

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.

HISTORIC PRESERVATION CERTIFICATION APPLICATION – PART 1		NPS Office Use Only
SAMPLE	Property Name	Project Number:
505 Pine Street, City, State		
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: <u>ca. 1815</u> Source of Date: <u>National Register Historic District nomination</u> Date(s) of Alteration(s): <u>mid-1800s, ca. 1900, ca. 1920s, ca. 1950s</u> Has building been moved? ☐ yes If so, when? _____ ☒ no 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.

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.

HISTORIC PRESERVATION CERTIFICATION APPLICATION – PART 2		NPS Office Use Only
SAMPLE	Property Name	Project Number:
505 Pine Street, City, State		
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> Approximate Date of feature <u>ca. 1900</u> <i>Describe existing feature and its condition:</i> 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. Photo no. <u>1-7, 10, 18</u> Drawing no. <u>N/A</u>	<i>Describe work and impact on existing feature:</i> 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.
Number 2	Architectural feature <u>Windows</u> Approximate Date of feature <u>mid-1800s</u> <i>Describe existing feature and its condition:</i> 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. Photo no. <u>1-7, 12, 15, 26-30</u> Drawing no. <u>manfctr's dwgs</u>	<i>Describe work and impact on existing feature:</i> 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.
Number 3	Architectural feature <u>Front porch</u> Approximate Date of feature <u>ca. 1815</u> <i>Describe existing feature and its condition:</i> Only the roof structure and a stone stoop remain. The roof is in repairable condition. Historic pictures show the design of the original posts. Photo no. <u>1, 8-9</u> Drawing no. <u>A1.4</u>	<i>Describe work and impact on existing feature:</i> 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.
Number 4	Architectural feature <u>HVAC</u> Approximate Date of feature <u>1972</u> <i>Describe existing feature and its condition:</i>	<i>Describe work and impact on existing feature:</i> 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.

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.

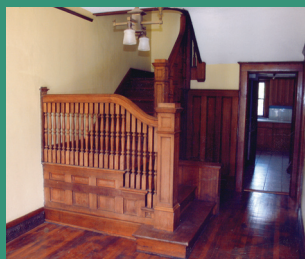
Supplemental material may also be helpful in describing your project. For example, product literature or a simple sketch might best describe a new front door that will replace an existing, non-historic one.

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.



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.