

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 visit the Historic Preservation Tax Incentives website of the National Park Service at www.nps.gov/history/hps/tps/tax and click on “IRS Connection.”

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 \$5000 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 \$8000. 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 3 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. It is 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 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/history/hps/tps/tax/.

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	
SAMPLE	
Property Name	_____
316 Main Street	_____
Property Address	_____
5. Description of physical appearance: 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.	
The segmented arched window openings on the second floor have had their sash 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.	
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.	
Date of Construction: <u>c. 1890</u>	Source of Date: <u>City Directories, Sanborn Fire Insurance Maps</u>
Date(s) of Alteration(s): <u>Late 1940's, 1960's</u>	
Has building been moved? <input type="checkbox"/> yes <input checked="" type="checkbox"/> no	If so, when? _____
6. Statement of significance: 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.	
7. Photographs and maps.	
Attach photographs and maps to application	



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.



Complete these boxes 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.

HISTORIC PRESERVATION CERTIFICATION APPLICATION – PART 2		
SAMPLE		
Property Name		
316 Main Street		
Property Address		
5. DETAILED DESCRIPTION OF REHABILITATION / PRESERVATION WORK – Includes site work, new construction, alterations, etc. Complete blocks below.		
Number 1	Architectural feature <u>Brick Facade</u> Approximate Date of feature <u>c. 1890</u>	Describe work and impact on existing feature: The paint will be removed from the brick following the guidance found in Preservation Briefs 1: <i>Assessing, Cleaning, and Water-Repellent Treatments for Historic Masonry Buildings</i> , 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 Briefs 2: <i>Repointing Mortar Joints in Historic Masonry Buildings</i> . 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.
Describe existing feature and its condition: 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 spawling and a number of degraded mortar joints. The parapet cap was covered in Portland cement in a prior rehabilitation; there is some brick damage.		
Photo no. <u>1-4</u> Drawing no. <u>A-1</u>		
Number 2	Architectural feature <u>Storefront</u> Approximate Date of feature <u>c. 1960</u>	Describe work and impact on existing feature: 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.
Describe existing feature and its condition: 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.		
Photo no. <u>1-4, 7, 8</u> Drawing no. <u>A-1, A-1.2</u>		
Number 3	Architectural feature <u>Second-Story Windows</u> Approximate Date of feature <u>c. 1890 and Unknown</u>	Describe work and impact on existing feature: Replacement wood double-hung windows with insulated glass will be installed with a one over one light configuration. The upper sash will have an arched top. The plans are to re-use the historic frames where possible. Where frames are severely rotted, new ones will be installed to match the historic in appearance and materials.
Describe existing feature and its condition: The windows sash were removed from the building sometime in the last 20 years and the openings covered with plywood. Many of the window frames remain intact.		
Photo no. <u>1-4, 11-13</u> Drawing no. <u>A-1, A-7</u>		
Number 4	Architectural feature <u>Interior Staircase</u> Approximate Date of feature <u>1890</u>	Describe work and impact on existing feature: The existing staircase will be retained.

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 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 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 Briefs 11: *Rehabilitating Historic Storefronts*):

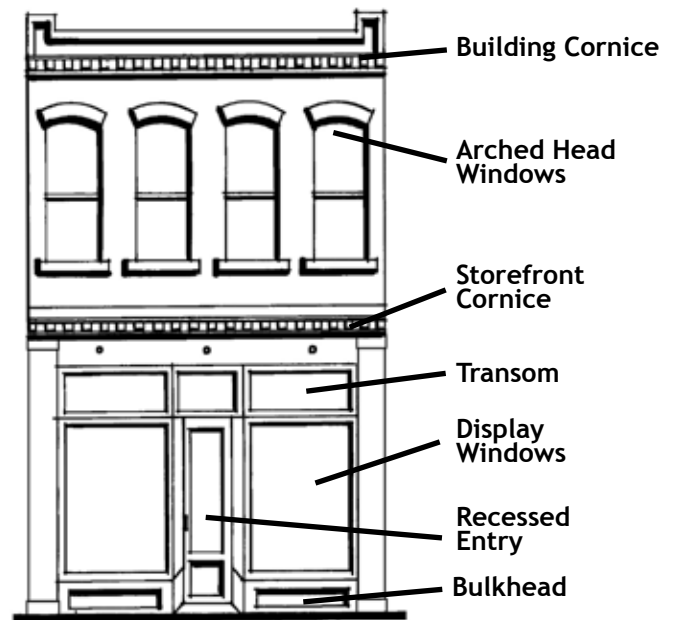
- Relate the new storefront to the design of the building.
- Correctly proportion display windows so as to consist predominantly of glass, typically with a transom above and bulkhead below.
- Retain, where possible, the location of the historic storefront entrances and any separate outside entrance to 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.

Beside 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.

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/history/hps/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 address.



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/history/hps/tps/ or by writing Technical Preservation Services-2255, National Park Service, 1849 C Street NW, Washington, DC 20240.