

12-21-1981

Stately Old Architecture in Alabama Public Buildings and Country Homes Erected in and about Huntsville in the Early Days of the Last Century

Edgar L. Love

Follow this and additional works at: <https://louis.uah.edu/historic-huntsville-quarterly>



Part of the [Historic Preservation and Conservation Commons](#), and the [History Commons](#)

Recommended Citation

Love, Edgar L. (1981) "Stately Old Architecture in Alabama Public Buildings and Country Homes Erected in and about Huntsville in the Early Days of the Last Century," *The Historic Huntsville Quarterly*. Vol. 8: No. 2, Article 2.

Available at: <https://louis.uah.edu/historic-huntsville-quarterly/vol8/iss2/2>

This Article is brought to you for free and open access by LOUIS. It has been accepted for inclusion in The Historic Huntsville Quarterly by an authorized editor of LOUIS.

Stately Old Architecture in Alabama

PUBLIC BUILDINGS AND COUNTRY HOMES ERECTED IN AND ABOUT HUNTSVILLE IN THE EARLY DAYS OF THE LAST CENTURY

BY EDGAR L. LOVE

From information received from the Cherokee Indians, John Hunt came to Madison County, Alabama, in 1805, searching for the famous Big Spring. Four years later the United States government sold the territory at public auction. Wealthy purchasers from Virginia, North Carolina and Georgia were able to buy large tracts, and that part on which the original town of Huntsville was built fell to one Leroy Pope, a lineal descendant of Alexander Pope, the poet. The town was first named "Twickenham," after the ancestral home in England. [Editor's note: It appears that Leroy Pope greatly admired Alexander Pope but was not related to him.] These early settlers were at once able to improve their lands; and the fertility of the soil, the delightful climate and the grandeur of the scenery soon attracted to Madison County other persons of wealth and culture from the neighboring states. Sons and daughters of Virginia, Carolina and Georgia built a civilization here and with it came the desire to build new homes and public structures after the manner of those left behind.

There is no record of any professional architect living at Huntsville until after the Civil War; but the buildings existing to-day certainly show study and training on the part of the designers, and the mechanics who carried out the plans were marvels of patience and ingenuity. [Love's knowledge of and appreciation for the work of architect George Steele apparently post-dates this article.] Searching through any of these old buildings one will find the interiors quite as interesting, if

not more so, than the exteriors. Chimney-pieces, stairways, cupboards, door and window casings and paneling are of quaint design and show much refinement of detail.

All the houses illustrated, except the Clay house [513 Eustis], are of the usual plan of the time; that is, with a great central hall running through the house containing the main stairway, and on either side rooms twenty to twenty-five feet and in some cases thirty feet square. Usually these rooms are in suites of two with folding doors between. One-story wings at the side of the house for accommodating guests are quite frequent, as in the Garth [517 Franklin], Biernie [300 Williams] and the Robinson [2709 Meridian] houses. The ever-present negro quarters are in some cases at the rear, in others at the sides. Columns forming the two-storied colonnades are of brick covered with stucco and with bases usually of stone. Some of the brickwork is laid in the Flemish bond style, but usually the regular bond is used and tied with bricks 8 x 8 inches square. The bank building [First Alabama Bank] is of the native blue limestone, and at the rear has been covered with stucco, a treatment also given the Courthouse.

"The Grove" was an old plantation home built in 1815 and is now entirely surrounded by the city of Huntsville. [The Grove stood on the present site of the Mental Health Center.] Soon after this the Echols house was erected by Leroy Pope on a bluff overlooking the city. The bricks for the house were made in East Tennessee, and were



THE GROVE

THE ROBINSON HOUSE





THE FIRST NATIONAL BANK OF HUNTSVILLE

brought down the river on flatboats. The Garth house was built about 1820, and presents a fine appearance to-day amid a surrounding of lofty elms. It is one of the few examples with a Grecian Doric portico. The Clay house was built in the same year, and the Biernie house was completed eighteen years later by Col. John Bradley. It cost \$32,000, and the construction covered a period of nine years. The Robinson place is an old plantation home, four miles north of Huntsville, once occupied by James and Dolly Madison. It was built in 1835. [This story is highly suspect; apparently the Robinson house was not constructed until after James Madison's death.]

The Cumberland Presbyterian Church, built about 1830, shows the type of church architecture of the day. It was torn down in 1899 to make way for a more modern but less artistic building for the congregation. [This church was constructed during the 1850s; Love was in charge of its demolition in 1899.]

The branch of the old state bank of Alabama, now the First National Bank of

Huntsville, was completed in 1836 at a cost of \$76,000, according to an itemized account of the work still on file in the building. In the upper story and in the rear of the building shown on the left there are many suites of rooms where the bank officials resided. These apartments were elaborately fitted up, as the entrances would indicate. The gallery under the portico and the small doors at the right and left of the main entrance are of recent date. [Construction of the bank building was actually completed in 1840; the alterations to the facade were made in 1900.]

The Madison Courthouse—the very name suggests and recalls the stormy periods before, during and after the Civil War—was completed in 1836 at a cost of \$52,000. It stands to-day, a dignified and probably the best example of Grecian Doric architecture in the entire South; in its historic circuit courtroom many southern and national celebrities have made their maiden speeches, and here has been heard the thundering eloquence of Clay, Yancey, King, Clemens, Walker, Prentiss and others of equal fame. [This court-

house was demolished in 1913.]

During the Civil War, Huntsville witnessed a continuous change from the occupation of Federal and Confederate troops. It suffered from the passage back and forth of both armies, who used in turn the Courthouse as their headquarters. After the war it was the

seat of the infamous "Carpet-Bag Government" for north Alabama, when the negroes voted and the white men looked on. There are other specimens of architecture in Madison County equal to these; but the examples shown are representative of all.



THE CLAY HOUSE

The photographs that illustrate this reprint of Edgar Love's article are—with two exceptions—the identical photographs that appeared in the original 1906 publication in **Indoors and Out**. Only the originals of The Grove and the Cumberland Presbyterian Church could not be located; however the photographs of these two structures included here date from the turn of the century. All of these photographs and the ones of the Lyric Theater were made available courtesy of the Huntsville Public Library.

COVER PHOTO: THE CUMBERLAND PRESBYTERIAN CHURCH



THE ECHOLS HOUSE

THE BIERNE HOUSE





THE MADISON COUNTY COURTHOUSE

THE GARTH HOUSE



TAXES AND PRESERVATION

The Economic Recovery Tax Act of 1981 (ERTA) makes dramatic changes in the federal tax treatment of real estate investments and establishes favorable new tax incentives for the rehabilitation of historic properties. The 60-month amortization and accelerated depreciation provisions of the 1976 Tax Act and the 10% investment tax credit of the 1979 Tax Act have been repealed and replaced with a three-tier system of Investment Tax Credits for rehabilitation expenditures. A 15% Investment Tax Credit (ITC) is available for the rehabilitation of buildings at least 30 years old; a 20% ITC for buildings at least 40 years old; and a 25% ITC for Certified Historic Structures.

Each of these Investment Tax Credits may be used in conjunction with a 15-year cost recovery period. ERTA replaces the present system of **depreciation** deductions with **recovery** deductions, so that capital costs for either new or used property are recovered—using either straightline or accelerated methods—over a fixed recovery period—15, 35 or 45 years—instead of over the useful life. With these provisions, Congress finally has eliminated the long-standing bias in favor of new construction by mandating the same methods of cost recovery and the same recovery periods for both new and used property. This should create a significant stimulus for the rehabilitation of the country's historic buildings and neighborhoods and, in fact, reflects a definite intent to *encourage* reinvestment in these properties. The Senate Committee on Finance Report observed at the time of the Tax Reform Act of 1976:

Investments in new structures and new locations do not necessarily promote economic recovery if they are at the expense of older structures, neighborhoods, and regions. A new structure with new equipment may add little to capital formation or productivity if it simply replaces an existing plant in an older structure in which the new equipment could have been installed. Furthermore, the relocation of business can result in substantial hardship for individuals and communities. Since this hardship does not affect the profitability of the business, it may not have been fully taken into account in the decision to relocate, even though it is an economic detriment to the society as a whole. The increased credit for rehabilitation expenditures is intended to help revitalize the economic prospects of older locations and prevent the decay and deterioration characteristic of distressed economic areas.

The 25% Investment Tax Credit for Certified Historic Structures is the most beneficial tax treatment available for real estate investment under the amended Internal Revenue Code. In general, the ITC available for rehabilitation expenses of historic property can result in greater immediate tax savings than any form of accelerated or straightline depreciation. Additionally, the requirement that rehabilitation expenditures be depreciated by the straightline method when the ITC is elected virtually eliminates the problems created by the recapture and the minimum tax rules, which are related to accelerated depreciation.

The following explanation of the provisions of the Economic Recovery Tax Act of 1981 that relate to the rehabilitation of historic properties is for **GENERAL INFORMATIONAL PURPOSES ONLY**. The IRS is expected to publish regulations governing the application of ERTA. The interpretations included here are based on previous IRS rulings concerning similar provisions but do not necessarily represent the final regulations that will be adopted. Also, the IRS can be expected to define more precisely the terminology of the act and to prescribe additional requirements for meeting the various tests. Obviously, anyone expecting to use these provisions should consult professional counsel.

**PROVISIONS OF THE
ECONOMIC RECOVERY TAX ACT OF 1981
RELATING TO THE REHABILITATION OF HISTORIC BUILDINGS**

An INVESTMENT TAX CREDIT (ITC) is allowed for the QUALIFIED REHABILITATION EXPENDITURES of a QUALIFIED REHABILITATED BUILDING.

- An Investment Tax Credit is a percentage of rehabilitation expenditures that offsets a dollar for dollar reduction in taxes. An ITC is subtracted from the amount of taxes owed, in contrast to a deduction which merely reduces a taxpayer's income subject to taxation.
- A Qualified Rehabilitated Building is defined as any building
 - that has been SUBSTANTIALLY rehabilitated, and
 - that has been placed in service prior to the beginning of rehabilitation work (although it may now be vacant), and
 - that retains in place 75% or more of the existing external walls.
- Qualified Rehabilitation Expenditures are defined as any amount incurred after December 31, 1981, for improvements
 - that have a recovery period of at least 15 years, and
 - that have been incurred in connection with the rehabilitation of a Qualified Rehabilitated Building, and
 - that have been SUBSTANTIAL.

To be a SUBSTANTIAL rehabilitation, the rehabilitation expenses over a 24-month period (ending on the last day of the taxable year) must exceed the **greater** of either the ADJUSTED BASIS of the property or \$5,000. This time period can be extended to 60 months if the architectural plans and specifications for all construction phases are completed before rehabilitation work begins.

- The Adjusted Basis of the property is the cost of the building, plus any capital improvements, less any depreciation. The adjusted basis does not include the land.

INVESTMENT TAX CREDITS

Age and Type of Structure	ITC	Depreciation Life/ Method	Reduction of Basis by Amount of ITC?
30 to 39 years/ nonresidential	15%	15 years/ straightline	yes
40 years and older/ nonresidential	20%	15 years/ straightline	yes
CERTIFIED HISTORIC STRUCTURE residential and nonresidential	25%	15 years/ straightline	no

The 15% ITC can be taken for the Qualified Rehabilitation Expenditures of a nonresidential depreciable building 30 to 39 years old. The adjusted basis of the expenditures must be reduced by the amount of the ITC, and this basis must be depreciated by the straightline method over a 15-year audit-proof recovery period.

The 20% ITC can be taken for the Qualified Rehabilitation Expenditures on a nonresidential depreciable building 40 years and older. The adjusted basis of the expenditures must be reduced by the amount of the ITC, and this basis must be depreciated by the straightline method over a 15-year audit-proof recovery period.

The 25% ITC can be taken only for CERTIFIED REHABILITATION expenditures carried out in connection with a CERTIFIED HISTORIC STRUCTURE. The Certified Historic Structure can be either residential or nonresidential so long as it is an income-producing property. The basis of the rehabilitation expenditures is **not** reduced by the amount of the ITC, and this basis must be depreciated using the straightline method over a 15-year audit-proof recovery period.

- A Certified Historic Structure means any building (and its structural components) that
 - is listed on the National Register, or
 - is located in a National Register historic district and is certified by the Secretary of the Interior as being of significance to the district.
- A Certified Rehabilitation means any rehabilitation of a Certified Historic Structure that the Secretary of the Interior has certified as being consistent with the historic character of the property or the district in which it is located.

No ITC is allowed for rehabilitation of a building (other than a Certified Historic Structure) less than 30 years old.

The Investment Tax Credit may **not** be taken if

- the rehabilitation expenditure is attributable to the enlargement of the existing building, or
- the rehabilitation expenditures are depreciated using an accelerated method, or
- the expenditure is attributable to the acquisition cost of the building, or
- the energy tax credit has been taken on the rehabilitation expenditure, or
- the rehabilitation of a Certified Historic Structure is not a Certified Rehabilitation.

Rehabilitation can include reconstruction, renovation and restoration.

Rehabilitation expenditures are treated as new property for the purpose of computing the Investment Tax Credit. If the ITC is elected, the rehabilitation expenditures must be depreciated by the straightline method. The building shell and new construction are not eligible for the ITC.

The Investment Tax Credit is recaptured (taxed as ordinary income) if the property is disposed of within 5 years after it is placed in service.

- A property is placed in service when it is available for use whether or not it is actually used.
- The ITC is earned at the rate of 20% per year of holding.

Years Property Held	Percentage of Recapture
less than 1	100%
1 to 2	80%
2 to 3	60%
3 to 4	40%
4 to 5	20%
more than 5	0%

- The straightline depreciation taken in conjunction with the rehabilitation tax credit is not subject to recapture.

The owner or owners of an eligible building may take the ITC on Qualified Rehabilitation Expenditures. The owner of a rehabilitated building leased and used by a tax-exempt organization or governmental unit is also permitted the ITC, retroactive to July 30, 1980. The tenant of a building is entitled to the ITC if, on the date the rehabilitation is completed, the remaining term of the lease is at least 15 years.

There are limitations on the amount of Investment Tax Credit that may be taken in any one year. The credit may be applied to 100% of the first \$25,000 of tax liability and 90% of the tax liability in excess of \$25,000. The excess investment credit may be carried back to the 3 preceding tax years and forward to the 15 succeeding tax years.

Demolition of a Certified Historic Structure is discouraged. If a Certified Historic Structure is demolished, both the costs of demolition and the adjusted basis of the building must be capitalized as part of the land cost and **cannot** be depreciated. However the provision denying accelerated depreciation for a new building constructed on the site of a demolished Certified Historic Structure has been repealed effective January 1, 1982.

Depreciable property located in a National Register **historic district** must be **CERTIFIED** before any of the tax credits can be taken.

- **15% and 20% ITC:** ERTA presumes that all buildings within a National Register historic district contribute to the district unless the Secretary of the Interior determines otherwise. Consequently to take the 15% or 20% ITC, an owner must submit Part 1 of the Certification Application and receive a determination that the building is **not** of historic significance to the district. Rehabilitation work on non-historic buildings does not need to be reviewed or certified for the ITC. (However, non-historic buildings located in historic districts must still meet all local building regulations, including approval of the architectural review board for that district.)
- **25% ITC:** In order to take the 25% ITC on a building located in a National Register historic district, the owner must submit both Part 1 and Part 2 of the Certification Application to the Secretary of the Interior. Part 1 determines that the building is a Certified Historic Structure; Part 2 determines that the rehabilitation plans meet all requirements of the "Secretary of the Interior's Standards for Rehabilitation" and thus will be a Certified Rehabilitation. If the rehabilitation work on a Certified Historic Structure is **not** certifiable, **no** tax credit can be taken.

The 15% and 20% ITC are available for depreciable **nonresidential** properties that are at least 30 years old and

- if **not** located in a historic district, meet the tests for both a Qualified Rehabilitated Building and Qualified Rehabilitation Expenditures, or
- if located in a historic district, have been certified as **not** contributing to the district and meet the tests for a Qualified Rehabilitated Building and Qualified Rehabilitation Expenditures.

The 25% ITC is available only for a Certified Historic Structure having a Certified Rehabilitation. A lesser ITC **cannot** be taken with a Certified Historic Structure. The 25% ITC is the only rehabilitation tax credit that can be used with an income-producing **residential** property.

None of the Investment Tax Credits can be taken for owner-occupied residential property. However, owners of Certified Historic Structures who live in a portion of the building and use the remainder for commercial or residential rental can claim the 25% ITC, on a pro rata basis, for that part of the building that is income-producing.

The 15%, 20% and 25% Investment Tax Credits apply to Qualified Rehabilitation Expenditures incurred on or after January 1, 1982. There is no expiration date.

The Tax Act of 1981 **repeals** the following provisions as of January 1, 1982:

- the existing 10% ITC for rehabilitation of commercial buildings 20 years and older, and
- the 60-month amortization and accelerated depreciation provisions, and
- the provision denying accelerated depreciation for buildings erected on the site of a demolished Certified Historic Structure.

A transition rule permits projects that incur Qualified Rehabilitation Expenditures both before and after January 1, 1982, to combine the old and new law.

- Expenditures incurred before January 1, 1982, can qualify for the 10% ITC (plus accelerated depreciation) or 60-month amortization.

- Expenditures incurred after January 1, 1982, must be treated under the new law if they meet the Substantial rehabilitation test.
- Expenditures incurred after January 1, 1982, that do **not** meet the Substantial rehabilitation test, may continue to be treated under the old law and take the 10% ITC. Rehabilitation work on a 20-year old building begun before January 1, 1982, may continue to use the 10% ITC until completion if the rehabilitation would have qualified under the old law.
- The Economic Recovery Tax Act contains no similar provision for extension of amortization treatment for rehabilitation work that is completed in 1982.
- A taxpayer who has completed, prior to 1982, a Substantial rehabilitation of a Certified Historic Structure and elected a tax incentive under the old law must continue to use that tax treatment after January 1, 1982.

The CONSERVATION EASEMENT is another legal device that has tax consequences for owners of historic properties and provides the only tax benefit available to the **homeowner**. The Tax Treatment Extension Act of 1980 made permanent the federal income and estate tax deductions for charitable contributions of partial interests in real property.

- A Conservation Easement is a legal agreement between a property owner and the holder of the easement which governs present and future treatment of the property. It is an interest or right in property that is less than the full, or fee simple, interest. An easement is a legal document, written in deed form and filed with the probate judge.
- An easement may be placed on scenic or open space, a building facade, an interior space, or any combination of these. The terms of the easement may restrict future development rights or provide for the preservation of a structure. For the purpose of federal income taxes, the easement must be donated in perpetuity; this means that the easement will similarly affect all future owners of the property.
- An easement must be donated to a qualified organization. This can be a governmental agency or a publicly supported charity.
- The donation of the easement must be "exclusively for conservation purposes," defined as the preservation of historically important land areas and Certified Historic Structures. For the purpose of a conservation easement, a Certified Historic Structure is the same as defined above except that it can be either depreciable or non-depreciable (i.e. owner-occupied residence) and may be a building, structure, or land area. An historically important land area is expected to be defined in future IRS regulations as land areas that meet National Register criteria, although actual listing on the Register may not be required.
- For federal income tax purposes, the value of the donated easement is treated as a charitable contribution deduction. The value of the easement is determined by appraisal and is based on the specific terms of the easement, the location of the property, the zoning, and other pertinent considerations. (Because an easement would reduce the adjusted basis of a structure, it could be a useful method of lowering the basis to qualify for a Substantial rehabilitation.)
- Because of the complexity of this device, it is strongly recommended that any one considering its use seek professional advice.

Interpretation and administration of ERTA provisions related to the certification of historic structures and of rehabilitation work is the responsibility of the National Register Division of the National Park Service acting for the Secretary of the Interior. The Internal Revenue Service is responsible for all procedures, legal determinations, and rules and regulations concerning the tax consequences.

THE TAX ACT IN HUNTSVILLE

Certification Procedures:

The Certification Application (available from the Huntsville Planning Department) has two parts.

- Part 1 is used to certify **buildings**. An owner completes Part 1 to determine whether a building in an historic district is a Certified Historic Structure or a non-historic building. Part 1 also can be used to request a preliminary ruling on whether a building appears to meet the criteria for listing on the National Register.
- Part 2 is used to certify **rehabilitation plans** or completed rehabilitation work. An owner should have Part 2 approved before he begins construction if at all possible.
- A building individually listed on the National Register is automatically a Certified Historic Structure; consequently the owner must complete only Part 2 of the Certification Application.
- The Certification Application must be signed by the owner, and it is his responsibility to have the form completed. The city planning department can assist the owner in meeting these requirements. If an architect is involved in the project, he should fill out Part 2.
- Certification Applications for buildings and rehabilitations in Alabama must be submitted to the **Alabama Historical Commission, 725 Monroe Street, Montgomery, Alabama 36130** for review. The Commission then forwards the applications to the National Park Service in Atlanta for final determination. This process should take no longer than 90 days; the owner will be notified by letter of the decision.

Certified Historic Structures:

Any Huntsville building presently listed on the National Register is automatically a Certified Historic Structure.

Huntsville has two National Register historic districts, Old Town and Twickenham. For the purposes of the Tax Act, these districts contain three types of structures.

- **Owner-occupied houses:** These are not depreciable properties. The only tax benefit available for these is the charitable donation deduction for a conservation easement.
- **Certified Historic Structures and non-historic structures:** These are depreciable buildings that may (Certified Historic Structure) or may not (non-historic structure) contribute to the historic character of the district. To determine whether a building in a district is significant, the owner must complete Part 1 of the Certification Application and mail it to the Alabama Historical Commission.

There are structures in Huntsville, which are neither individually listed on the Register nor located in an historic district, that may be eligible for the Register and hence for the 25% ITC when rehabilitated. To determine if an older building could be a Certified Historic Structure, the owner can either submit Part 1 of the Certification Application to the Alabama Historical Commission for a preliminary ruling or complete a National Register nomination form. The first option should be used if there is any question about the ability of the structure to meet the criteria for listing.

Certified Rehabilitations:

To take the 25% ITC for the rehabilitation of a Certified Historic Structure, the owner must have a *Certified Rehabilitation*. Any owner contemplating using the 25% ITC should have his rehabilitation plans approved **prior** to the start of construction so that any unacceptable items can be altered while still in the planning stage. It is important to recognize that the owner of a Certified Historic Structure may **not** take a lesser tax credit if his rehabilitation is not certifiable. To get preliminary certification, the owner must complete Part 2 of the Certification Application and mail it with the appropriate documentation to the Alabama Historical Commission.

For Additional Information:

All questions related to the **tax consequences** of historic rehabilitations should be directed to an accountant or to a tax attorney.

The Huntsville Planning Department can advise and assist in the **certification of buildings and rehabilitations**. Contact the planning staff for • identification of National Register buildings • identification of historic district buildings • Certification Applications • Secretary of the Interior's Standards for Rehabilitation • National Register nomination forms • information on and assistance in completing any of the above forms.

HYPOTHETICAL EXAMPLE OF A SMALL REHABILITATION PROJECT COMPARING THREE TAX OPTIONS AVAILABLE UNDER THE 1981 TAX ACT

Assumptions:

The property is a 19th century store on Main Street that is not currently listed on the National Register but meets the criteria for a Certified Historic Structure.

Acquisition cost 5 years ago:	\$70,000	The relative values of land and building can be determined by appraisal, by the tax assessor's ratio, or by agreement between buyer and seller. The IRS will probably establish regulations to cover this procedure.
Land	10,000	
Building	60,000	
Depreciation taken over 5 years:	15,000	The building was purchased 5 years ago and the owner is depreciating it over a 20-year life using the straightline method.
(60,000 ÷ 20 yrs. = 3,000/yr.)		
Capital improvements made:	0	
Adjusted basis of building:	45,000	Adjusted basis = acquisition cost + capital improvements - depreciation.
(60,000 + 0 - 15,000 = 45,000)		
Cost of planned rehabilitation:	\$50,000	

Option A: Accelerated Depreciation, No Tax Credit

The Economic Recovery Tax Act permits an owner to elect the Accelerated Cost Recovery System (ACRS) for "substantial improvements" made to buildings that have been placed in service prior to December 1980. Substantial improvements are major capital improvements that are (1) made during a 24-month period, (2) made at least 3 years after the building was placed in service, and (3) involve expenditures equal to or in excess of 25% of the adjusted basis of the building. Under ACRS, eligible real property is assigned a 15-year audit-proof recovery period and a 175% declining balance method of recovery. Accelerated cost recovery deductions are computed based on Treasury Department tables. If an owner elects accelerated cost recovery, he cannot qualify for an investment tax credit. Because the total amount of the depreciations, under ACRS, would be subject to recapture if the owner ever disposed of the property, it is unlikely that this method would be elected. However if it were, the total tax savings would be **\$3,600 for the first year** and **\$15,200 for the first five years**.

Option B: 25% ITC for Substantial Rehabilitation of a Certified Historic Structure

If the owner chooses to have his property listed on the National Register, he can then elect the 25% ITC for his rehabilitation expenditures. In this case he must depreciate his rehabilitation expenses by the straightline method over a 15-year recovery period.

First Year:		After Five Years:	
Depreciation of building shell:	\$ 3,000	Depreciation of building shell:	\$15,000
(60,000 ÷ 20 yrs.) ¹		(3,000 × 5 yrs.)	
Cost recovery on rehab expenses:	3,333	Cost recovery on rehab expenses:	16,665
(50,000 ÷ 15 yrs.) ²		(3,333 × 5 yrs.)	
Total deductions: (3,000 + 3,333)	6,333	Total deductions: (15,000 + 16,665)	31,665
Tax savings: (6,333 × 40%) ³	2,533	Tax Savings: (31,665 × 40%)	12,666
ITC: (50,000 × 25%) ⁴	12,500	ITC: (50,000 × 25%)	12,500
TOTAL TAX SAVINGS:	\$15,033	TOTAL TAX SAVINGS:	\$25,166
(2,533 + 12,500)		(12,666 + 12,500)	

¹ The owner must continue to depreciate the building shell by the method previously established.

² With the 25% ITC, the owner is permitted to depreciate the full amount of his rehabilitation expenses. The recovery period is 15 years rather than the useful life.

³ This example assumes the owner is in the 40% tax bracket.

⁴ Assuming rehab expenses of \$50,000. The ITC can be taken in one year or carried over if it exceeds the owner's tax liability for the year earned.

Option C: 20% ITC for Substantial Rehabilitation of a Non-historic Structure

If the owner decides not to list his property on the National Register, he can take the 20% ITC on a substantial rehabilitation of a building at least 40 years old.

First Year:

Depreciation of building shell: (60,000 ÷ 20 yrs.)	\$ 3,000
Cost recovery on rehab expenses: ((50,000 - 10,000) ÷ 15 yrs.) ¹	2,667
Total deductions: (3,000 + 2,667)	5,667
Tax savings: (5,667 × 40%)	2,267
ITC: (50,000 × 20%)	10,000
TOTAL TAX SAVINGS: (2,267 + 10,000)	\$12,267

After Five Years:

Depreciation of building shell: (3,000 × 5 yrs.)	\$15,000
Cost recovery on rehab expenses: (2,667 × 5 yrs.)	13,335
Total deductions: (15,000 + 13,335)	28,335
Tax Savings: (28,335 × 40%)	11,334
ITC: (50,000 × 20%)	10,000
TOTAL TAX SAVINGS: (11,334 + 10,000)	\$21,334

¹ With the 20% and 15% ITC, the owner must subtract the amount of the ITC from the rehab expenses before figuring the depreciation.

(This example was taken from **Preservation News**, November 1981, the monthly newspaper of the National Trust for Historic Preservation.)

SECRETARY OF THE INTERIOR'S STANDARDS FOR REHABILITATION

Rehabilitation means the process of returning a property to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural, and cultural values. The following "Standards" shall be used by the Secretary of the Interior when determining if a rehabilitation project qualifies as "certified rehabilitation" pursuant to the Economic Recovery Tax Act of 1981.

1. Every reasonable effort shall be made to provide a compatible use for a property which requires minimal alteration of the building, structure, or site and its environment, or to use the property for its originally intended use. 2. The distinguishing original qualities or character of a building, structure, or site and its environment shall not be destroyed. The removal or alteration of any historic material or distinctive architectural features should be avoided when possible. 3. All buildings, structures, and sites shall be recognized as products of their own time. Alterations that have no historical basis and which seek to create an earlier appearance shall be discouraged. 4. Changes which may have taken place in the course of time are evidence of the history and development of a building, structure, or site and its environment. These changes may have acquired significance in their own right, and this significance shall be recognized and respected. 5. Distinctive stylistic features or examples of skilled craftsmanship which characterize a building, structure, or site shall be treated with sensitivity. 6. Deteriorated architectural features shall be repaired rather than replaced, wherever possible. In the event replacement is necessary, the new material should match the material being replaced in

composition design, color, texture, and other visual qualities. Repair or replacement of missing architectural features should be based on accurate duplication of features, substantiated by historic, physical, or pictorial evidence rather than on conjectural designs or the availability of different architectural elements from other buildings or structures. 7. The surface cleaning of structures shall be undertaken with the gentlest means possible. Sandblasting and other cleaning methods that will damage the historic building materials shall not be undertaken. 8. Every reasonable effort shall be made to protect and preserve archeological resources affected by, or adjacent to any project. 9. Contemporary design for alterations and additions to existing properties shall not be discouraged when such alterations and additions do not destroy significant historical, architectural or cultural material, and such design is compatible with the size, scale, color, material, and character of the property, neighborhood or environment. 10. Wherever possible, new additions or alterations to structures shall be done in such a manner that if such additions or alterations were to be removed in the future, the essential form and integrity of the structure would be unimpaired.