

GLOSSARY OF TERMS RELATING TO SECTION
2124 OF THE TAX REFORM ACT OF 1976

This glossary, prepared by the Office of Archeology and Historic Preservation with the assistance of Coopers & Lybrand, provides definitions of terms that appear in Section 2124 of the Tax Reform Act of 1976.

1. Accelerated depreciation - a method of depreciation in which deduction larger than those computed under straight-line depreciation are taken during the early years of a property's useful life. Conversely, the deductions taken in the later years of a property's life are smaller ~~under accelerated depreciation than under straight-line depreciation~~. Under Section 2124 of the Tax Reform Act of 1976 accelerated depreciation deductions may be taken at the owners election on certified historic properties which are substantially rehabilitated after 6-30-76 and before 7-1-81.
2. Adjusted basis of property - the cost of the certified historic structure plus rehabilitation expenditures and less depreciation, or amortization.
3. Amortization - a method for deducting an equal portion of the cost of a capital asset each month for a number of months. Amortization is similar to straight-line depreciation. Under Section 2124 of the Tax Reform Act, capital expenditures incurred in the rehabilitation of a certified historic structure may be deducted over a 60-month period, rather than being added to the adjusted basis of the structure, and depreciated over its useful life.
4. Amortizable basis - the amount expended on certified rehabilitation.
5. Basis - the original cost of capital asset.
6. Capital account - refers to the contributions made for the purchase of the property.
7. Capital expenditure - an expenditure which adds to the value or useful life of a property. Routine maintenance and upkeep expenses are not capital expenditures and may be deducted as business expenses. Under Section 263 of the Code, a capital expenditure is not allowed as an expense. Instead it is treated as a permanent investment to the basis of the property and subject to the allowance for depreciation or amortization.
8. Certification of significance - the procedure outlined in 36 CFR § 67.4 for evaluating the historic nature of a structure so as to allow the owner to take advantage of Section 2124.
9. Certified Historic Structure - in general, any structure, subject to depreciation and which is either 1) listed individually in the National Register of Historic Places; or 2) located in a registered historic district and is certified by the Secretary of the Interior as being of historic significance to the district; or 3) located within a historic district designated under a State or local statute which has been approved by the Secretary of the Interior as containing criteria which will substantially achieve the purpose of preserving and rehabilitating buildings of historic significance.

10. Depreciable property - property used in a trade or business or held for the production of income. It does not include inventory, stock in trade, land, or property used for personal purposes, such as a personal residence.
11. Depreciation - a reasonable annual deduction allowed for exhaustion, wear, and tear of a property, except land, used in a trade or business or held in the production of income. The depreciation deduction may be determined by using either straight-line or accelerated methods of depreciation.
12. Gain on disposition - the excess amount the taxpayer receives in a sale or exchange over the adjusted basis. This gain, or profit, may be taxed as ordinary income or as capital gains.
13. Lessee - one who may use the property of another person (lessor) for a limited period of time in return for payment to the lessor. Pending issuance of regulations, the tentative position of the Office of Chief Counsel of the Internal Revenue Service is that lessees are not allowed to amortize rehabilitation costs for certified historic structures over a 60-month period.
14. Life tenant - one who holds an estate or interest in a certified historic structure for the period of his own life or that of another certain person. Under Section 2124, a life tenant is to be treated as the absolute owner of the property, and may therefore receive all the benefits provided for the rehabilitation of historic structures.
15. Partial interest - an interest is a right to have the advantage accruing from property. A partial interest is a right in the property that is less than absolute. It, therefore, represents only a portion of the total interest possible and is not a title to the property.
16. Remainderman - one who is entitled to the remainder of the estate after the life tenant's interest in that estate had ended through death (either the life tenant's or that of another certain person).
17. Reasonable allowance - the depreciation deduction allowed for the exhaustion or wear and tear (including obsolescence) of property (except land) used in a trade or business or held for the production of income. Under Section 8167 (o) of the Internal Revenue Code the accelerated method of depreciation to compute the depreciation deduction attributable to substantially rehabilitated historic structures as if the original use of the property began with the taxpayer. However, if the 60 month amortization of the rehabilitation cost is elected, the structure must be depreciated under the straight-line method or 125 declining balance of residential property.

- 18. **Straight-line depreciation** - a depreciation method where the amount of the annual deduction is determined by dividing the cost or other basis of the property, minus salvage value, by the expected useful life of the property. Deductions will be in equal periodic amounts over the entire life of property.
- 19. **Substantial Rehabilitation** - a rehabilitation in which the expenditures for a 24-month period ending on the last day of the year must exceed 1) \$5,000 or 2) the adjusted basis of the property at the beginning of the 24-month period, whichever is greater. Under Section 2124 of the Tax Reform Act of 1976, a substantial rehabilitation of a certified historic structure involving expenditures made between 6-30-76 and 7-1-81 is eligible for accelerated depreciation deductions under Section 167 of the Code.
- 20. **Taxable basis** - cost of the investment of the property plus subsequent expenditures.