

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.



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.

HISTORIC PRESERVATION CERTIFICATION APPLICATION – PART 1	
SAMPLE Property Name <u>206 Old Farm Road, City, State</u> Property Address	NPS Office Use Only Project Number: _____
<p>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.</p> <p>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.</p>	
Date of Construction: <u>1909</u> Source of Date: <u>National Register Historic District nomination</u>	
Date(s) of Alteration(s): <u>1920, 1972, 1981</u>	
Has building been moved? <input type="checkbox"/> yes <input checked="" type="checkbox"/> no If so, when? _____	
<p>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.</p>	



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.

HISTORIC PRESERVATION CERTIFICATION APPLICATION – PART 2		
SAMPLE Property Name <u>206 Old Farm Road, City, State</u> Property Address	NPS Office Use Only Project Number: _____	
5. DETAILED DESCRIPTION OF REHABILITATION / PRESERVATION WORK – Includes site work, new construction, alterations, etc. Complete blocks below.		
Number <u>1</u>	Architectural feature <u>Barn siding</u> Approximate Date of feature <u>ca. 1920, 1972</u> <i>Describe existing feature and its condition:</i> 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. _____	<i>Describe work and impact on existing feature:</i> 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.
Number <u>2</u>	Architectural feature <u>Roof</u> Approximate Date of feature <u>1981</u> <i>Describe existing feature and its condition:</i> 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. _____	<i>Describe work and impact on existing feature:</i> All shingles will be removed. New asphalt shingles will be installed that recall the appearance of wood shingles.
Number <u>3</u>	Architectural feature <u>Limestone foundation</u> Approximate Date of feature <u>1909</u> <i>Describe existing feature and its condition:</i> 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. _____	<i>Describe work and impact on existing feature:</i> 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.
Number <u>4</u>	Architectural feature <u>Main house, cattle barn, implement shed, grain silo, spring house, and a garage</u> Approximate Date of feature <u>varies</u>	<i>Describe work and impact on existing feature:</i> No work is planned for these features.

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.

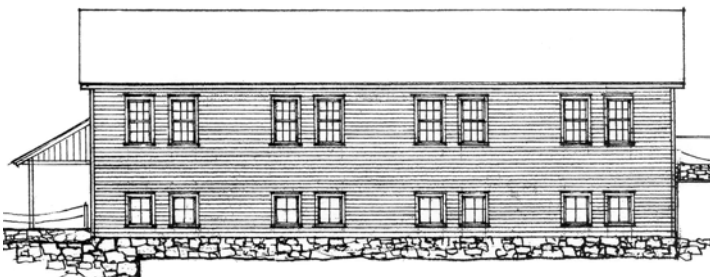
It is not uncommon for the function of a barn to evolve or change over time just as with ranches and farming activities in general. Continued farm or ranch use usually requires the least amount of change to the historic character of the property. However, it is possible to find new uses for agricultural 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



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.



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.

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

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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.