



AEX-642-11

Your Old Barn II: Economic Incentives and Preservation Tools

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Introduction

Tax incentives are one of the many advantages to rehabilitating your old barn. For more reasons, see fact sheet AEX-641-11, “Reasons for Rehabilitation.” While the process, and even the paperwork, can be a little daunting at first glance, these tax incentives can tip the scales towards rehabilitation over new construction or can make your rehabilitation project much more feasible. This fact sheet will inform you of tax deductions and credits that are available. Also, since in order to qualify for the larger tax credits, the barn or property must be listed on the National Register of Historic Places, this article will provide a basic guide to the process of getting your property listed on the National Register. Lastly, it will touch on the possible uses of Land Trusts and Easements in the long-term stewardship and preservation of your barn.

Tax Incentives

This first federal tax incentive is not specifically for old barns, or even barns alone. Using IRS tax form 4562 § 179 (available at <http://www.irs.gov/pub/irs-pdf/f4562.pdf>) one is able to deduct depreciable items whose value is up to \$250,000.00. However, since depreciation is based on the value of the original structure and the improvements made, as well as the building’s new life-span, this deduction can only be determined on a case by case basis, and one should consult one’s accountant for further assistance.

What makes a building depreciable?

It must be used in a trade, as a business, or for the production of income. Examples include offices, commercial or agricultural enterprises, and rental housing. It may not, however, be used solely as the owner’s personal residence.

Tax deductions are nice, but tax credits are better. A deduction is an amount that is subtracted from your taxable income, which lowers your taxes indirectly. However, a tax credit is a dollar-for-dollar reduction of taxes owed after they have already been fully calculated, almost as if that amount had already been paid. Federal law offers two possible levels of tax credit for income producing buildings: 20% for the rehabilitation of buildings listed on the National Register of Historic Buildings, and 10% for buildings not listed on the Register but which were built before 1936.

These tax credits are 10% or 20% of any “qualified expenditures” that accrue during the “substantial rehabilitation” of the property. Examples of qualified expenditures are:

- Costs associated with the work undertaken on the historic building
- Architectural and engineering fees
- Site survey fees
- Legal expenses
- Development fees

- Other construction-related costs if they are added to the basis of the property and are determined to be reasonable and related to the services performed.

Examples of items that are not qualified expenditures include:

- Costs of acquiring or furnishing the building
- New additions that expand the existing building
- New building construction
- Construction of parking lots, sidewalks, landscaping, or other facilities related to the building

What constitutes substantial rehabilitation?

During a 24-month period, selected by the taxpayer, rehabilitation expenditures must be in excess of \$5,000 or the adjusted basis of the building and its structural components. The adjusted basis is the purchase price, minus the cost of land, plus improvements already made, minus depreciation already taken.

The State of Ohio also provides a tax credit of 25% that is available to properties listed on the National Register. However, the State tax credit program is a “first come, first serve” system with a funding cap; therefore, if you do not apply early enough, you are not guaranteed the tax credit. For more information regarding the state tax credit, please visit <http://www.development.ohio.gov/UD/OHPTC>.

It warrants a final extra emphasis that there is no special historical designation required to receive the 10% credit. As long as the building is currently an income producing structure that was constructed prior to 1936, it is eligible. No inspections or documentation, beyond proof of expenditures, are required. To apply for either the 10% or 20% tax credit, you will need IRS form 3468, which can be found at <http://www.irs.gov/pub/irs-pdf/f3468.pdf>. As with the tax deductions, please contact your accountant for further assistance with these forms and tax incentives.

As stated above, to be eligible for either the 20% federal or the 25% state tax credit, one’s property must be listed on the National Register. However, as this is a somewhat lengthy process, one should know what being listed on the Register does and does not do before deciding to apply.

Being listed on the National Register does:

- Grant a level of prestige, which can increase the property owner’s and community’s awareness and pride, as well as the perceived value of the barn.
- Make your property eligible for the 20% Federal and 25% State Tax Credits.
- Provide the prerequisite for many funding applications for restoration work through various private, nonprofit organizations, such as the National Trust for Historic Preservation <http://www.nthp.org>.

Being listed on the National Register does *not*:

- Prevent the owner of the listed property from remodeling, repairing, altering, selling, or even demolishing it as long as federal funds are not used to do the demolition.
- Obligate an owner to make any repairs or improvements to the property.

Now that the basic advantages of being listed on the National Register have been covered, we will explain what the National Register is and go through a basic guide to the process of actually getting your property listed.

The National Register of Historic Places

The National Register of Historic Places is the official list of properties recognized by the federal government as worthy of preservation for their local, state, or national significance in American history, architecture, archaeology, engineering, or culture. A program of the National Park Service, the National Register is administered at the state level by each respective state. In Ohio, the Ohio Historical Society’s Ohio Historic Preservation Office administers the National Register program. There are three basic requirements to be eligible for listing on the National Register:

1. The property should be at least 50 years old.
2. It must retain its basic historic integrity.
3. It must meet at least one of the four National Register criteria listed below:
 - The property has significance for its association with broad patterns of history.
 - The property had association with the lives of persons significant in our past.
 - The property has architectural merit.

- The property has the potential to yield information important in history or prehistory (archaeology).

Criteria one and four may work particularly in favor of barn owners. For more information on barn architecture, Ohio geography, and how it relates to our heritage and history see *The Barn, a Symbol of Ohio* (Noble and Christian, 2005) available at <http://www.heartlandscience.org/barns/barns.htm>.

Before actually nominating your property for the National Register, you must first complete a National Register Preliminary Questionnaire. This questionnaire is designed to help determine whether a property is likely to be eligible for listing. The questionnaire is available for downloading in two formats: as a pdf (<http://www.ohiohistory.org/resource/histpres/docs/nr/nr-01.pdf>) and in Microsoft Word (<http://www.ohiohistory.org/resource/histpres/docs/nr/nr-01.doc>). Once completed, the questionnaire should be submitted to the Ohio Historic Preservation Office (OHPO) for review, which is then followed by a response from the OHPO recommending whether or not your property's nomination is likely to be accepted at the federal level.

The next step is the actual completion of the federal nomination form. Once submitted, it is reviewed by the Ohio Historic Site Preservation Advisory Board. If the board approves the nomination, it is reviewed a final time and signed by the State Historic Preservation Officer. It is then submitted to the National Park Service (NPS) and if approved by the NPS, the property is officially listed on the National Register. A flow chart guideline of the process is available at <http://www.ohiohistory.org/resource/histpres/docs/nr/nr-04.pdf> and a step by step guideline at <http://www.ohiohistory.org/resource/histpres/toolbox/nr/nr-03.html>.

If, after you get your property rehabilitated or even listed on the National Register, you decide that you would like to preserve your barn or the entire farmstead, then you might want to consider putting your property into a Land Trust and/or obtaining a Preservation Easement. Be advised, however, that while these options can preserve your farm, even beyond your lifetime, if you change your mind, it is very difficult, and not always possible to reverse the process, and with it the restrictions that have been placed on your property. For information on Land Trusts, please see OSU Extension fact sheet CDFS-1262-98, available at <http://ohioline.osu.edu/cd-fact/1262.html>. For information on Easements (including Preservation Easements), please see OSU Extension fact sheet CDFS-1261-98, available at <http://ohioline.osu.edu/cd-fact/1261.html>. If these two are combined, it can help guarantee that a farm stays in its current state and that the historic structures on it are not torn down. This is much more limiting than any restrictions resulting from listing your barn on the National Register.

Conclusion

Whatever the reason for planning the rehabilitation of your barn, tax incentives provided by the state and federal government can help. If you want to save your barn, but have less interest in historic preservation, there are deductions and the federal 10% tax credit. If you want to take the next step to preserve your property, there are more tax incentives and technical resources available to further protect the barn or the entire farm. In both cases however, your dedication to preserving an important piece of Ohio's past means that future generations will be able to enjoy the beautiful structures that their ancestors built and better understand their own heritage.

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