Monument Depreciation: Opportunities for Renovations

Depreciation in monument protection – what basic requirements must be met?

In order to be able to deduct construction measures on a property from tax, some conditions must be met. First of all, it must be a listed building. The monument authority determines which buildings are listed as monuments. Such certificates may also be issued by the Authority upon request. There must be no indication that the tax authority must examine the tax treatment of the property itself. If this entry exists, the certificate of the monument protection authority is not binding for the tax office. In the case of investments, an individual audit is then carried out by the tax office and such an audit can also be negative. Then the remediation costs incurred are not tax deductible. Another basic requirement is that the building has already been completely acquired. Only then may the renovation work begin.

What remediation costs can be deducted from the tax?

Furthermore, it is crucial which costs are claimed in the tax return. These must be costs incurred in the course of investing in a listed property. Primarily, this applies to refurbishment or renovation. Renovation measures must be discussed with the monument protection authority before execution. Only if the authority approves the planned restorations, a monument certificate will be issued. Only then can costs incurred be claimed for tax purposes. Criteria according to which the monument protection authority evaluates planned renovations are:

- The historical substance and the characteristics of the monument must be preserved.
- The investments must be justified and necessary for the preservation of the property.
- Any change in the use of the building may not fundamentally change the properties of monument law.

Owner-occupiers or landlords – differences in tax benefits

If a property that is under monument protection is rented, the legislator provides for a depreciation period of twelve years. In the first eight years, it is possible to deduct nine percent of the renovation costs per year from income tax. Over the following four years, it is finally seven percent each. Thus, in the case of a rented property, 100 percent of the renovation costs can be claimed for tax purposes.

As owner-occupiers, on the other hand, the depreciation proceeds differently. If the property is inhabited by yourself, only 90 percent of the costs can be deducted according to the EStG. In this case, the renovation costs can be depreciated on a straight-line basis over ten years. Here, nine percent of the costs of the renovation share can be claimed annually.

If several investors own a listed property, there are other rules to follow. The principle is that the ownership share also regulates the percentage of deductible costs. This also includes mixed properties consisting of rented areas and condominiums.

How does depreciation work? A practical example

If the renovation costs are 500,000 euros, the sums that are relevant annually for the income tax return differ. The decisive factor here is the type of use of the property. If the listed building is used by the owner, 45,000 euros can be claimed annually for the deposition. After ten years, the total tax-deductible amount amounts to 450,000 euros.

On the other hand, it is different if the property is rented. Then in the first eight years, 45,000 euros may also be declared in the income tax return. In the following four years, it is another 35,000 euros per year. The amount deductible from income tax is therefore EUR 500,000. This corresponds exactly to the original investment costs.

Monument protection depreciation as a tax-saving model – when does an investment make sense?

The tax advantages can be used particularly effectively when income increases. This is especially true for the next ten to twelve years. Through continuous depreciation, taxable income can be reduced. In this way, the income tax burden can be effectively reduced.

It makes sense to prepare a tax profitability calculation. This calculation can be carried out even before the purchase of an interesting listed property. The calculation is based on the expected renovation costs and the income of the investor. In this way, it is possible to determine very precisely how high the savings potential in income tax is.

Monument protection and tax advantages in special cases

In addition to restructuring, there are other ways to benefit from tax advantages. The monument depreciation can also be activated, for example, if a property is expanded. Decisive here is the evaluation of the monument protection authority. The authority must assess the extension in such a way that the overall appearance of the protected structure is not impaired. Then a tax capitalization of the expansion costs is possible. Again, the aforementioned regulations and depreciation guidelines apply.

The same applies if the purpose of a listed property is to be changed. Old factory buildings or farmhouses are good examples. Here, too, the monument protection authority plays an important role. In advance, the purpose and scope of the conversion measures should be discussed in detail with the authority. The monument protection authority then decides whether the conversion contributes to the preservation of the property. The listed properties must also not be impaired. Then nothing stands in the way of a tax capitalization of the costs.

Investment in listed real estate is in the interest of the general public

The state grants very generous tax advantages when private investors renovate listed buildings. The main reason is that the properties are maintained in this way. Old and interesting buildings are thus preserved for future generations. At the same time, the state itself does not have to invest money to protect these monuments.

We have the investment projects that fit the personal profile of the interested parties. And we have the experience in the field of listed real estate. In this way, our customers benefit from efficient tax-saving models.