

Introduction to Federal Tax Credits for Rehabilitating Historic Buildings

Rowhouses



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



- *Do you own a rowhouse located in a historic district?*
- *Does it need to be fixed up?*
- *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 property owners across the country have already utilized these tax incentives to rehabilitate historic rowhouses and similar properties.

Why does this 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 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.”

This early 20th century postcard depicts a simple rowhouse form common throughout Baltimore. Courtesy of Kilduffs Theatre Index

Three Steps

to Determine if a Project is Eligible for Tax Credits

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

The easiest way to determine if your building is located within 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 “mid-1800s to 1935.” In this case, a 1950s building would *not contribute* and would not receive a 20% rehabilitation tax credit. Within this same district, a late 19th-century building might not contribute to the historic character if it was almost completely changed in the 1950s.

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.

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 test:

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

A = purchase price of the property

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. Smith has owned a rowhouse with two apartments for 15 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 past 15 years, Mr. Smith has depreciated the building for tax purposes by a total of \$60,000. Two years ago, he replaced the roof at a cost of \$8000. Mr. Smith’s adjusted basis would be \$58,000. Since he intends to spend \$60,000 to fix a leaking basement wall; upgrade the electrical, plumbing and heating/air conditioning systems; and improve the bathrooms, the

rehabilitation would qualify as a substantial project. If he completes the application process and receives approval, Mr. Smith will be eligible for a 20% credit on the cost of his rehabilitation, or a \$12,000 credit.

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.

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, you 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 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 need to be completed in order. You will 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 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 State Historic Preservation Office (SHPO)



Loss of historic character: The original finished walls and all separations between rooms and hallway have been lost to create an open floor plan, causing this project not to qualify for tax credits.

Photo: NPS files

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 (not required for all projects)

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 rowhouse to other district features such as a neighboring alley or courtyard and to show the location of a garage or other site features on your property.

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 exterior side, 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 main spaces such as hallways, living room, dining room, and bedrooms, and features such as stairs, window trim, doors, and fireplaces. Document deteriorated conditions such as crumbling brickwork or water stained plaster.

Number each photograph, and write the building’s address and a brief description of the image on the back. Include a *floor plan* (or *site plan* for exterior photographs) 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 and design of a new porch planned for the rear. *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 describe a new front door that will replace the existing, deteriorated 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.

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

Photo: NPS files



Example: Photo and Label

**Photo 1, Pre-Rehab
214 Center Street
City, State**

Side hall with staircase, flaking paint, and failing plaster, looking toward rear of house.

Rowhouses & Rehab

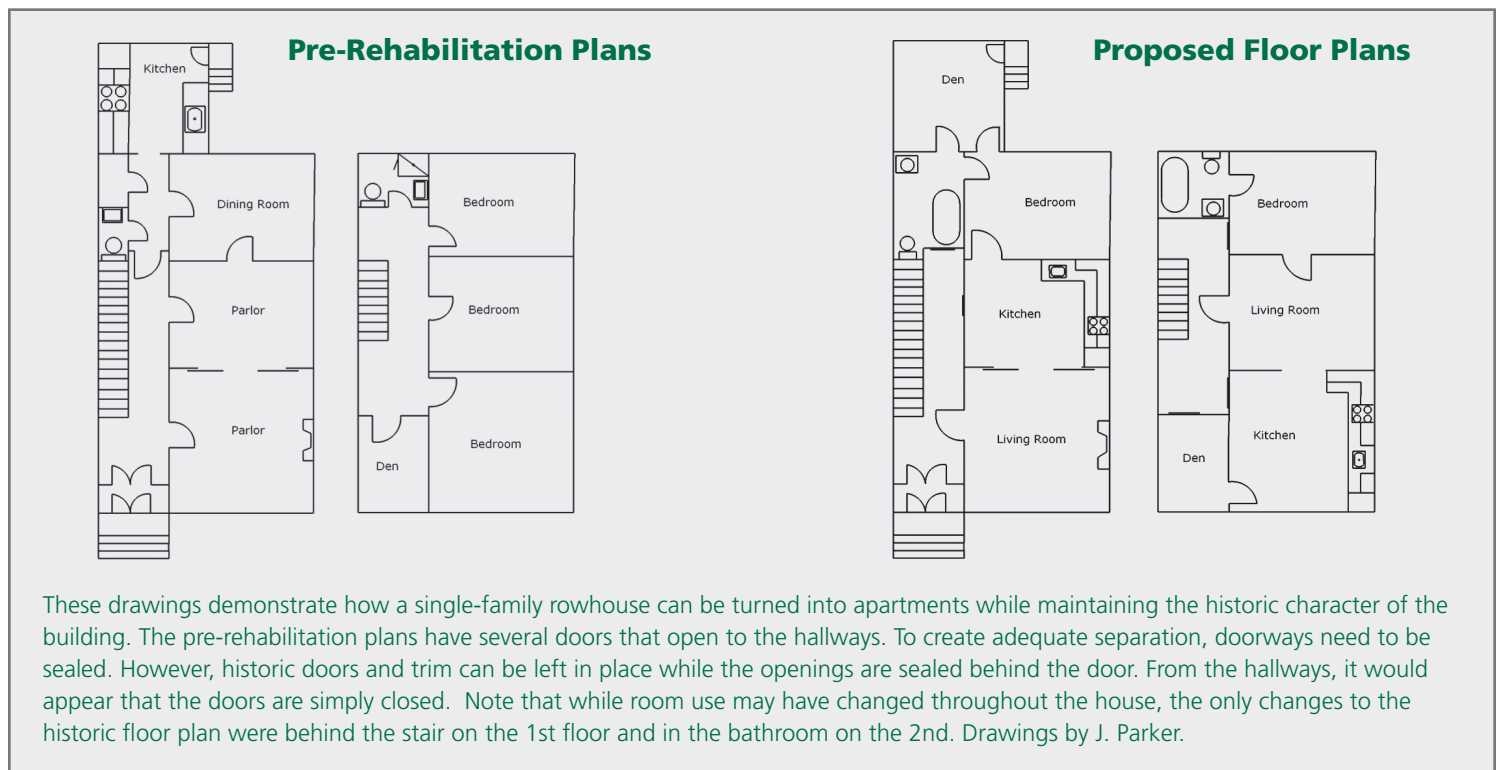
The goal of the Federal Historic Preservation Tax Incentives program is to encourage the retention and re-use of historic structures, like rowhouses, while preserving their historic character. By definition a rowhouse is a dwelling that is attached on one or more sides to another, typically similar, dwelling. In its most common form, the rowhouse is a single-family residence, although in some neighborhood buildings the first floor served a commercial use, such as a grocery store. Some were also built with two or more housing units. Historically the floor plans of rowhouses often had a side access hallway that often ran the length of the house with an open, somewhat decorative stair along one of the shared walls. A double parlor or a single living room tended to be in front, facing the street, followed by the dining room. Usually the kitchen was located at the back, or sometimes below in a partially below-ground basement. Bedrooms were typically located on upper floors.

It is these characteristics, along with particular stylistic elements and original materials, that help make rowhouses historic and should be retained in a rehabilitation. Sound original materials that make up the walls, windows, and floors are also important elements that should be retained

whenever possible. Keep in mind that rowhouses were often designed as a group, either matching exactly or simply related in style to neighboring structures. Historic elements that relate your structure to the rest of the row should be preserved.

On the interior, it is important to maintain the sense of space and room relationships in the public areas, such as the entry and parlor(s) or dining room. Rehabilitation, by definition, allows a building to be changed to accommodate a new use, but alterations should be made sensitively.

Changing the use of a rowhouse, either from residential to commercial or from single-family to multiple apartments, may require creative thinking to accommodate new needs without compromising the historic character. While altering a floor plan may be necessary, there is usually a sensitive way to accomplish this task. First, rank your spaces in order of importance—taking into consideration previous alterations or significant deterioration. In general, the most significant spaces in a rowhouse are the entry and stair hall, and the first and second rooms on the main living floor. Then, when laying out your new floor plan, make every effort to avoid re-configuring these rooms.



General Advice

- The application process works best when you submit Parts 1 & 2 early, *before* you begin work.
- Project approval is made only by the National Park Service.
- The National Park Service does not provide blanket pre-approvals for products or techniques, nor does it certify contractors.
- Photographs are the best descriptive tool—you can never submit too many.

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.

Can I expand my building and still qualify for the tax credit?

Yes. However, plans for the expansion must be approved as part of the overall rehabilitation; costs associated with this new construction do not count toward the credit calculations. If you are planning an expansion or addition, visit the National Park Service web site at www.nps.gov/history/hps/tps/tax/ for guidance on appropriate treatments.

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 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 so doing, you ensure that any required changes are identified early and the resulting costs and inconvenience are minimized.

Can I change how I use my building?

Yes. A historic building modified to serve a new income-producing purpose can be eligible for tax credits. However, the new function must be compatible with the historic structure. Primary interior spaces and significant building features still should be preserved when accommodating a new use of a historic structure.

Can anyone help me through this process?

Help is available through a variety of resources. SHPOs and local historic preservation organizations are the best place to begin if you have questions. Advice is available on the National Park Service web site (www.nps.gov/history/hps/tps/) or through many SHPO web sites. Some people choose to hire a professional consultant, but for simple projects, many property 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, then reviews by the National Park Service are generally completed in 30 days once received from the SHPO.

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.)

Do I need to have my project reviewed by the National Park Service if I already have approval from my local historic district review commission?

Yes. National Park Service review is separate from that of a local historic district review commission (board of architectural review.)

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 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 in accordance with the *Standards*. 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.

How can I learn more about Historic Rehabilitation Tax Credits?

Go online to the National Park Service web site at www.nps.gov/history/hps/tps/tax/ or contact your State Historic Preservation Office 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 Elizabeth Creveling and Dan Bruechert of the National Park Service for their collaboration and Michael Auer for his review.

Booklets on federal tax credits for small building types 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.