

The Historic Huntsville Quarterly

Volume 29
Number 1 *Preservation Primer*

Article 11

3-20-2003

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Recommended Citation

Castellano, Donna (2003) "Tax Breaks for Protecting History," *The Historic Huntsville Quarterly*. Vol. 29: No. 1, Article 11.

Available at: <https://louis.uah.edu/historic-huntsville-quarterly/vol29/iss1/11>

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Tax Breaks for Protecting History

Are there programs designed to give tax breaks to residential owners of historic property? Yes. Both commercial and residential property owners can sometimes receive tax breaks through the granting of an historic preservation easement.

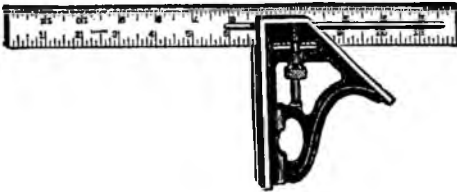
An historic preservation easement is a voluntary legal agreement made between the property owner and a qualified organization to protect a significant historic property, landscape, or archaeological site by restricting future development on the site. Normally, a property owner will convey a portion of his or her rights on the property to a qualified receiving organization such as the Alabama Historical Commission or Historic Huntsville Foundation, thereby allowing the organization the authority to enforce the terms of the easement. For tax purposes, granting a preservation easement to an organization is the equivalent of making a charitable donation to that organization.

Under an easement, the property owner conveys certain rights to the property, such as the right to alter the façade of an historic house or subdivide an historic site, but retains title to the property itself. In donating an easement to a state agency such as the Alabama Historical Commission or an organization such as Historic Huntsville Foundation, the owners agree to maintain their property in its historic condition and to forgo any incompatible development. Preservation easements are negotiated between the owner and the organization and do not require that an owner relinquish all rights to modify or alter the property. For example, an owner could grant a façade easement where he relinquishes the right to alter the street-facing portion of a residence but retains the right to alter the rear portion of the residence. Further, an easement does not preclude homeowners from making modifications to the portion of the residence with the protective easement. It does require, however, that any changes made to the structure receive the consent of the receiving agency.

How does a property owner grant a preservation easement? The qualified receiving organization helps owners with this process. The organization first determines whether the property in question is a “certified” historic property. According to the IRS, to qualify for the tax break a structure must either be listed on the National Register of Historic Places, or be located in a National Registered historic district and be certified by the National Park Service on behalf of the U. S. Department of the Interior as being historically significant to the district.

After determining that the residence qualifies, the owner then has the property appraised, preferably by an appraiser knowledgeable about historic properties. Once the fair market value has been established, the owner, in consultation with the receiving organization and a qualified real estate attorney, draws up the easement

agreement, which is then signed by both parties and recorded at the local courthouse. The owner has the property appraised again, this time with the easement restrictions in place, and the difference in value before and after the easement transaction is the dollar value of the donation.



If, for example, the difference in the appraised value of the property before and after the easement was in place was \$30,000, the property owner “donated” \$30,000 to the receiving agency and can take this amount as a charitable contribution on his income tax return.

While the granting of a preservation easement may reduce the perceived value of a residence, it is debatable whether or not a preservation easement would have any impact on the sale price of a desirable property in our local real estate market. In fact, real estate professionals knowledgeable about historic districts believe that an easement would have no adverse impact on an owner’s ability to sell a house. It is almost impossible to separate the value of a piece of historic property from the neighboring property that surrounds it. Accordingly, if easements help preserve the

integrity of our neighborhoods and help maintain the character of our districts, they will help ensure higher property values.

Easements may be the best way to preserve the integrity of our historic properties. The granting of an historic easement is an act by a property owner that preserves property not only during his ownership, but for the lifespan of the property. By ensuring that our historic districts retain their architectural character and integrity, granting a preservation easement is most certainly a gift that keeps on giving and guarantees that our distinctive neighborhoods are around to nurture and inspire future generations.

For more information about historic preservation easements, contact Historic Huntsville Foundation.