service administers the program with the Internal Revenue Service in partnership with State Historic Preservation Offices. The tax incentives promote the rehabilitation of historic structures of every period, size, style and type. They are instrumental in preserving the historic places that give cities, towns and rural areas their special character. The tax incentives for preservation attract private investment to the historic cores of cities and towns. They also generate jobs, enhance property values, and augment revenues for State and local governments through increased property, business and income taxes. The Preservation Tax Incentives also help create moderate and low-income housing in historic buildings. Through this program, abandoned or underused schools, warehouses, factories, churches, retail stores, apartments, hotels, houses, and offices throughout the country have been restored to life in a manner that maintains their historic character.



Current tax incentives for preservation, established by the Tax Reform Act of 1986 (PL 99-514; Internal Revenue Code Section 47 [formerly Section 48(g)]) include:

- » a 20% tax credit for the *certified rehabilitation of certified historic structures*.
- » a 10% tax credit for the rehabilitation of *non-historic, non-residential buildings* built before 1936.

From time to time, Congress has increased these credits for limited periods for the rehabilitation of buildings located in areas affected by natural disasters. For more information, see the instructions on IRS Form 3468, Investment Credit, or contact your State Historic Preservation Office.

In all cases the rehabilitation must be a *substantial* one and must involve a *depreciable* building. (These terms will be explained later.)

What Is a Tax Credit?

A tax credit differs from an income tax deduction. An income tax deduction lowers the amount of income subject to taxation. A tax credit, however, lowers the amount of tax owed. In general, a dollar of tax credit reduces the amount of income tax owed by one dollar.

- » The 20% rehabilitation tax credit equals 20% of the amount spent in a *certified rehabilitation of a certified historic structure*.
- » The 10% rehabilitation tax credit equals 10% of the amount spent to rehabilitate a *non-historic building* built before 1936.

Armstrong Cork Company Plant, Pittsburgh, Pennsylvania (1901-1913). After rehabilitation for retail and housing. Photograph: Charles Uhl.

20% Rehabilitation Tax Credit

The Federal historic preservation tax incentives program (the 20% credit) is jointly administered by the U.S. Department of the Interior and the Department of the Treasury. The National Park Service (NPS) acts on behalf of the Secretary of the Interior, in partnership with the State Historic Preservation Officer (SHPO) in each State. The Internal Revenue Service (IRS) acts on behalf of the Secretary of the Treasury. Certification requests (requests for approval for a taxpayer to receive these benefits) are made to the NPS through the appropriate SHPO. Comments by the SHPO on certification requests are fully considered by the NPS. However, approval of projects undertaken for the 20% tax credit is conveyed *only in writing* by duly authorized officials of the National Park Service. For a description of the roles of the NPS, the IRS and the SHPO, see “Tax Credits: Who Does What?” on pages 14 -15.

The 20% rehabilitation tax credit applies to any project that the Secretary of the Interior designates a *certified rehabilitation* of a *certified historic structure*. The 20% credit is available for properties rehabilitated for commercial, industrial, agricultural, or rental residential purposes, but it is not available for properties used exclusively as the owner’s private residence.

What is a “certified historic structure?”

A *certified historic structure* is a building that is listed individually in the National Register of Historic Places —OR— a building that is located in a *registered historic district* and certified by the National Park Service as contributing to the historic significance of that district. The “structure” must be a building—not a bridge, ship, railroad car, or dam. (A *registered historic district* is any district listed in the National Register of Historic Places.

Hanny’s Building, Phoenix, Arizona (1947). After rehabilitation of this high-fashion clothing store for restaurant and other commercial use. Photograph: Ryden Architects, Inc.

A State or local historic district may also qualify as a *registered historic district* if the district and the enabling statute are certified by the Secretary of the Interior.)

Obtaining Certified Historic Structure Status

Owners of buildings within historic districts must complete Part 1 of the Historic Preservation Certification Application—Evaluation of Significance. The owner submits this application to the SHPO. The SHPO reviews the application and forwards it to the NPS with a recommendation for approving or denying the request. The NPS then determines whether the building contributes to the historic district. If so, the building then becomes a *certified historic structure*. The NPS bases its decision on the Secretary of the Interior’s “Standards for Evaluating Significance within Registered Historic Districts” (see page 23).

Buildings individually listed in the National Register of Historic Places are already certified historic structures. Owners of these buildings need not complete the Part 1 application (unless the listed property has more than one building).

Property owners unsure if their building is listed in the National Register or if it is located in a National Register or certified State or local historic district should contact their SHPO.



What if my building is not yet listed in the National Register?

Owners of buildings that are not yet listed individually in the National Register of Historic Places or located in districts that are not yet registered historic districts may use the Historic Preservation Certification Application, Part 1, to request a *preliminary determination of significance* from the National Park Service. Such a determination may also be obtained for a building located in a registered historic district but that is outside the period or area of significance of the district. A preliminary determination of significance allows NPS to review Part 2 of the application describing the proposed rehabilitation. Preliminary determinations, however, are not binding. They become final only when the building or the historic district is listed in the National Register or when the district documentation is amended to include additional periods or areas of significance. It is the owner's responsibility to obtain such listing through the State Historic Preservation Office in a timely manner.

What is a "certified rehabilitation?"

The National Park Service must approve, or "certify," all rehabilitation projects seeking the 20% rehabilitation tax credit. A *certified rehabilitation* is a rehabilitation of a *certified historic structure* that is approved by the NPS as being consistent with the historic character of the property and, where applicable, the district in which it is located. The NPS assumes that some alteration of the historic building will occur to provide for an efficient use. However, the project must not damage, destroy, or cover materials or features, whether interior or exterior, that help define the building's historic character.

Application Process

Owners seeking certification of rehabilitation work must complete Part 2 of the Historic Preservation Certification Application—Description of Rehabilitation. Long-term lessees may also apply if their remaining lease period is at least 27.5 years for residential property or 39

years for nonresidential property. The owner submits the application to the SHPO. The SHPO provides technical assistance and literature on appropriate rehabilitation treatments, advises owners on their applications, makes site visits when possible, and forwards the application to the NPS, with a recommendation.

The NPS reviews the rehabilitation project for conformance with the “Secretary of the Interior’s Standards for Rehabilitation,” and issues a certification decision. The entire project is reviewed, including related demolition and new construction, and is certified, or approved, only if the overall rehabilitation project meets the Standards. These Standards appear on pages 24-25. Both the NPS and the IRS strongly encourage owners to apply *before* they start work.



58 B Street, Virginia City, Nevada (1875). Rehabilitated as a bed and breakfast. Courtesy Chris Eichin.

After the rehabilitation work is completed, the owner submits Part 3 of the Historic Preservation Certification Application—Request for Certification of Completed Work to the SHPO. The SHPO forwards the application to the NPS, with a recommendation as to certification. The NPS then evaluates the completed project against the work proposed in the Part 2—Description of Rehabilitation. Only completed projects that meet the Standards for Rehabilitation are approved as “certified rehabilitations” for purposes of the 20% rehabilitation tax credit.

Before



After



Carleton Place (historic name: Simmons Manufacturing Company), St. Paul, Minnesota (1909). Before and after rehabilitation for residential use. Courtesy Hess, Roise and Company.

Processing Fees

The NPS charges a fee for reviewing applications. Fees are charged for the review of proposed work (Part 2) and for review of completed projects (Part 3). The fees are based on the rehabilitation costs. Payment should not be sent until requested by NPS. The NPS will not issue a certification decision until payment has been received. See the NPS website on page 26 for the fee schedule.



Hollywood Bungalow Courts, Los Angeles, California (1921-1925).
Rehabilitated as housing for special-needs and low-income residents.
Photograph: NPS Files.

IRS Requirements

To be eligible for the 20% rehabilitation tax credit, a project must also meet basic IRS requirements:

- » The building must be *depreciable*. That is, it must be used in a trade or business or held for the production of income. It may be used for offices, for commercial, industrial or agricultural enterprises, or for rental housing. It may not serve exclusively as the owner's private residence.
- » The rehabilitation must be *substantial*. That is, during a 24-month period selected by the taxpayer, rehabilitation expenditures must exceed the greater of \$5,000 or the adjusted basis of the building and its structural components. The adjusted basis is generally the purchase price, minus the cost of land, plus improvements already made, minus depreciation already taken. Once the substantial rehabilitation test is met, the credit may be claimed for all qualified

expenditures incurred before the measuring period, during the measuring period and after the measuring period through the end of the taxable year that the building is placed in service.

- » Phased rehabilitations—that is, rehabilitations expected to be completed in two or more distinct stages of development—must also meet the “substantial rehabilitation test.” However, for phased rehabilitations, the measuring period is 60 months rather than 24 months. This phase rule is available only if: (1) a set of architectural plans and specifications outlines and describes all rehabilitation phases; (2) the plans are completed before the physical rehabilitation work begins, and (3) it can reasonably be expected that all phases will be completed.
- » The property must be placed in service (that is, returned to use). The rehabilitation tax credit is generally allowed in the taxable year the rehabilitated property is placed in service.
- » The building must be a *certified historic structure* when placed in service, with the following exception: If the building or the historic district is not listed in the National Register, the owner must have requested that the SHPO nominate the building or the district to the National Register before the building is placed in service. If the building is in a historic district that is listed or may be listed in the National Register, the owner must submit Part 1 of the application before the building is placed in service.
- » Qualified rehabilitation expenditures include costs of the work on the historic building, as well as architectural and engineering fees, site survey fees, legal expenses, development fees, and other construction-related costs, if such costs are added to the property basis and are reasonable and related to the services performed. They do not include acquisition or furnishing costs, new additions that expand the building, new building construction, or parking lots, sidewalks, landscaping, or other related facilities.



114 NW Main Street, Rocky Mount, North Carolina (1928).

Photograph: William Ferguson.

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Getting your project approved, or "certified"
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Tens of thousands of projects have been approved for the historic preservation tax credit. Observing the following points will make approval of your project easier:

- » *Apply as soon as possible—preferably before beginning work.* Consult with the SHPO as soon as you can. Read carefully the program application, regulations, and any other information the SHPO supplies.
- Submit your application early in the project planning. Wait until the project is approved in writing by the NPS before beginning work. Work undertaken prior to approval by the NPS may jeopardize certification. In the case of properties not yet designated certified historic structures, apply before the work is completed and the building is placed in service.

- » *Photograph the building inside and outside—before and after the project.* “Before” photographs are especially important. Without them, it may be impossible for the NPS to approve a project.
- » *Read and follow the “Secretary of the Interior’s Standards for Rehabilitation” and the “Guidelines for Rehabilitating Historic Buildings.”* If you are unsure how they apply to your building, consult with the SHPO or the NPS.
- » *Once you have applied, alert the SHPO and the NPS to any changes in the project.*

Claiming the 20% Rehabilitation Tax Credit

Generally, the tax credit is claimed on IRS form 3468 for the tax year in which the rehabilitated building is placed in service. For phased projects, the tax credit may be claimed before completion of the entire project provided that the substantial rehabilitation test has been met. If a building remains in service throughout the rehabilitation, then the credit may be claimed when the substantial rehabilitation test has been met. In general, unused tax credit can be “carried back” one year and “carried forward” 20 years.

The IRS requires that the NPS certification of completed work (Application Part 3) be filed with the tax return claiming the tax credit. If final certification has not yet



been received when the taxpayer files the tax return claiming the credit, a copy of the first page of the Historic Preservation Certification Application—Part 2 must be filed with the tax return, with proof that the building is a *certified historic structure* or that such status has been requested. The copy of the application filed must show evidence that it has been received by either the SHPO or the NPS (date-stamped receipt or other notice is sufficient). If the taxpayer then fails to receive final certification within 30 months after claiming the credit, the taxpayer must agree to extend the period of assessment. If the NPS denies certification to a rehabilitation project, the credit will be disallowed.

Recapture of the Credit

The owner must hold the building for five full years after completing the rehabilitation, or pay back the credit. If the owner disposes of the building within a year after it is placed in service, 100% of the credit is recaptured. For properties held between one and five years, the tax credit recapture amount is reduced by 20% per year.

The NPS or the SHPO may inspect a rehabilitated property at any time during the five-year period. The NPS may revoke certification if work was not done as described in the Historic Preservation Certification Application, or if unapproved alterations were made for up to five years after certification of the rehabilitation. The NPS will notify the IRS of such revocations.



Prizery/R.J. Reynolds Tobacco Warehouse, South Boston, Virginia (1900). Rehabilitated for commercial use. Photographs: Ian Bradshaw.

Depreciation

Rehabilitated property is depreciated using the straight-line method over 27.5 years for residential property and over 39 years for nonresidential property. The depreciable basis of the rehabilitated building must be reduced by the full amount of the tax credit claimed.

Rehabilitation Tax Credits: Who Does What?

The Federal historic preservation tax incentives program is a partnership among the National Park Service (NPS), the State Historic Preservation Officer (SHPO), and the Internal Revenue Service (IRS). Each plays an important role.

SHPO

- » Serves as first point of contact for property owners.
- » Provides application forms, regulations, and other program information.
- » Maintains complete records of the State's buildings and districts listed in the National Register of Historic Places, as well as State and local districts that may qualify as registered historic districts.
- » Assists anyone wishing to list a building or a district in the National Register of Historic Places.
- » Provides technical assistance and literature on appropriate rehabilitation treatments.
- » Advises owners on their applications and makes site visits on occasion to assist owners.
- » Makes certification recommendations to the NPS.

NPS

- » Reviews all applications for conformance to the *Secretary of the Interior's Standards for Rehabilitation*.

- » Issues all certification decisions (approvals or denials) in writing.
- » Transmits copies of all decisions to the IRS.
- » Develops and publishes program regulations, the *Secretary of the Interior's Standards for Rehabilitation*, the Historic Preservation Certification Application, and information on rehabilitation treatments.

IRS

- » Publishes regulations governing which rehabilitation expenses qualify, the time periods for incurring expenses, the tax consequences of certification decisions by NPS, and all other procedural and legal matters concerning both the 20% and the 10% rehabilitation tax credits.
- » Answers public inquiries concerning legal and financial aspects of the Historic Preservation Tax Incentives, and publishes the audit guide, *Market Segment Specialization Program: Rehabilitation Tax Credit*, to assist owners.
- » Insures that only parties eligible for the rehabilitation tax credits utilize them.



Odd Fellows Building, Raleigh, North Carolina (c. 1880). Rehabilitated for continued commercial use. Courtesy Empire Properties.

10% Rehabilitation Tax Credit

The 10% rehabilitation tax credit is available for the rehabilitation of *non-historic buildings* placed in service before 1936.

As with the 20% rehabilitation tax credit, the 10% credit applies only to buildings—not to ships, bridges or other structures. The rehabilitation must be substantial, exceeding either \$5,000 or the adjusted basis of the property, whichever is greater. And the property must be *depreciable*.

The 10% credit applies only to buildings rehabilitated for *non-residential* uses. Rental housing would thus not qualify. Hotels, however, would qualify. They are considered to be in commercial use, not residential.

A building that was moved after 1935 is ineligible for the 10% rehabilitation credit. (A moved *certified historic structure*, however, can still be eligible for the 20% credit.) Furthermore, projects undertaken for the 10% credit must meet a specific physical test for retention of external walls and internal structural framework:

- » at least 50% of the building's external walls existing at the time the rehabilitation began must remain in place as external walls at the work's conclusion, and
- » at least 75% of the building's existing external walls must remain in place as either external or internal walls, and
- » at least 75% of the building's internal structural framework must remain in place.

Claiming the 10% Rehabilitation Tax Credit

The tax credit must be claimed on IRS form 3468 for the tax year in which the rehabilitated building is placed in service. There is no formal review process for rehabilitations of non-historic buildings.

The 10% or 20% Credit: Which One Applies?

The 10% rehabilitation tax credit applies only to non-historic buildings first placed in service before 1936 and rehabilitated for non-residential uses. The 20% rehabilitation tax credit applies only to *certified historic structures*, and may include buildings built after 1936. The two credits are mutually exclusive.

Buildings listed in the National Register of Historic Places are not eligible for the 10% credit. Buildings located in National Register listed historic districts or certified State or local historic districts are presumed to be historic and are therefore not eligible for the 10% credit. In general, owners of buildings in these historic districts may claim the 10% credit *only* if they file Part 1 of the Historic Preservation Certification Application with the National Park Service before the physical work begins and receive a determination that the building does *not* contribute to the district and is not a certified historic structure.

Other Tax Provisions Affecting Use of Preservation Tax Incentives

A number of provisions in the Internal Revenue Code affect the way in which real estate investments are treated generally. These provisions include the *“at-risk” rules*, the *passive activity limitation*, and the *alternative minimum tax*. What these provisions mean, in practice, is that many taxpayers may not be able to use tax credits earned in a certified rehabilitation project.

A brief discussion of these matters follows. Applicants should seek professional advice concerning the personal financial implications of these provisions.

At-Risk Rules

Under Internal Revenue Code Section 465, a taxpayer may deduct losses and obtain credits from a real estate

Before



investment only to the extent that the taxpayer is “at-risk” for the investment. The amount that a taxpayer is “at-risk” is generally the sum of cash or property contributions to the project plus any borrowed money for which the taxpayer is personally liable, including certain borrowed amounts secured by the property used in the project. In addition, in the case of the activity of holding real property, the amount “at-risk” includes qualified non-recourse financing borrowed from certain financial institutions or government entities.

Passive Activity Limitation

The passive activity limitation provides that losses and credits from “passive” income sources, such as real estate

After



John Harvey House, Detroit, Michigan (1875). (opposite) Before rehabilitation; (above) After rehabilitation as a bed and breakfast. Courtesy: Marilyn Nash-Yazbeck. Photograph: Steven C. Flum, Inc.

limited partnerships, cannot be used to offset tax liability from “active” sources such as salaries. This passive activity limitation does not apply to:

- » Most regular corporations.
- » Real estate professionals who materially participate in a real property trade or business and who satisfy eligibility requirements regarding the proportion and amount of time spent in such businesses.

For other taxpayers, two exceptions apply: a general exception and a specific exception for certified rehabilitations.

General Passive Loss Rules

Taxpayers with incomes less than \$100,000 (generally, adjusted gross income with certain modifications) may take up to \$25,000 in losses annually from rental properties. This \$25,000 annual limit on losses is reduced for individuals with incomes between \$100,000 and \$150,000 and eliminated for individuals with incomes over \$150,000.

Passive Credit Exemption

Individuals, including limited partners, with modified adjusted gross incomes of less than \$200,000 (and, subject to phase out, up to \$250,000) investing in a rehabilitation credit project may use the tax credit to offset the tax owed on up to \$25,000 of income. Thus, a taxpayer in the 33% tax bracket could use \$8,250 of tax credits per year ($33\% \times \$25,000 = \$8,250$).

This \$25,000 amount is first reduced by losses allowed under the general “passive loss” rule above for taxpayers with incomes less than \$150,000.

Alternative Minimum Tax

For purposes of the rehabilitation tax credit, the alternative minimum tax does not apply to qualified rehabilitation expenditures “properly taken into account for periods after December 31, 2007.”

However, for qualified rehabilitation expenditures taken into account for periods before January 1, 2008, taxpayers who are not required to pay tax under the regular tax system may still be liable for tax under the alternative minimum tax laws. Alternative minimum taxable income is computed from regular taxable income with certain adjustments and the addition of all appropriate tax preference items.

Nonrefundable credits, such as the rehabilitation tax credit, may not be used to reduce the alternative minimum tax. If a taxpayer cannot use the tax credit because of the alternative minimum tax, the credit can be carried back or forward.

Rehabilitations Involving Governments and Other Tax-Exempt Entities

Property used by governmental bodies, nonprofit organizations, or other tax-exempt entities is not eligible for the rehabilitation tax credit if the tax-exempt entity enters into a disqualified lease (as the lessee) for more than 50% of the property. A disqualified lease occurs when:

- » Part or all of the property was financed directly or indirectly by an obligation in which the interest is tax-exempt under Internal Revenue Code Section 103(a) and such entity (or related entity) participated in such financing; or,
- » Under the lease there is a fixed or determinable price for purchase or an option to buy which involves such entity (or related entity); or,
- » The lease term is in excess of 20 years; or,
- » The lease occurs after a sale or lease of the property and the lessee used the property before the sale or lease.

Other Tax Incentives for Historic Preservation

Other Federal and State tax incentives exist for historic preservation. They may be combined with the rehabilitation tax credit.

Charitable Contributions for Historic Preservation Purposes

Internal Revenue Code Section 170(h) and Department of the Treasury Regulation Section 1.170A-14 provide for income and estate tax deductions for charitable contributions of partial interests in historic property (principally easements). Generally, the IRS considers that a donation of a qualified real property interest to preserve a *historically important land area* or a

certified historic structure meets the test of a charitable contribution for conservation purposes. For purposes of the charitable contribution provisions only, a *certified historic structure* need not be depreciable to qualify, and may include the land area on which it is located.

A facade easement on a building in a registered historic district must preserve the entire exterior of the building (including its front, sides, rear, and height) and must prohibit any change to the exterior of the building that is inconsistent with its historic character. The easement donor must enter into a written agreement with the organization receiving the easement contribution, and must provide additional substantiation requirements. If the deduction claimed is over \$10,000, the taxpayer must pay a \$500 filing fee. For additional information, see IRS publication 526.

State Tax Incentives

A number of States offer tax incentives for historic preservation. They include tax credits for rehabilitation, tax deductions for easement donations, and property tax abatements or moratoriums. The SHPO will have information on current State programs. Requirements for State incentives may differ from those outlined here.

Tax Credit for Low-Income Housing

The Tax Reform Act of 1986 (IRC Section 42) also established a tax credit for the acquisition and rehabilitation, or new construction of low-income housing. The credit is approximately 9% per year for 10 years for projects not receiving certain Federal subsidies and approximately 4% for 10 years for projects subsidized by tax-exempt bonds or below market Federal loans. The units must be rent restricted and occupied by individuals with incomes below the area median gross income. The law sets a 15-year compliance period. Credits are allocated by State housing credit agencies. The tax credit for low-income housing can be combined with the tax credit for the rehabilitation of certified historic structures.

The Secretary of the Interior's Standards for Evaluating Significance Within Registered Historic Districts

The following Standards govern whether buildings within a historic district contribute to the significance of the district. Owners of buildings that meet these Standards may apply for the 20% rehabilitation tax credit. Buildings within historic districts that meet these Standards *cannot* qualify for the 10% credit.

1. A building contributing to the historic significance of a district is one which by location, design, setting, materials, workmanship, feeling and association adds to the district's sense of time and place and historical development.
2. A building not contributing to the historic significance of a district is one which does not add to the district's sense of time and place and historical development; or one where the location, design, setting, materials, workmanship, feeling and association have been so altered or have so deteriorated that the overall integrity of the building has been irretrievably lost.
3. Ordinarily buildings that have been built within the past 50 years shall not be considered to contribute to the significance of a district unless a strong justification concerning their historical or architectural merit is given or the historical attributes of the district are considered to be less than 50 years old.

The Secretary of the Interior's Standards for Rehabilitation

Rehabilitation projects must meet the following Standards, as interpreted by the National Park Service, to qualify as “certified rehabilitations” eligible for the 20% rehabilitation tax credit. The Standards are applied to projects in a reasonable manner, taking into consideration economic and technical feasibility.

The Standards (36 CFR Part 67) apply to historic buildings of all periods, styles, types, materials, and sizes. They apply to both the exterior and the interior of historic buildings. The Standards also encompass related landscape features and the building's site and environment as well as attached, adjacent, or related new construction.

1. A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
2. The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
3. Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
5. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.

6. Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
7. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.
8. Significant archeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.
9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
10. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.



Van Allen and Son Department Store, Clinton, Iowa (1913-1915). Courtesy Community Housing Initiatives, Inc.

For More Information

For more information on tax incentives for historic preservation, contact the NPS, the IRS, or one of the SHPOs listed below. Available information includes:

- » NPS publications on appropriate methods to preserve historic buildings. These include *Guidelines for Rehabilitating Historic Buildings*, *Preservation Briefs*, and many others.
- » The Historic Preservation Certification Application (a 3-part form: Part 1—Evaluation of Significance; Part 2—Description of Rehabilitation; Part 3—Request for Certification of Completed Work).
- » Department of the Interior, National Park Service, regulations on “Historic Preservation Certifications.” [36 CFR Part 67].
- » Department of the Treasury, Internal Revenue Service, regulations on “Investment Tax Credit for Qualified Rehabilitation Expenditures.” [Treasury Regulation Section 1.48-12].
- » *Market Segment Specialization Program: Rehabilitation Tax Credit* (available only from the IRS).

National Park Service

Preservation Tax Incentives
Technical Preservation Services
National Park Service
1849 C Street, NW
Washington, DC 20240

tel: 202-513-7270
email: nps_tps@nps.gov
main web: www.nps.gov/tps
tax web: www.nps.gov/tps/tax-incentives.htm

Internal Revenue Service

web: www.nps.gov/tps/tax-incentives/before-apply/irs.htm

Additional IRS website: <http://www.irs.gov/Businesses/Small-Businesses-& Self-Employed/Rehabilitation-Tax-Credit---Real-Estate-Tax-Tips>

State Historic Preservation Offices

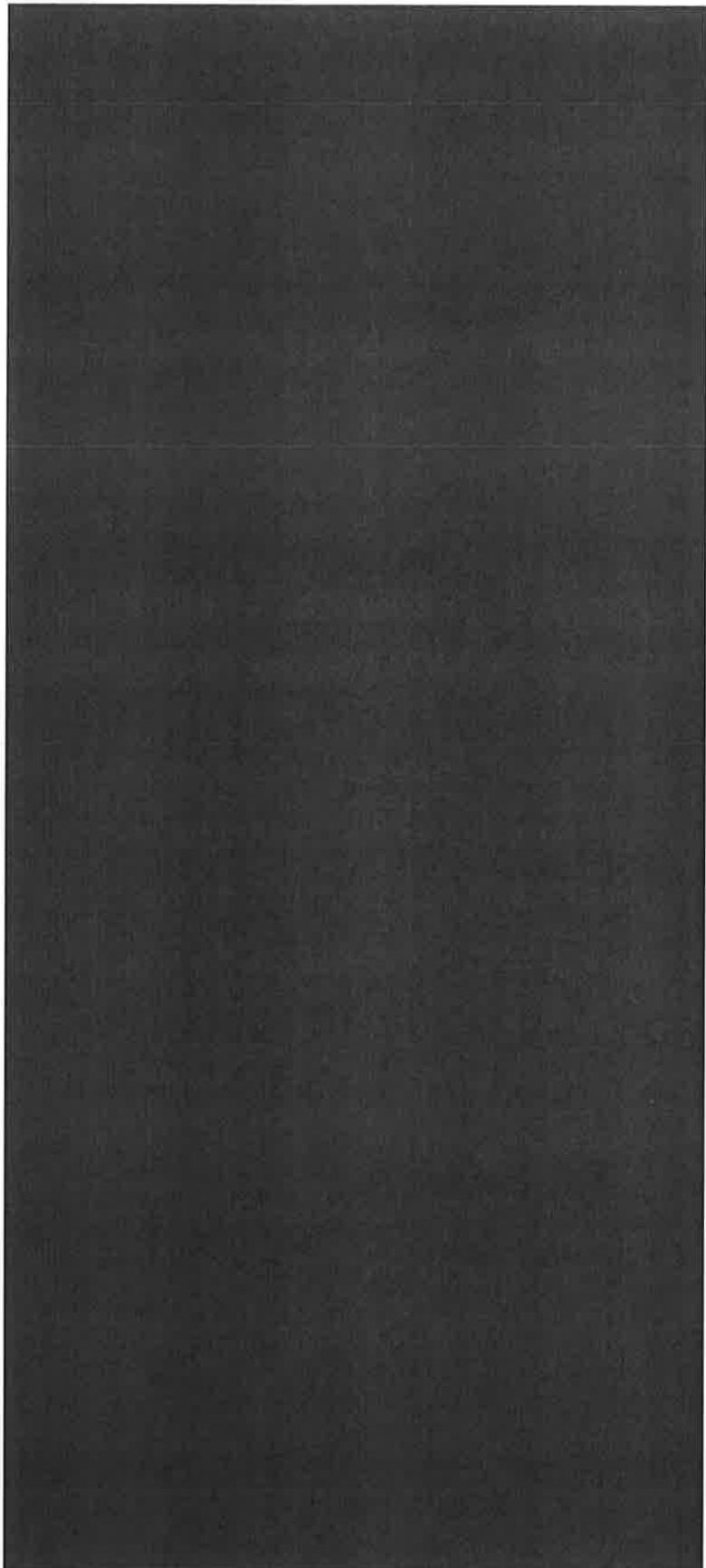
Contact information for the State Historic Preservation Offices can be found at: www.ncshpo.org

PLEASE NOTE

The Historic Preservation Tax Incentives brochure has not been revised to reflect any changes that may be necessary related to Public Law No: 115-97 (December 22, 2017).

Public Law No: 115-97 amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. Section 13402 modifies the 20% Historic Rehabilitation Tax Credit and provides certain transition rules. These and other changes to the Internal Revenue Code may affect a taxpayer's ability to use the 20% tax credit. The law also repeals the 10% credit for rehabilitating non-historic buildings. The text of Public Law No: 115-97 is available at www.congress.gov.

Applicants requesting historic preservation certifications by the National Park Service, as well as others interested in the use of these tax credits, are strongly advised to consult an accountant, tax attorney, or other professional tax adviser, legal counsel, or the Internal Revenue Service regarding the changes to the Internal Revenue Code related to Public Law No: 115-97.



PLEASE NOTE

The Historic Preservation Tax Incentives brochure has not been revised to reflect any changes that may be necessary related to Public Law No: 115-97 (December 22, 2017).

Public Law No: 115-97 amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. Section 13402 modifies the 20% Historic Rehabilitation Tax Credit and provides certain transition rules. These and other changes to the Internal Revenue Code may affect a taxpayer's ability to use the 20% tax credit. The law also repeals the 10% credit for rehabilitating non-historic buildings. The text of Public Law No: 115-97 is available at www.congress.gov.

Applicants requesting historic preservation certifications by the National Park Service, as well as others interested in the use of these tax credits, are strongly advised to consult an accountant, tax attorney, or other professional tax adviser, legal counsel, or the Internal Revenue Service regarding the changes to the Internal Revenue Code related to Public Law No: 115-97.

Introduction to Federal Tax Credits for Rehabilitating Historic Buildings Main Street Commercial Buildings



National Park Service
U.S. Department of the Interior

Technical Preservation Services



- *Do you own a commercial building located in a historic district?*
- *Does it need to be fixed up?*
- *Will it be used for a business or rental housing?*

If you answered **YES** to all three questions, then you should be aware of a program that offers significant federal tax incentives for rehabilitating historic buildings.

The Program

Administered by the National Park Service in conjunction with State Historic Preservation Offices (SHPO), the **Federal Historic Preservation Tax Incentives program** offers a 20% federal tax credit for qualified rehabilitation expenses. Thousands of property owners across the country have already utilized these tax incentives to rehabilitate historic commercial buildings and similar properties.

Why does the program exist?

Recognizing the importance of preserving our building heritage and the need to encourage the rehabilitation of deteriorated properties, Congress created in 1976 federal tax incentives to promote historic preservation and community revitalization. These tax incentives have successfully spurred the rehabilitation of historic structures of every period, size, style, and type.



Tax Credit Basics

- In general, a tax credit is a dollar-for-dollar reduction in the amount of taxes you owe.
- The amount of credit under this program equals 20% of the qualifying costs of your rehabilitation.
- A project must be “substantial” in that your qualifying rehabilitation expenses must exceed the greater of \$5,000 or the adjusted basis of the building.
- Your building needs to be certified as a historic structure by the National Park Service.
- Rehabilitation work has to meet the Secretary of the Interior’s *Standards for Rehabilitation* as determined by the National Park Service.

The process is straight-forward, and the tax savings can be significant. For example, a property owner planning a project estimated to cost \$60,000 could realize a tax credit of \$12,000 on their federal income taxes.

Applicants are encouraged to consult their accountant or tax advisor to make sure that this federal tax credit is beneficial to them. For additional information on the Historic Preservation Tax Incentives visit the website of the National Park Service at www.nps.gov/tps/tax-incentives.htm.

Monroe, MI 1910. Awnings were a prominent building feature on many of America's Main Streets. Photo: Walter P. Reuther Library, Wayne State University.

Three Steps

to Determine if a Project is Eligible for Tax Credits

First: Does your building contribute to a historic district recognized by the National Park Service?

The easiest way to determine if your building is located in a historic district is to contact your local historic district commission, municipal planning office, or State Historic Preservation Office (SHPO). Recognized historic districts, for purposes of federal tax credits, include those listed in the *National Register of Historic Places* (maintained by the National Park Service) and certain local historic districts that are certified by the National Park Service. Over one million buildings are already listed in the National Register, either individually or as part of historic districts.

If your property is located in one of these districts, it still must be designated by the National Park Service as a structure that *contributes* to the historic character of the district and thus qualifies as a “certified historic structure.” Not every building in a district is contributing. For example, when historic districts are designated, they are usually associated with a particular time period, such as “1820 to 1935.” In this case, a building constructed in 1950 would *not contribute* and would not be eligible for a 20% rehabilitation tax credit. Within this same district, an 1892 building might not contribute to the historic character if it was almost completely changed in the 1950s.

Second: Will your rehabilitation be “substantial”?

The cost of a project must exceed the greater of \$5,000 or the building’s adjusted basis. The following formula will help you determine if your project will meet the substantial rehabilitation test:

$$A - B - C + D = \text{adjusted basis}$$

A = purchase price of the property

B = the part of the purchase price attributed to the land cost

C = depreciation taken for an income-producing property

D = cost of any capital improvements made since purchase

For example, Mr. Dillon has owned a downtown building for a number of years. He originally purchased the property for \$150,000, and of that purchase price \$40,000 was attributed to the cost of the land. Over the years, Mr. Dillon has depreciated the building for tax purposes by a total of \$60,000. He recently replaced the roof at a cost of \$8,000. Mr. Dillon’s adjusted basis would be \$58,000. Since he intends to spend \$60,000 to fix a leaking basement wall; upgrade the heating/air conditioning systems; and repair the deteriorated storefront, the rehabilitation would qualify as a substantial project. If he completes the application process and receives approval, Mr. Dillon will be eligible for a 20% credit on the cost of his rehabilitation, or a \$12,000 credit.



Retaining historic character: The historic tin ceiling was retained during the rehabilitation for this Main Street clothing store.

Some expenses associated with a project may not qualify for the tax credit, such as an addition off the back of the building, new kitchen appliances, or paved parking.

Third: How does your project become “certified”?

To qualify for the tax credits you need to complete a 3-part application. In Part 1 of the application, you provide information to help the National Park Service determine if your building qualifies as a “certified historic structure.” In Part 2, you describe the condition of the building and the planned rehabilitation work. The proposed work will be evaluated based on the Secretary of the Interior’s *Standards for Rehabilitation* – a set of 10 widely accepted standards of practice for historic preservation. Part 3 of the application is submitted after completion of the project and is used by the National Park Service to certify that the project as completed meets the Standards and is a “certified rehabilitation.”

The three parts of the application should be completed in order. You will need to submit 2 copies of each part to your SHPO. One copy will be forwarded by the SHPO with a recommendation to the National Park Service, which will issue the final decision for each part of the application. You are strongly encouraged to submit Part 2 before beginning work, because if your initial project proposal does not meet the Standards, you still have the opportunity to modify the plans and avoid incompatible work.

To learn more about the Standards, visit the National Park Service website at www.nps.gov/tps or contact your State Historic Preservation Office (SHPO).

The Application

The Historic Preservation Certification Application (NPS Form 10-168) consists of 3 parts. This form can be downloaded from the web at www.nps.gov/tps/tax-incentives/application.htm.

Part 1 of the application is a request to obtain a determination by the National Park Service that your building is a “certified historic structure.” You will need to describe the physical appearance of the exterior and interior of the building, submit photographs, and provide a brief narrative on its history and significance to the historic district in which it is located. Part of this information is likely contained in the National Register Nomination for the district, which should be available from your local historic district commission, municipal planning office, or SHPO.

HISTORIC PRESERVATION CERTIFICATION APPLICATION		PART 1 – EVALUATION OF SIGNIFICANCE	
Property name	Houseal Building		
Property address	316 Main Street, City, State		
5. Description of physical appearance			
<p>The Houseal Building is a symmetrical two-story painted brick commercial building. The display windows are large plate-glass windows set in aluminum frames and have a metal-sided bulkhead. Each storefront has a recessed entry, with a pair of glass and aluminum doors circa 1960.</p> <p>The segmented arched window openings on the second floor have had their sashes removed some time ago and have been boarded up with plywood. There is a simple three brick course cornice with a tall parapet wall. Above the cornice, “HOUSEAL BUILDING” is applied in painted wood letters.</p> <p>The first floor interior consists of one large open space with structural posts running down the middle of the room, and an enclosed bathroom in the back right corner. It has wood floors and plaster walls. A dropped ceiling system obscures the original pressed metal still in place. A staircase along the left wall provides access to the second floor. The second floor interior has deteriorated due to water damage and has warped wood floors and plaster falling off the brick walls. Two rows of structural posts run from the front of the building to the rear and evidence indicates that there were historically two residential or office spaces separated by a central hallway.</p>			
Date of construction	c. 1890		
Date(s) of alteration(s)	Late 1940's, 1960's		
Has building been moved?	<input checked="" type="checkbox"/> no	<input type="checkbox"/> yes, specify date	
6. Statement of significance			
<p>The Houseal Building, a contributing building to the Downtown Historic District, is representative of the town's late 19th century commercial development and is within the district's period of significance, which ends in 1942. The building retains both its integrity of materials and historic form. The addition of aluminum doors and display windows occurred outside the period of significance of the district.</p>			



Fill out this form until all aspects of your project are fully described. Be sure to indicate details like proposed finishes (drywall, plaster, etc.) and planned methods of repair.



The photograph above shows the building described in the sample application prior to the rehabilitation work. Below left, the building is shown after its successful rehabilitation.

HISTORIC PRESERVATION CERTIFICATION APPLICATION		PART 2 – DESCRIPTION OF REHABILITATION	
Houseal Building	NPS Project Number		
316 Main Street, City, State			
Description of rehabilitation work: (Reproduce this page as needed to describe all work or create a comparable format with this information to describe all work, including building exterior and interior, addition, site work, landscaping, and new construction.)			
Number 1	Feature: Brick Facade	Date of Feature: 1890	
Describe existing feature and its condition			
<p>The building is constructed of red brick. It has been painted white sometime after the period of significance for the district. There is some brick spalling and a number of degraded mortar joints. The parapet cap was covered in Portland cement in a prior rehabilitation; there is some brick damage.</p>			
Photo numbers: 1-4	Drawing numbers: A-1		
Describe work and impact on feature			
<p>The paint will be removed from the brick following the guidance found in Preservation Brief 1: Assessing, Cleaning, and Water-Repellent Treatments for Historic Masonry Buildings, using the gentlest means possible. The mortar joints will be repaired using a mortar that matches the composition and appearance of the historic. All work will be done in accordance with the guidance found in Preservation Brief 2: Repointing Mortar Joints in Historic Masonry Buildings. Any replacement bricks required for repairs will match the historic appearance. The Portland cement and top course of brick will be removed; a new brick course and copper parapet cap will be installed.</p>			
Number 2	Feature: Storefront	Date of Feature: c. 1960	
Describe existing feature and its condition			
<p>The storefront system is a replacement consisting of two symmetrical recessed entrances with large plate glass display windows set in aluminum frames. Metal siding encases the bulkhead and columns. The entrances are paired aluminum and glass doors. There is a canvas awning across the width of the building.</p>			
Photo numbers: 1-4, 7, 8	Drawing numbers: A-1, A-1.2		
Describe work and impact on feature			
<p>This current storefront system will be replaced with a more historically compatible storefront. The brick bulkhead will be restored and a wooden storefront system that includes a transom will be installed. The two recessed entries will be retained in form. The paired doors will be replaced with a single wide glass door set in a wood frame. A new smaller retractable awning will be installed in a manner to reveal the decorative belt course above.</p>			

Part 2 of the application is where you describe the condition of the building prior to rehabilitation and the proposed work. Three forms of information are needed: a description or **narrative** for each main building feature (see sample left, below); ample **photographs** showing the condition and views of the property prior to beginning work (exterior and interior as well as the surrounding site); and architectural plans or **drawings** that include existing floor plans and proposed changes. If no work is planned for a major feature (such as windows, roof, 2nd floor plan, etc.), include a statement to that effect in the application and still provide photographs.

You are strongly encouraged to submit **Parts 1 and 2** during the early planning stages of the project. This provides the opportunity to make changes with minimal inconvenience or additional expense if some aspect of the work is determined not to meet the *Standards for Rehabilitation*. Completing work without Part 2 approval may result in incompatible work and denial of your project.

Part 3 of the application is a Request for Certification of Completed Work. This is a presentation of the finished rehabilitation and, once approved by the National Park Service, serves as documentation to the Internal Revenue Service that your project is a “certified rehabilitation.” Approval of the Part 3 application is a condition for obtaining federal rehabilitation tax credits.

Describing Your Project

Material and information to provide in your application include:

- **historic district map**
- **site plan**
- **photographs**
- **floor plans**
- **elevation drawings** (if exterior changes are planned)

On a copy of the **historic district map**, indicate where your building is located.

Photographs are essential in conveying what the building looks like prior to your rehabilitation. Think of the pictures as providing a “virtual tour” of your property. Include pictures showing each exterior side, the building’s relationship to surrounding structures, and close-ups of such primary exterior features as display windows, doors, and other character-defining features. On the interior, provide views of the main spaces on each floor, and include details like decorative ceilings, stairs, interior doors, and window trim. Document deteriorated conditions, such as crumbling brickwork or water stained plaster.

Number each photograph on the back and write the building’s address and a brief description of the image. Include a **floor plan** with the number of each photograph and an arrow pointing in the direction it was taken. Please indicate if the image is pre- or post-rehabilitation.

Elevation drawings often will be needed where major changes to the exterior of the building are planned. For example, a drawing should show the size, design, and details of a proposed new storefront. **Floor plans** of the existing room layouts are important and, where changes are proposed, **floor plans** showing the new layout are needed as well.

Supplemental material may also be helpful in describing your project. For example, product literature or a simple sketch might best detail a new side entrance door.

Remember that the SHPO and National Park Service reviewers who will be evaluating the application will probably be seeing your building for the first time through the material you provide. Your application should communicate: (a) the appearance of the building prior to beginning work; (b) the building’s condition on both the interior and the exterior prior to work; and (c) your proposed rehabilitation work.

Photo Documentation

Good quality photos (4 x 6 or larger) are needed. If using digital images, print in high-resolution on photo quality paper. Images printed on regular copy paper are discouraged due to the general lack of clarity and detail.

Label and number each photo and reference it in the application. In addition, key the picture to a floor plan with an arrow indicating the direction in which it was taken.



Photo 3, Pre-Rehab
2147 Hamilton Rd.
City, State

Front facade with cornice detail and mismatched mortar used in earlier repointing.

Example: Photo and label on reverse side.

Rehabilitating Your Main Street Building

The Historic Rehabilitation Tax Credit Program was created to encourage the rehabilitation and re-use of historic structures while preserving the historic character of individual buildings and districts. Many historic districts in small towns and cities have Main Streets of small shops and other commercial buildings, typically one to four stories high. The variety of architectural styles reflects the popular taste of different eras and the image an entrepreneur wanted to project.

The commercial storefront is usually one of the most significant elements of a Main Street building. In its simplest form, a storefront traditionally consisted of several display windows in a wood or metal frame, set above a bulkhead and below a glass transom, and an entranceway to the store on the first floor. It was also common for a second doorway to be located on one end of the storefront to provide access to the floors above. A sign and a canopy or awning often embellished the storefront.

When the historic storefront has survived largely unaltered, it should be repaired whenever possible, rather than replaced, in order to preserve both the historic appearance and historic materials. Similarly, a later storefront installed during the historic district's period of significance that may have acquired significance in its own right should be repaired. Where the existing storefront is not significant or has deteriorated beyond repair, the following guidance applies, in most cases, when designing a compatible replacement (for further guidance see *Preservation Brief 11: Rehabilitating Historic Storefronts*):

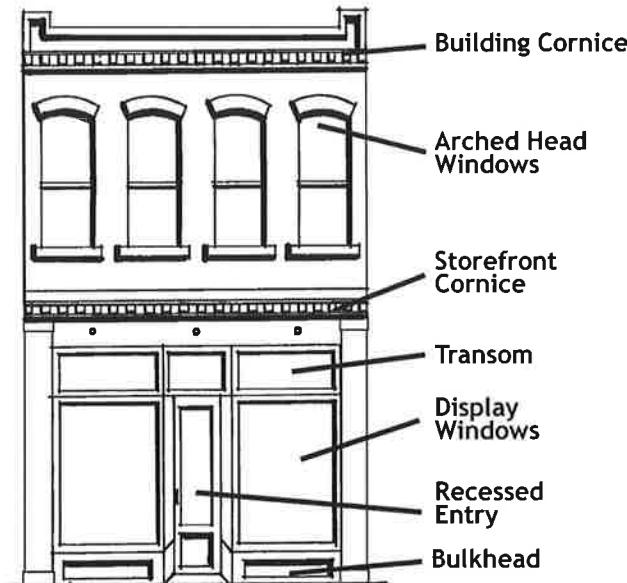
- Relate the new storefront to the design of the building.
- Correctly proportion display windows so as to consist predominantly of glass, typically with a transom above and bulkhead below.
- Retain, where possible, the location of the historic storefront entrances and any separate outside entrance to the upper floors. Duplicate the historic doors or replace with doors that are sized to the opening. (This usually requires a custom-made door to achieve the necessary height and width; avoid doors that have a residential appearance.)
- Ensure that replacement storefronts that aim to recapture the historic design are finished so as to be consistent with the historic appearance.
- With non-historic or replacement storefronts of a compatible design, avoid unpainted wood surfaces as well as in most cases bright metallic or bronze anodized metal finish.
- Design and attach signage and any canopies in a manner so as to avoid damage to the historic material and to be compatible with the features and appearance of the building facade.

Besides the storefront, windows on the upper floors and the roof cornice usually help define the historic character of small commercial buildings. Repair historic windows when possible, adding exterior or interior storm windows as needed. If the historic windows are beyond repair, suitable replacements are ones that match the appearance and materials of the old units.

Depending on the level of historic integrity, the interiors of Main Street commercial buildings on both the upper and lower floors often contribute to the historic character through their historic spaces, features, and/or finishes. Main Street buildings typically had a large open floorplan on all or part of the first floor, making it easily adaptable to numerous uses. While retaining the open plan is recommended, it may be possible to divide portions of the space, provided the sense of openness is preserved. Many commercial buildings retain their historic decorative ceilings, such as pressed metal, and their finished walls. These finished appearances should not be dramatically altered. Throughout the building avoid the removal of plaster to expose masonry walls or removing a pressed metal ceiling to expose the above floor joists. In most cases, mechanical ductwork is best concealed, rather than being left exposed, since exposed mechanicals can visually impact a historic space. Where ducts must be exposed, they should be painted to blend in with the ceiling.

When more floor space is needed, it is often possible to add to the rear of Main Street buildings and still qualify as a "certified rehabilitation." Rooftop additions to most small commercial buildings are not appropriate. While costs associated with new additions are not eligible for the rehabilitation credit, the work is still reviewed by the National Park Service.

Typical Storefront Details



Drawing courtesy of Winter & Company

Frequently Asked Questions

How is a tax credit different from a deduction?

A tax credit usually saves you more in income tax. Unlike a deduction, which reduces your taxable income, a credit is a dollar-for-dollar reduction in the amount of taxes you owe.

Can I receive federal tax credits for fixing up my personal residence?

In general, the tax credits are not available for rehabilitating your personal home. If you live in the upper floor and rent out the first floor, the money spent on rehabilitating the rental portion can be used, provided you meet the adjusted basis test. Contact your State Historic Preservation Office (SHPO) to determine the availability of any state credits or other tax incentives for personal residences.

If I have already begun my project, is it too late to get the credit?

As long as your building is in a registered historic district and you submit your Part 1 of the application prior to completing the project, then you may apply for the tax credits. However, you are strongly encouraged to submit rehabilitation plans (Part 2 of the application) prior to construction. In doing so, you ensure that any required changes are identified early and the resulting cost and inconvenience are minimized.

Can anyone help me through this process?

Help is available through a variety of resources. SHPOs and local historic preservation organizations, including state or local Main Street programs, are the best place to begin if you have questions. Advice is available on the National Park Service website (www.nps.gov/tps/) or through many SHPO websites. Some people choose to hire a professional consultant, but for most small Main Street projects owners complete the process themselves.

How long does it take to get approval of my proposed project?

You should submit your rehabilitation plans (Part 2 of the application) well in advance of beginning work—many states recommend six months prior—to allow time if additional information is needed by the SHPO or National Park Service. When original submittals contain sufficient information, reviews by the NPS are generally completed in 30 days, once received from the SHPO.

When can I claim the tax credit?

A credit may be claimed in the same year the building is placed in service. Where the building is never out of service, the credit is usually taken in the year in which the rehabilitation is completed.

How are the Federal and local reviews different?

Local commissions develop their own guidelines that are particular to the district and the community's preservation goals. Under the Federal tax credit program, the Secretary of the Interior's *Standards for Rehabilitation* are applied uniformly to projects from across the country. Work on both the exterior and the interior of a building is reviewed by the SHPO and NPS, while local review commissions generally only consider exterior work.

Are there any application fees?

It depends on the cost of your project. For information on current fees, visit our web site at www.nps.gov/tps/tax-incentives/application-process.htm.



Approval by the National Park Service for purposes of federal tax credits is a separate and different process from that of approval by a local architectural review commission for purposes of obtaining a certificate of appropriateness.

To locate your State Historic Preservation Office visit www.ncshpo.org

This booklet was prepared by Daniel Bruechert, Technical Preservation Services Branch, Heritage Preservation Service, National Park Service, with the assistance of Charles Fisher, National Park Service. Thanks are extended to Elizabeth Creveling and Jennifer Parker of the National Park Service for their collaboration and Michael Auer for his review. All photographs are from National Park Service files unless otherwise indicated.

First-time user guides for owners of small buildings interested in the federal rehabilitation tax credits are prepared pursuant to the National Preservation Act, as amended, which directs the Secretary of the Interior to develop and make available information concerning the preservation of historic properties. This and other guidance on rehabilitating small buildings can be found on our web site at www.nps.gov/tps.

Introduction to Federal Tax Credits for Rehabilitating Historic Buildings

Wood Frame Houses



National Park Service
U.S. Department of the Interior
Technical Preservation Services

- *Do you own a frame house that is listed in the National Register of Historic Places?*
- *Does it need repair?*
- *Will it be used for rental housing or a business?*

If you answered **YES** to all three questions, then you should be aware of a program that offers significant federal tax incentives for rehabilitating historic buildings.

The Program

Administered by the National Park Service in conjunction with State Historic Preservation Offices (SHPO), the **Federal Historic Preservation Tax Incentives program** offers a 20% federal tax credit for qualified rehabilitation expenses. Thousands of historic property owners across the country have already utilized these tax incentives to rehabilitate wood frame houses and similar properties.

Why does this program exist?

Recognizing the importance of preserving our built heritage and the need to encourage the rehabilitation of deteriorated properties, Congress created in 1976 federal tax incentives to promote historic preservation and community revitalization. These tax incentives have successfully spurred the rehabilitation of historic structures of every period, size, style, and type.

Tax Credit Basics

- In general, a tax credit is a dollar-for-dollar reduction in the amount of taxes you owe.
- The amount of credit under this program equals 20% of the qualifying costs of your rehabilitation.
- A project must be “substantial” in that your qualifying rehabilitation expenses must exceed the greater of \$5,000 or the adjusted basis of the building.
- Your building needs to be certified as a historic structure by the National Park Service.
- Rehabilitation work has to meet the Secretary of the Interior’s *Standards for Rehabilitation* as determined by the National Park Service.

The process is straight-forward, and the tax savings can be significant. For example, a property owner planning a project estimated to cost \$60,000 could realize a tax credit of \$12,000 in federal income taxes.

Applicants are encouraged to consult their accountant or tax advisor to make sure that this federal tax credit is beneficial to them. For additional information visit the Historic Preservation Tax Incentives website of the National Park Service and click on “IRS Connection.”

Top: This house in North Carolina is an example of one of the more common forms of historic wood frame buildings.

Left: Traditionally, exterior cladding of frame houses varied from weatherboard or clapboard to board-and-batten or shingles, as shown here.



Three Steps

to Determine if a Project is Eligible for Tax Credits

First: Is your wood frame house listed in the National Register of Historic Places?

Buildings may be listed as a part of a historic district or individually. The easiest way to determine if your building is listed is to contact your local historic district commission, municipal planning office, or State Historic Preservation Office (SHPO). Over one million buildings are already listed in the National Register.

If your property is located in a National Register district, it still must be designated by the National Park Service as a structure that retains historic integrity and *contributes* to the historic character of the district, thus qualifying as a “certified historic structure.” Not every building in a district is contributing. For example, when historic districts are designated, they are usually associated with a particular time period, such as “mid-1800s to 1935.” In this case, a 1950s ranch style house would *not contribute* and would not receive a 20% rehabilitation tax credit.

You can request the National Park Service to designate your building a “certified historic structure” by completing and submitting Part 1 of the Historic Preservation Certification Application, described on the next page.

If your property is individually listed in the National Register, then Part 1 of the application is only necessary if there are additional buildings on the property like a detached garage.

Second: Will your rehabilitation be “substantial”?

The cost of a project must exceed the greater of \$5,000 or the building’s adjusted basis. The following formula will help you determine if your project will be substantial:

$$A - B - C + D = \text{adjusted basis}$$

A = purchase price of the property (building and land)

B = the cost of the land at the time of purchase

C = depreciation taken for an income-producing property

D = cost of any capital improvements made since purchase

For example, Mr. Jones has owned a small Victorian rental cottage for a number of years. He originally purchased the property for \$150,000, and of that purchase price \$70,000 was attributed to the cost of the land. Over the past years, Mr. Jones has depreciated the building for tax purposes by a total of \$41,000. He recently replaced the air conditioning system at a cost of \$1,500. Therefore, Mr. Jones’s adjusted basis is \$40,500 ($150,000 - 70,000 - 41,000 + 1,500$). Since he intends to spend \$50,000 to install a new roof, repair rotten siding, upgrade the wiring, and rebuild the severely deteriorated front porch, then the rehabilitation will qualify as a substantial project. If he completes the application process and receives approval, Mr. Jones will be eligible for a 20% credit on the cost of his rehabilitation, or a \$10,000 credit.



For additional space, it may be possible to enclose a secondary porch with glass. Be sure to retain the distinctive features of the porch like the columns or posts, balusters, and railing. This can usually be accomplished by placing a glass wall behind these features. From the exterior the historic design of the porch should still be apparent as shown above.

Some expenses associated with a project may not qualify for the tax credit, such as the addition of a new room off the back, new kitchen appliances, and landscaping. For more information about qualified expenses follow “The IRS Connection” link at www.nps.gov/history/hps/tps/tax.

Third: How does your project become “certified”?

To qualify for the tax credits you need to complete a 3-part application. In Part 1 of the application, you present information to help the National Park Service determine if your building is a “certified historic structure.” In Part 2, describe the condition of the building and the planned rehabilitation work. The proposed work will be evaluated based upon the Secretary of Interior’s *Standards for Rehabilitation*—a set of 10 rules of practice for historic preservation. Part 3 of the application is submitted after completion of the project and is used by the National Park Service to certify that the project as completed meets the *Standards* and is a “certified rehabilitation.”

The application needs to be completed in sequential order. Send 2 copies of each part to your SHPO. One copy will be forwarded by the SHPO along with a recommendation to the National Park Service, which will issue the final decision for each part of the application. It is especially important to submit Part 2 *before* beginning work, because if your initial project proposal does not meet the *Standards*, you are provided an opportunity to modify the plans.

To learn more about the Standards, visit the National Park Service website at www.nps.gov/history/hps/tps/ or contact your SHPO.

The Application

The Historic Preservation Certification Application (NPS Form 10-168) consists of 3 parts. This form can be downloaded from the web at www.nps.gov/history/hps/tps/tax/ or a copy can be obtained from your SHPO.

Part 1 of the application is a request to obtain a determination by the National Park Service that your house is a certified historic structure. You will need to describe the physical appearance of the exterior and interior of the house and provide a brief narrative on its history and significance to the historic district in which it is located. Part of this information is likely contained in the National Register Nomination of the district, which should be available from your local historic district commission, municipal planning office, or SHPO. If your house is listed individually in the National Register and there are no additional structures on your property, then you may omit Part 1.

SAMPLE		HISTORIC PRESERVATION CERTIFICATION APPLICATION –	
		PART 1	
Property Name		NPS Office Use Only	
505 Pine Street, City, State		Project Number: _____	
Property Address			
Description of physical appearance: This building is a two-story wood-frame, side-gable house on a brick foundation. The house was originally three bays wide and two bays deep, but was later extended to include a fourth bay on the front. There is a one-and-a-half story shed addition and a two-story shed addition on the back. The windows are predominantly historic 9/9 double-hung sashes. The front door is a modern replacement in the historic door frame with sidelights and a small fanlight. The roof is covered with asphalt shingles, and there is a wide eave with decorative cornice featuring dentils.			
The floor plan retains the historic central hall on the first and second floors. The entrance hall is flanked by two large rooms that have historic plaster finishes and wood trim. The room to the left of the hall retains its historic fireplace and mantel. The remainder of the floor plan is the result of numerous remodeling efforts.			
Date of Construction: ca. 1815		Source of Date: <u>National Register Historic District nomination</u>	
Date(s) of Alteration(s): mid-1800s, ca. 1900, ca. 1920s, ca. 1950s			
Has building been moved? <input type="checkbox"/> yes		If so, when? _____	
Statement of significance: This house is listed as a contributing building in the National Register district. The earliest section of the house retains much of its historic features and finishes; later changes to the house reflect the character of the neighborhood as a continually evolving and active area of the city.			



This sample application was developed for the house pictured above.

SAMPLE		HISTORIC PRESERVATION CERTIFICATION APPLICATION –	
		PART 2	
Property Name		NPS Office Use Only	
505 Pine Street, City, State		Project Number: _____	
Property Address			
5. DETAILED DESCRIPTION OF REHABILITATION / PRESERVATION WORK – Includes site work, new construction, alterations, etc. Complete blocks below.			
Number 1	Architectural feature <u>Siding</u>	Describe work and impact on existing feature: Most of the siding will be scraped, sanded, and repainted. Those boards that are in poor condition will be replaced with cedar that will be cut to match the dimensions and profile of the existing weatherboard. All new siding will be installed to match the overlap distance of the existing.	
Approximate Date of feature <u>ca. 1900</u>		Photo no. <u>1-7, 10, 18</u> Drawing no <u>N/A</u>	
Describe existing feature and its condition: The current siding appears to have been installed at the time of the 1900 expansion. The weatherboard is in fair condition except for those boards at the front of the house near the ground.			
Number 2	Architectural feature <u>Windows</u>	Describe work and impact on existing feature: The historic windows on the front will be repaired, cleaned, and repainted. Windows on the back will be replaced with wood windows in a 1/1 double hung configuration since this section of the house is much later than the front. Storm windows may be added.	
Approximate Date of feature <u>mid-1800s</u>		Photo no. <u>1-7, 12, 15, 26-30</u> Drawing no <u>manfr's dwgs</u>	
Describe existing feature and its condition: The windows on the front and sides of the house are all matching 9/9 double-hung wood sash. Windows on the back are a variety of 20 th century styles.			
Number 3	Architectural feature <u>Front porch</u>	Describe work and impact on existing feature: The porch roof structure will be repaired with new asphalt shingles and the pediment and barrel arch will be scraped, sanded, and repainted. New posts matching those seen in the historic pictures will be constructed, and the stone stoop will be leveled and reset.	
Approximate Date of feature <u>ca. 1815</u>		Photo no. <u>1-8-9</u> Drawing no <u>A1.4</u>	
Describe existing feature and its condition: Only the roof structure and a stone stoop remain. The roof is in repairable condition. Historic pictures show the design of the original posts.			
Number 4	Architectural feature <u>HVAC</u>	Describe work and impact on existing feature: A new HVAC system will be installed with separate units for each apartment. Ducts for the first floor will be located in the crawlspace, and ducts serving the 2 nd floor will be run through the attic.	
Approximate Date of feature <u>1972</u>		Describe existing feature and its condition:	

Complete these boxes until all aspects of your project are fully described. Be sure to include details like proposed finishes (drywall, plaster, etc.) and planned methods of repair. Even items that do not qualify for the credit like new additions and landscaping should be included.

Part 2 of the application is where you describe the condition of the building prior to rehabilitation and the proposed work. Three forms of information are needed: a description or **narrative** for each main building feature (see sample left, below); ample **photographs** showing the condition and views of the property prior to beginning work (exterior and interior as well as the surrounding site); and architectural plans or **drawings** that include existing floor plans and proposed changes. If no work is planned for a major feature (such as windows, roof, 2nd floor plan, etc.), include a statement to that effect in the application and also provide photographs.

You are encouraged to submit **Parts 1 and 2** during the early planning of the project. This provides the opportunity to make changes with minimal inconvenience or additional expense if some aspect of the work is determined not to meet the *Standards for Rehabilitation*.

Part 3 is your Request for Certification of Completed Work. This is a presentation of the finished rehabilitation and, once approved by the National Park Service, serves as documentation to the Internal Revenue Service that your project is a "certified rehabilitation." Approval of the Part 3 application is a condition for obtaining federal rehabilitation tax credits.

Describing Your Project

Material and information to provide in your application include:

- **historic district map** (Part 1)
- **site plan**
- **photographs**
- **floor plans**
- **elevation drawings** (if exterior changes are planned)

On a copy of the **historic district map**, indicate where your building is located. It is usually helpful to include a simple sketch or **site plan** to convey the relationship of your house to other site features such as a detached garage, driveway, sidewalk, or gazebo.

Photographs are essential in conveying what the property and building looks like prior to your rehabilitation. Think of the pictures as providing a "virtual tour" of your property. Include pictures showing each side of the exterior, the building's relationship to surrounding structures, and close-ups of such primary exterior features as windows, doors, and porches. On the interior, include views of all rooms and main spaces such as hallways, and features such as stairs, decorative trim, doors, and fireplace mantels. Document deteriorated conditions such as rotten floorboards or crumbling plaster. Number

each photograph, and write the building's address and a brief description of the image on the back. The pictures should be keyed to a **floor plan** (or **site plan** for exterior photographs) with an arrow pointing in the direction it was taken. Please indicate if the image is pre- or post-rehabilitation.

Elevation drawings often will be needed where changes to the exterior of the building are planned. For example, a drawing should show the size and design of a proposed new back porch. **Floor plans** of the existing room layouts must be provided and, where changes are proposed, floor plans showing the new layout are needed as well.

Supplemental material may also be helpful in describing your project. For example, product literature or a simple sketch might best describe a new front door that will replace an existing, non-historic one.

Remember that the SHPO and National Park Service reviewers who will be evaluating the application will probably be seeing your building for the first time through the material you provide. Your application should communicate: (a) the appearance of your building prior to beginning work; (b) the building's condition on both the interior and the exterior prior to work; and (c) your proposed rehabilitation work.

Photo Documentation

Good quality photos (4 x 6 or larger) are needed. If using digital images, print in high-resolution on photo quality paper. Images printed on regular copy paper are discouraged due to the general lack of clarity and detail.

Label and number each photo and reference it in the application. In addition, key the picture to a floor plan with an arrow indicating the direction in which it was taken.



**Photo 15, Pre-Rehab
110 Walnut Avenue
City, State**

View of main staircase in entry hall. Note historic light fixture on ceiling.

Example: Photo and label on reverse side.

Rehabilitating Wood Frame Houses

The historic character of an old house is determined not just by its general size, shape, and style, but also by architectural elements and materials such as wood windows, slate roof, or brick chimneys. The craftsmanship that went into constructing the house, as well as the materials used, are contributing factors to a building's character.

Unlike an old brick or stone house, or a modern home mostly made of glass, an old wood-frame house was made almost entirely of one material—milled lumber. Typically, the structure, siding, doors, windows, porches, floors, trim, and sometimes even the roof were all wood. In rehabilitating a wood-frame house, the goal is to preserve as many of the historic features and materials as possible while making necessary repairs, upgrades, and retrofits for continuing use.

Porches

A front porch typically makes a strong stylistic statement. Architectural and decorative details, such as columns, brackets, and scrollwork, are often concentrated on the porch. Wood porches are especially vulnerable to decay—like that caused by wood rot or termites—because of exposure to the elements. Where deterioration is extensive, replacement materials should be of a similar wood that has been cut and detailed to match the historic feature, then painted.

The scale and proportions of the front porch and its individual features are important to retain. Where building codes require railings to be raised and a variance cannot be obtained, the historic balustrade can be retained by adding a simple rail extension, rather than replacing historic elements with new, elongated versions. Because the front porch is usually such an important feature, there is little room to alter the form or details. However, for rear and some secondary side porches, sensitive alterations can usually be accommodated.



Inappropriate treatment: As the other houses on this street indicate, this front porch was historically open. It has been inappropriately enclosed with a solid base wall and screened openings. In addition, the wood has been stained rather than painted, which is an unusual finish for exposed wooden features and is generally not recommended.

Front Entrance

The front door serves as the building's primary entry and should be retained. Even when the changing use of the house may decrease the functionality of the historic main entrance, it is important to preserve the location, size, configuration, and architectural details of the historic primary doorway.

Windows

Old windows were traditionally well made and can usually be repaired to extend their useful life. Though a common misconception, it is not necessary to replace historic single-pane windows to improve the energy efficiency of a building. By repairing the existing windows and adding appropriate storm windows or by simply repairing the windows and the surrounding frame, the energy efficiency can be greatly improved. An added benefit of retaining historic windows is that they can be repaired in the future whereas many new window systems have to be totally replaced when damaged or deteriorated.



Where windows are deteriorated beyond repair, a replacement should match the historic window. A matching window copies the basic configuration and important details, such as the size and profile of muntins. Contemporary features like flat muntins sandwiched within insulating glass are generally not appropriate on historic houses.

Siding

The exterior cladding of historic wood frame houses is most often horizontal weatherboard (or clapboard), though board-and-batten and shingles are also common. Old siding should be retained and repainted whenever possible. When damaged sections are repaired or replaced, it is important to match details such as profiles, depth of overlap, and overall dimensions.

Modern substitute materials are best suited for use on new additions to buildings and should not generally be used to replace historic wood siding.

Rehabilitating Wood Frame Houses (*continued*)



Respecting Important Interior Spaces

Most houses are reused as residential properties. Whether serving as a single-family rental house or as multiple units, it is important to preserve significant interior features and finishes, such as decorative cornice moldings, the main staircase, and fireplace mantels. The basic room plan of the building is also important, especially the primary spaces like the main entry, living and dining rooms, and for many buildings, even the second floor hall. If these spaces have not previously been dramatically altered, every effort should be made to retain them. This is particularly important for certain house types, including shotguns, four-squares, and split-levels, which derive their names from their basic floor plans.

When creating multiple units within a historic single-family house, careful attention should be paid to how individual units are separated. For multi-story houses, special care must be taken when separating lower and upper floors to ensure that the historic staircase and the entrance hall retain their historic appearance.

Required alterations can more easily be accommodated within secondary spaces. It is generally acceptable to shift walls between bedrooms, enlarge or create a new bathroom, combine a kitchen and laundry to make a larger kitchen, or convert a former bedroom into a kitchen for a new apartment on an upper floor.

Where older residential neighborhoods have become more commercial, historic houses are often rehabilitated for use as offices or specialty shops. Even with these new uses, primary interior spaces need to be retained and significant interior features and finishes preserved. *Photo: Kansas SHPO.*

Frequently Asked Questions

Is a tax credit different from a deduction?

Yes. A tax credit usually saves you more in income tax. Unlike a deduction, which reduces taxable income, a credit is a dollar-for-dollar reduction in the amount of taxes you owe.

Can I receive tax credits for fixing up my personal residence?

In general, federal tax credits are not available for rehabilitating your personal home. However, some states offer a similar state tax credit for homeowners. Contact your State Historic Preservation Office (SHPO) to determine the availability of these incentives.

When can I claim the tax credit?

A credit may usually be claimed in the same year the building is placed in service. Where the building is never out of service, the credit is usually taken in the year in which the rehabilitation is completed and you submit your Request for Certification of Completed Work (Part 3 of the application).

If I have already begun my project, is it too late to qualify for the credit?

As long as your building is listed in the National Register, either individually or as part of a district, and you submit Part 1 of the application prior to completing the project, then you may apply for the tax credits. However, you are strongly encouraged to submit rehabilitation plans (Part 2 of the application) prior to construction to ensure that any problematic treatments are identified early.

Are there any application fees?

It depends on the cost of your project. For information on current fees, visit our web address listed below.

How can I learn more about these tax credits?

Go online to the National Park Service web site at www.nps.gov/history/hps/tps/tax/ or contact your SHPO for printed material.

To locate your State Historic Preservation Office visit www.ncshpo.org

This booklet was prepared by Jennifer C. Parker, Technical Preservation Services Branch, Heritage Preservation Services, National Park Service, with the assistance of Charles Fisher, National Park Service. Thanks are extended to Michael Auer, Anne Grimmer, and Elizabeth Creveling of the National Park Service for their review. All photographs are from NPS files unless otherwise indicated.

First-time user guides for owners of small buildings interested in the federal rehabilitation tax credits are prepared pursuant to the National Preservation Act, as amended, which directs the Secretary of the Interior to develop and make available information concerning the preservation of historic properties. This and other guidance on rehabilitating small buildings can be found on our web site at www.nps.gov/history/hps/tps/ or by writing Technical Preservation Services-2255, National Park Service, 1849 C Street NW, Washington, D.C. 20240.

Introduction to Federal Tax Credits for Rehabilitating Historic Buildings

Barns



National Park Service
U.S. Department of the Interior
Technical Preservation Services



- *Do you own a historic barn?*
- *Does it need to be fixed up?*
- *Will it be used for either agricultural purposes or some other business?*

If you answered YES to all three questions, then you should be aware of a program that offers significant federal tax incentives for rehabilitating historic buildings.

The Program

Administered by the National Park Service in conjunction with State Historic Preservation Offices (SHPO), the **Federal Historic Preservation Tax Incentives program** offers a 20% federal tax credit for qualified rehabilitation expenses. Property owners across the country have already used these tax incentives to rehabilitate a wide range of historic barns.

Why does the program exist?

Recognizing the importance of preserving our built heritage and the need to encourage the rehabilitation of deteriorated properties, in 1976 Congress created federal tax incentives to promote historic preservation and community revitalization. These tax incentives have successfully spurred the rehabilitation of historic structures of every period, size, style, and type.

Tax Credit Basics

- The amount of credit under this program equals 20% of the qualifying costs of your rehabilitation.
- A project must be “substantial” meaning your qualifying rehabilitation expenses must exceed the greater of \$5,000 or the adjusted basis of the building.
- Your building needs to be certified as a historic structure by the National Park Service.
- Rehabilitation work has to meet the Secretary of the Interior’s *Standards for Rehabilitation* as determined by the National Park Service.

The process is straightforward, and the tax savings can be significant. For example, a property owner planning a project estimated to cost \$60,000 could realize a tax credit of \$12,000 on their federal income taxes. Even a simple project such as a new roof that would cost as little as \$5,000 is potentially eligible for the tax credits.

You are encouraged to consult an accountant or tax advisor to make sure that this federal tax credit is financially beneficial in your case.

For additional information visit the Historic Preservation Tax Incentives website at www.nps.gov/history/hps/tps/tax/ and click on “IRS Connection.”



A common building type, bank barn construction allows ground entry from two levels. Photo: Brenda Spencer, Kansas Historical Society.

Three Steps

to Determine if a Project is Eligible for Tax Credits

First: Is your barn listed in the National Register?

The National Register of Historic Places is the official list of historic places worthy of preservation. Properties may be listed as part of a historic district or individually in the National Register. Many communities have created rural historic districts to list historic farms and ranches that have old barns. Historic buildings in this type of district may be found in farmstead clusters, as opposed to a historic district in a city that has contiguous boundaries. Historic barns can also be found in more populated areas, such as small barns on residential properties in a town setting. The easiest way to determine if your property is listed is to contact your local planning office or State Historic Preservation Office (SHPO).

If your property is located in a National Register district, it still must be designated by the National Park Service as a property that contributes to the historic character of the district, thus qualifying it as a "certified historic structure." Not every barn in a district is contributing. For example, when historic districts are designated, they are usually associated with a particular time period, such as "1880 to 1935." In this case, a 1950 barn would not contribute and would not be eligible for a 20% rehabilitation tax credit. On the other hand, a barn dating to 1932 could be eligible for the tax credit.



The sliding door is an important feature of this simple farm building.
Photo: Thomas Vitanza, NPS.

You can request the National Park Service to designate your property a "certified historic structure" by completing and submitting Part 1 of the Historic Preservation Certification Application described on the next page.

For farms and ranches, a single Part 1 application is used to describe all buildings on the property, including non-income producing buildings such as a private residence, even if the only work planned is to the historic barn. This is necessary, in all cases except when the barn is individually listed in the National Register. The National Park Service will then identify which buildings, including the barn, contribute to the historic property.

Second: Will your rehabilitation be "substantial"?

The cost of the project must exceed the greater of \$5,000 or the barn's adjusted basis used for tax purposes. The following formula may help you determine if your project will be substantial:

$$A - B - C - D + E = \text{adjusted basis}$$

A = purchase price of the property (building and land)

B = the cost of the land at the time of purchase

C = the cost attributed to buildings other than the barn

D = depreciation taken on barn for tax purposes

E = cost of capital improvements made to the barn since its purchase

For example, a number of years ago, Mr. MacDonald purchased a small farm with a main house, dairy barn, ice house, and implement shed. He paid \$150,000. Of that purchase price, \$70,000 was attributed to the cost of the land and \$60,000 was attributed to the cost of buildings other than the barn. Over the years, Mr. MacDonald has depreciated the barn for tax purposes by a total of \$10,000. Recently, he replaced the wiring in the barn at a cost of \$2,500. Therefore, Mr. MacDonald's adjusted basis is $\$12,500(150,000-70,000-60,000-10,000+2,500)$. Since he intends to spend \$20,000 to replace the roof on the barn, fix the foundation, and repaint, the rehabilitation will qualify as a substantial project. If he completes the application process and receives approval, Mr. MacDonald will be eligible for a 20% credit on the cost of his rehabilitation, or a \$4,000 credit. In some cases, such as long-standing ownership, alternate means of establishing the basis for tax purposes of the barn may be necessary.

If you have owned the barn for a long time, its adjusted basis could be so low that only \$5,000 has to be spent to qualify for the tax credit. A project as simple as a new roof for a barn might meet this requirement. While a new coat of paint may not qualify for the tax credit by itself, since it is considered maintenance rather than a capital improvement, painting may qualify as an eligible expense for purposes of the tax credits if included as part of other rehabilitation work. It usually is not necessary to undertake a large and expensive project to take advantage of the savings available through the tax credit when the basis is low.

Keep in mind that if you are rehabilitating two contributing buildings on your property, you must calculate the costs separately for each building regarding qualified rehabilitation expenses and their individual tax basis. Also, some expenses associated with a project may not qualify for the tax credit, such as an exterior addition to a barn. For additional information concerning eligible expenses, go to www.nps.gov/history/hps/tps/tax/IRS.htm and click on "Frequently Asked Questions."

The Application

The Historic Preservation Certification Application (NPS Form 10-168) consists of 3 parts. This form can be downloaded from the web at www.nps.gov/history/hps/tps/tax/ or a copy can be obtained from your SHPO.

Part 1 of the application is a request to obtain a determination by the National Park Service that your barn is a certified historic structure. You will need to describe the physical appearance of the exterior and interior of the barn, and provide a brief narrative on its history and significance to the historic district in which it is located. Some of this information is likely contained in the National Register Nomination of the district, which should be available from your local historic district commission, municipal planning office, or SHPO. If there are other buildings on your historic property, describe their appearance and significance to the district as well. Even if you are not planning on doing work on all the buildings, they must be briefly described in the Part 1. If your barn is listed individually in the National Register and is the only structure on your property, then you may omit Part 1.

SAMPLE		HISTORIC PRESERVATION CERTIFICATION APPLICATION –	
Property Name		PART 1	
206 Old Farm Road, City, State		NPS Office Use Only	
Property Address		Project Number	
Description of physical appearance: This farm occupies 244 acres and includes a house, cattle barn, implement shed, grain silo, spring house, and a garage. The house is a two story, side hall frame house with a gable roof.			
The barn is two stories with a gambrel roof, and board and batten siding. It is rectangular in shape and has an attached calf shed. The roof has modern asphalt shingles. The board and batten siding has been replaced on the south side of the building with corrugated metal, which is weathered and rusted. The foundation is limestone and there is a concrete floor at the lowest level. Many of the window openings in the foundation have been filled in with glass block. There are door openings on the north, south, and east sides. There is an attached concrete stave silo with a metal roof on the west side of the barn.			
Date of Construction: 1909		Source of Date: National Register Historic District nomination	
Date(s) of Alteration(s): 1920, 1972, 1981			
Has building been moved? <input type="checkbox"/> yes		If so, when? _____	
<input type="checkbox"/> no			
Statement of significance: The farmstead is part of the North County Agricultural Historic District. The district is comprised of agricultural sites, buildings, and structures built between 1880 and 1946. This barn is a relatively intact example of an early 20th century cattle barn in this region.			



This sample application was developed for the barn on the right pictured above. The image below, left, shows a deteriorated section of the limestone foundation.



Complete these boxes making sure that all aspects of your project are fully described. Include planned methods of repair and details on proposed new construction. Even items that do not qualify for the credit such as new additions and landscaping must be included.

SAMPLE		HISTORIC PRESERVATION CERTIFICATION APPLICATION –	
Property Name		PART 2	
206 Old Farm Road, City, State		NPS Office Use Only	
Property Address		Project Number	
5. DETAILED DESCRIPTION OF REHABILITATION / PRESERVATION WORK – Includes site work, new construction, alterations, etc. Complete blocks below			
Number 1	Architectural feature <u>Barn siding</u>	Describe work and impact on existing feature: The rusted and weathered corrugated metal siding on the south side will be replaced with board and batten wood siding to match the other facades. Any deteriorated portions of wood siding will be replaced to match the existing.	
Approximate Date of feature <u>ca. 1920, 1972</u>			
Describe existing feature and its condition: The north, east, and west facades have painted board and batten siding. Most of the siding is in good condition. The south side has modern corrugated metal siding which is deteriorated.			
Photo no. <u>1-7, 10</u>	Drawing no. _____		
Number 2	Architectural feature <u>Roof</u>	Describe work and impact on existing feature: All shingles will be removed. New asphalt shingles will be installed that recall the appearance of wood shingles.	
Approximate Date of feature <u>1981</u>			
Describe existing feature and its condition: The roof has two layers of asphalt shingles over deteriorated wood shingles. There are several portions which are damaged and need replacement.			
Photo no. <u>1-7, 12</u>	Drawing no. _____		
Number 3	Architectural feature <u>Limestone foundation</u>	Describe work and impact on existing feature: The foundation will be repointed where damaged. Mortar will match the existing in color and composition. The joint profile will match the existing as well. Where the limestone is damaged, matching pieces will be used to replace deteriorated sections. New stone will match the existing in color and shape. All work will be done in accordance with NPS Preservation Brief 2.	
Approximate Date of feature <u>1909</u>			
Describe existing feature and its condition: The limestone foundation is in relatively good condition. Several places have deteriorated mortar joints and damaged stone. There is a large crack at the SE corner.			
Photo no. <u>1-8-9, 11</u>	Drawing no. _____		
Number 4	Architectural feature <u>Main house, cattle barn, implement shed, grain silo, spring house, and a garage</u>	Describe work and impact on existing feature: No work is planned for these features.	
Approximate Date of feature <u>varies</u>			

Part 2 of the application is where you describe the condition of the barn prior to rehabilitation and the proposed work. Two forms of information are needed: a **description** for each major building feature (see sample, left, below) and ample **photographs** showing the condition and views of the property prior to beginning work (exterior and interior as well as the surrounding site). If no work is planned for a major feature or building (such as main house, roof, siding, etc.), include a statement to that effect in the application and also provide photographs.

Parts 1 and 2 should be submitted during the early planning stages of the project. This provides the opportunity to make changes with minimal inconvenience or additional expense if some aspect of the work is determined not to meet the *Standards for Rehabilitation*.

Part 3 is your Request for Certification of Completed Work. This is a presentation of the finished rehabilitation and once approved by the National Park Service, serves as documentation to the Internal Revenue Service that your project is a “certified rehabilitation.” Approval of the Part 3 application is a condition for obtaining tax credits.

Third: How does your project become “certified”?

To qualify for the tax credits you need to complete a 3-part application. In Part 1 of the application, you present information to help the National Park Service determine if your property is a “certified historic structure” and which buildings on your property are contributing. In Part 2, you describe the condition of the barn and the planned rehabilitation work. The proposed work will be evaluated based upon the Secretary of the Interior’s *Standards for Rehabilitation*—a set of 10 rules of practice for historic preservation. Part 3 of the application is submitted after completion of the project and is used by the National Park Service to certify that the project as completed meets the *Standards* and is a “certified rehabilitation.”

The application needs to be completed in sequential order. Send two copies of each part to your SHPO. The SHPO will forward one copy with a recommendation to the National Park Service, which will issue the final decision for each part of the application. It is especially important to submit Part 2 before beginning work, because if your project proposal does not meet the *Standards*, you are provided an opportunity to modify the plans.

Photo Documentation

Good quality photos (4 x 6 or larger) are needed. If using digital images, print in high-resolution on photo quality paper.

Label and number each photo and reference it in the application. If plans are provided, key the picture to a floor plan with an arrow indicating the direction in which it was taken.



**Photo 15, Pre-Rehab
206 Old Farm Road
City, State**

View of window on north elevation. Note deteriorated mortar in stone wall.

Example: Photo and label on reverse side.

Describing Your Project

Material and information to provide in your application include:

- *historic district map and site plan*
- *photographs of all buildings on the property*
- *floor plans* (if major interior changes are planned)
- *elevation drawings* (if exterior changes are planned)

On a copy of the historic district map, mark where your property is located. It is also important to include a *site plan* that conveys the relationship between all buildings on your property such as the farm house, hay barn, cattle barn, and machine shed. Also indicate where historic access roads are located and other important site features such as a windmill or pond.

Photographs of the property and building prior to rehabilitation are essential. Think of the pictures as providing a “virtual tour” of your property. Include views of each side of the barn, interior spaces, and close-ups of features such as historic siding, windows, and doors. Show deteriorated conditions such as rotten floorboards or sagging roof beams. Number each photograph, and write the property’s address and a brief description of the image on the back. If possible, key the pictures to a *floor plan* (or a *site plan* for exterior photographs) with an arrow pointing in the direction it was taken. Indicate if the images are pre- or post-rehabilitation. Barns are traditionally simple buildings in design and interior plan, and *elevation drawings* and *floor plans* are required only if major changes are proposed.

Remember that the SHPO and National Park Service reviewers evaluating the application will probably be seeing your building for the first time through the material you provide. Your application should communicate: (a) the appearance of your property prior to beginning work; (b) the barn’s condition on both the interior and the exterior prior to work; and (c) your proposed rehabilitation work.

Rehabilitating Historic Barns

Farms and ranches are characterized by their collection of buildings and structures serving an agricultural purpose. Besides a house and barn, they typically consist of other supporting structures such as a grain storage building or implement shed.

It is not uncommon for the function of a barn to evolve or change over time just as with ranches and farming activities in general. Continued farm or ranch use usually requires the least amount of change to the historic character of the property. However, it is possible to find new uses for agricultural buildings and properties. Rental housing, bed and breakfast inn, artist space, community center, repair shop, and exhibit space have all been adaptive reuses of historic farm and ranch properties. Sensitive alterations can be undertaken that provide for a new use while preserving the features that make up the barn's historic character.

The barn may be the largest building on your farm. Changes in technology and in farming and ranching practices often affect the use of a barn. When a barn is no longer needed for its original agricultural function, there are ways it can be rehabilitated and given a new use that preserves its historic character. It may be as simple as rehabilitating an existing barn for a new farming use, such as changing a tobacco barn into a stable for horses. Rehabilitating a dairy barn into machine storage space is another example. Sensitive modifications can prepare a historic barn for its new use.

Whether you are rehabilitating your barn for continued farming or ranching purposes or for a new non-agricultural use, the character-defining elements of the barn, including those that follow below, should be treated with care.

Roof

The roof is integral to the survival of the barn and typically a very prominent feature. A poorly maintained roof can allow



The siding on this barn was repaired with matching siding, a treatment that meets the Secretary of the Interior's Standards for Rehabilitation. Photo: Vermont Division for Historic Preservation.

water and wind to damage the structural support system and interior details. If it is necessary to replace the current roof, replace it with historically matching material or a material that is in keeping with the historic character of the building.

Foundation

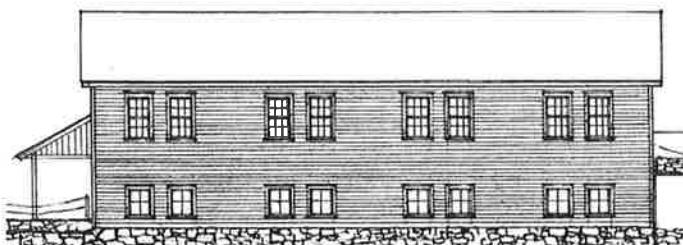
Foundation repairs are a typical work item in barn rehabilitation. For example, a wood sill may have rotted in sections or termites may have caused damage. In cases where the foundation is not readily visible, either traditional or modern repair techniques can be used. For exposed foundations such as a masonry wall, repairs should be made in a manner that does not alter the historic appearance. Where masonry repointing or repair is needed, appropriate mortar should be used and joints tooled to match adjacent historic masonry.

Doors

Historic doors are another prominent feature and should be preserved or replaced to match when needed. If you need to enlarge a door opening to accommodate modern machinery, avoid using modern roll up or garage style doors as replacements. Use a design and material that is compatible with the historic appearance of the building. If you no longer need a historic door opening, simply fix the doors closed rather than remove them.

Windows

Except for dairy and horse barns, most barns have very few windows. Existing windows should be repaired if possible and replaced with matching ones where needed; avoid enlarging them or otherwise altering their size or appearance. If you must add windows, include only the minimum number required, and ensure that the style, number, and location of new windows are in keeping with the historic character of the barn.



Inappropriate treatment:
The addition of a large number of regularly spaced windows (shown above) to this primarily blank barn facade (left) does not meet the Secretary of the Interior's Standards for Rehabilitation.

Rehabilitating Historic Barns (*continued*)

Siding

While masonry construction is common in some regions, most historic barns were clad in either horizontal or vertical wooden boards. If portions of the wood siding are beyond repair, or missing altogether, they should be replaced in kind with boards that match the historic size and detailing. Vinyl or metal siding is not an appropriate replacement for wood siding on historic barns.

Interior Structural System

The barn's structural system usually helps determine the interior appearance. One traditional use of barns has been to store farming machinery. Yet modern machinery often is much larger and may not fit. It may be possible to modify part of the internal structure to accommodate it. It is still important to retain the sense of open space and the nature of the existing structural system. Total replacement of the internal structure is not appropriate. In adapting a barn, the exposed structural members should be kept visible as much as possible.

Additions

Most barns have a distinctive shape and new additions can alter that appearance. Certain barns such as round barns simply cannot accommodate an exterior addition. When an addition to a barn can be undertaken without altering the building's historic character, the addition should be simple in form and detailing and should not be overwhelming in size nor alter the principle form of the barn.

Using Barns for Residential Housing

In more populated areas, historic barns are sometimes rehabilitated for housing. Changes necessary for a residential conversion can significantly diminish the building's historic qualities, unless undertaken sensitively.

Small barns that already have some windows can often be reused as a single-family residence, provided the rehabilitation preserves the distinctive historic qualities. Some additional openings may be possible but not when they create a dramatic new appearance. Inserting multiple residential units in large barns is usually much more problematic.

The most successful barn rehabilitation projects will follow these guidelines: preserve the historic setting of the barn; repair and reuse as much historic material as possible; avoid changing historic door or window openings; preserve the distinctive qualities of the interior spaces; and retain as much of the interior structural system as possible. Where an exterior addition is necessary, it must be compatible with the historic building and not overwhelm or redefine its historic character.

For more information on the subject of historic barns, see *Preservation Briefs 20: The Preservation of Historic Barns*, available online at www.nps.gov/history/hps/tps/publications/ or by emailing nps_hps-info@nps.gov for a copy.

Frequently Asked Questions

Is a tax credit different from a deduction?

Yes. A tax credit usually saves you more in income tax. Unlike a deduction, which reduces taxable income, a credit is a dollar-for-dollar reduction in the amount of taxes you owe.

If I have already begun my project, is it too late to qualify?

As long as your barn is on the National Register, either individually or as part of a district, and you submit Part 1 of the application prior to completing the project, then you may apply for the tax credits. However, you are strongly encouraged to submit rehabilitation plans (Part 2 of the application) prior to construction to ensure that any problematic treatments are identified early.

Can I receive tax credits for fixing up my farm residence?

In general, federal tax credits are not available for rehabilitating your personal home. However, some states offer a similar state tax credit that may cover farm residences. Contact your State Historic Preservation Office to determine availability of these incentives.

Can I receive tax credits for other farming buildings?

Other buildings such as garages or machine sheds can be eligible if they are rehabilitated and used for an income-producing purpose. Certain structures, such as grain silos and corn cribs, do not qualify for the tax credits, because they are not considered "buildings" by the IRS.

To locate your State Historic Preservation Office visit
www.ncshpo.org

This booklet was prepared by Elizabeth A. Creveling, Technical Preservation Services Branch, Heritage Preservation Services, National Park Service, with the assistance of Charles Fisher, National Park Service. Thanks are extended to Michael Auer, Jennifer C. Parker, Angela Shearer, Jennifer Murdock, and Anne Grimmer of the National Park Service for their review. All photographs are from NPS files unless otherwise indicated.

First-time user guides for owners of small buildings interested in the federal rehabilitation tax credits are prepared pursuant to the National Historic Preservation Act, as amended, which directs the Secretary of the Interior to develop and make available information concerning the preservation of historic properties. This and other guidance on rehabilitating small buildings can be found on our web site at www.nps.gov/history/hps/tps/ or by writing Technical Preservation Services-2255, National Park Service, 1849 C Street NW, Washington, D.C. 20240.

Technical Preservation Services

National Park Service
U.S. Department of the Interior



[Home](#) > [The Standards](#) > Rehabilitation Standards and Guidelines

Rehabilitation Standards and Guidelines

The Secretary of the Interior's Standards for Rehabilitation, codified as 36 CFR 67, are regulatory for the [Historic Preservation Tax Incentives program](#). The Guidelines for Rehabilitating Historic Buildings and the Guidelines on Sustainability for Rehabilitating Historic Buildings, which assist in applying the Standards, are advisory.

[Applying the Standards for Rehabilitation](#)

[Guidelines for Rehabilitating Historic Buildings](#)

[Guidelines on Sustainability](#)

Other Standards and Guidelines:

[Four Treatment Standards: Preservation, Rehabilitation, Restoration, and Reconstruction](#)

[Guidelines for the Treatment of Historic Properties](#)

[History of the Standards](#)

Secretary's Standards for Rehabilitation

The following Standards for Rehabilitation are the criteria used to determine if a rehabilitation project qualifies as a certified rehabilitation. The intent of the Standards is to assist the long-term preservation of a property's significance through the preservation of historic materials and features. The Standards pertain to historic buildings of all materials, construction types, sizes, and occupancy and encompass the exterior and the interior of historic buildings. The Standards also encompass related landscape features and the building's site and environment, as well as attached, adjacent, or related new construction. To be certified, a rehabilitation project must be determined by the Secretary to be consistent with the historic character of the structure(s) and, where applicable, the district in which it is located. The following Standards are to be applied to specific rehabilitation projects in a reasonable manner, taking into consideration economic and technical feasibility.

1. A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
2. The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
3. Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
5. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.
6. Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.

7. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.
8. Significant archeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.
9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
10. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

Guidelines for Rehabilitating Historic Buildings

The **Guidelines** assist in applying the Standards to rehabilitation projects in general; consequently, they are not meant to give case-specific advice or address exceptions or rare instances. For example, they cannot tell a building owner which features of an historic building are important in defining the historic character and must be preserved or which features could be altered, if necessary, for the new use. Careful case-by-case decision-making is best accomplished by seeking assistance from qualified historic preservation professionals in the planning stage of the project. Such professionals include architects, architectural historians, historians, archeologists, and others who are skilled in the preservation, rehabilitation, and restoration of the historic properties. These Guidelines are also available in [PDF format](#).

The **Guidelines on Sustainability for Rehabilitating Historic Buildings** stress the inherent sustainability of historic buildings and offer specific guidance on “recommended” rehabilitation treatments and “not recommended” treatments, which could negatively impact a building’s historic character. These Guidelines are also available as an [interactive web feature](#).



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