Historic District Development Incentives and Assistance
Rev. 7.24.2017

Determining Adjusted Basis & Depreciation

Adjusted Basis is roughly equal to: Purchase Price – land value – annual depreciation + previous capital improvements= A.B.

Depreciation Values:

- 31.5 years for commercial
- 27.5 years for residential

Land Value is determined through sales of comparable properties and assessed values. Virtually every commercial property establishes a land value at the time the property is placed in service, as this is necessary to begin claiming the depreciation on income taxes. The value of previous improvement is also added into the adjusted basis.

Theoretical Example of 20% Tax Credit
Building:

- Built in 1890
- 2 stories tall
- Ground floor retail and second floor storage for business
- Owner purchased 5 years ago for $80,000 and the land under the building is valued at $20,000
- Project: Renovate façade, repointing, new roof, interior remodeling.

To roughly calculate the Adjusted Basis, the Depreciation must first be calculated:

Depreciation for commercial floors within a building = ([Purchase Price] – [Land Value]) ÷ [Number of floors in building] ÷ 31.5 X [Number of years of ownership] X [Number of floors of commercial usage]:

($80,000 – $20,000) ÷ 2 total floors ÷ 31.5 X 5 years X 1 commercial floor = $4,762

Depreciation for rental residential floors within a building = ([Purchase Price] – [Land Value]) ÷ [Number of floors in building] ÷ 27.5 X [Number of years of ownership] X [Number of floors of rental residential usage]:

($80,000 – $20,000) ÷ 2 total floors ÷ 27.5 X 5 years X 1 residential floor = $5,455

Add the two depreciation amounts to get the building's total depreciation = **$10,217**

Adjusted Basis (roughly):

$80,000 [Purchase Price] – $20,000 [Land Value] – $10,217 [Total Depreciation] + $5,000 [Previous Capital Improvements] = **$54,783**

Minimum Expenditure:

Since $54,783 is greater than $5,000, the minimum expenditure is $54,783

Must spend Adjusted Basis on rehabilitation within 24 months, or can take up to five years with a phased rehabilitation plan

Project Cost:

$75,000 [Construction] + $5,250 [Professional Fees] + $500 [application fee for the tax credit program] = $80,750

Tax Credit:

$80,750 [Project Cost] x 20% [Credit percentage] = $16,150

Unused credit may be carried forward 15 years

Project Cost after Tax Credit:

$80,750 [Project Cost] x $16,150 [Tax Credit] = $64,600