



The Rehabilitation Tax Credit Program

Petersburg Housing Summit

What ARE Historic Rehabilitation Tax Credits?

They are a dollar-for-dollar reduction in the tax liability of an individual, business, or other legally organized pass-through entity.

STATE PROGRAM CREDIT

25%

of total eligible costs

FEDERAL PROGRAM CREDIT

20%

of total eligible costs













Differences between the State and Federal Programs

STATE PROGRAM

- Both income- and non-income producing properties are eligible.
- No continued ownership requirement.
- Credits may be carried forward for up to 10 years.
- Credits may be allocated based on agreement between partners.
- Administered by DHR..

FEDERAL PROGRAM

- Only income producing properties are eligible.
- 5-year holding period.
- Credits may be carried forward for up to 20 years and back 1 year.
- Credits may be allocated based on the percentage of ownership.
- Administered by NPS.

For a project to be eligible for tax credits,
three things must happen:

1. The building must have a historic status.
2. A certain amount of money must be spent.
3. The work must follow the Secretary of the Interior's *Standards for Rehabilitation*.

1. The building must have a historic status.

For the Federal Program, this means it must be listed on the National Register of Historic Places.

For the State Program-only, this means EITHER that the building is listed, or that it has been found to be **eligible** for State or Federal Register listing.



Union Hill Historic
District, Richmond

2. A certain amount of money must be spent.

For the Federal Program, the minimum eligible expenses spent must either:

- Exceed the owner's adjusted basis in the building, or
- \$5,000

Whichever is greater.

For the State Program, for income-producing properties the minimum eligible expenses spent must be:

- 50% of the adjusted value of the building for local real estate tax purposes in the year prior to work beginning.

Eligible vs. Ineligible Costs (this is not an exhaustive list)

ELIGIBLE

HARD COSTS:

- Structural & Stabilization
- Framing & Finishes
- Windows & Doors
- HVAC & Systems
- Demolition & Abatement

SOFT COSTS:

- Construction Period Interest & Taxes
- Architect & Engineering Fees
- Related Insurance Fees
- Reasonable Management Fees
- CPA, Consultant, & DHR/NPS Fees

INELIGIBLE

- Personal Property (appliances, furniture, window treatments, signage)
- Most new construction outside of the building footprint
- New additions or other enlargement to the interior of the structure (including excavation)
- Landscaping costs
- Acquisition Costs & Financing Fees
- Feasibility & Marketing Studies
- Leasing or Storage Costs
- Legal Costs for syndication, lawsuits, or disputes related to the project

3. The work must follow the *Standards for Rehabilitation*.

What are the *Standards*?

The *Standards* seek to preserve a property's historic architectural fabric and character.

They:

- are broadly applicable- apply to buildings of all types, sizes, uses, & materials.
- apply to exteriors and interiors.
- extend to building site and environment, including associated landscape, secondary buildings, and related new construction.

3. The work must follow the *Standards for Rehabilitation*.

In brief, the *Standards* require that a project:

1. Retains and repairs historic materials, features, and spaces. Wherever possible, repair rather than replace. Where historic features or materials are missing or damaged, replace them to match.
2. Retains a property's historic character even if the use changes.
3. Prioritizes the design of compatible, reversible additions and alterations.

Application Forms and Important Notes

Three-part application process

- Part 1: Determination of Eligibility
- Part 2: Description of Rehabilitation
- Part 3: Certification of Completed Work

IMPORTANT:

- All work is evaluated: eligible and ineligible; exterior and interior, including site.
- If the work scope changes, DHR/NPS must review and approve the changes.
- The Program is “all or nothing,” no partial credits.
- Work may be started before the application is submitted, but this is done at the applicant’s own risk.
- STATE PROGRAM-ONLY: There is a firm one-year deadline after completion of the project that the Part 3 must be submitted.

Common Rehab Concerns - Exterior

- Changes to primary elevations
- Replacement windows that do not match the historic examples
- Removal of character-defining historic materials and features
- New systems installed on primary elevations



Common Rehab Concerns - Interior

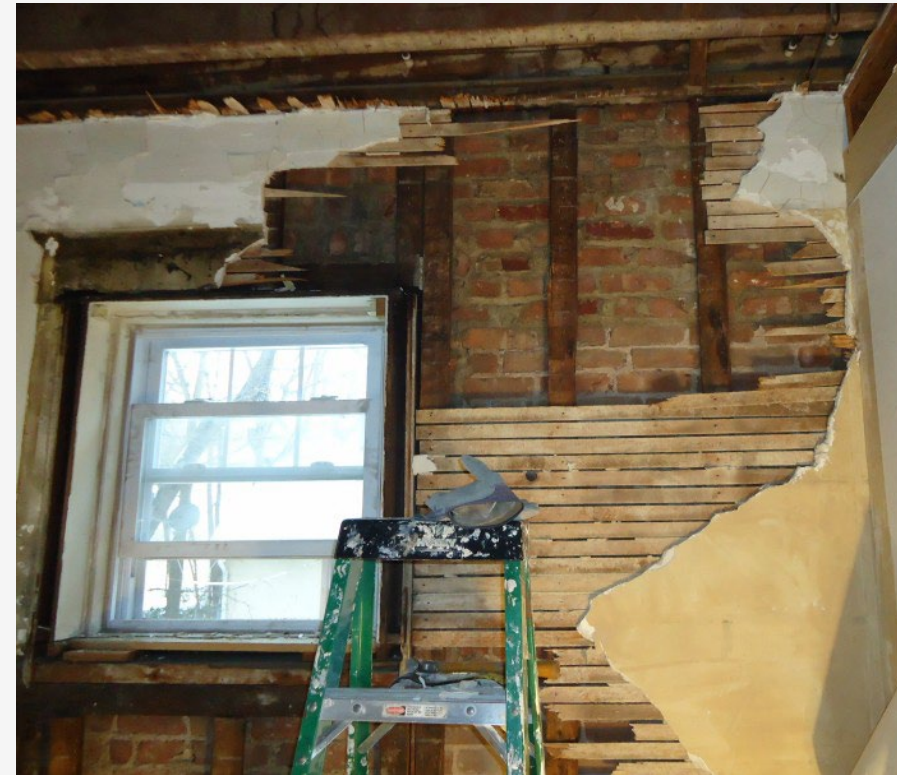
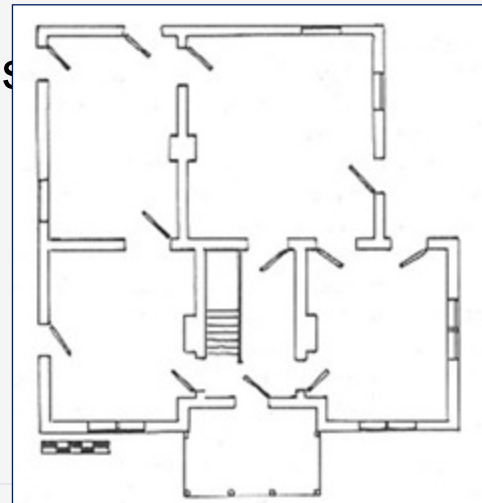
■ Floorplan Changes- Primary vs. Secondary Spaces

- Removing walls and plan features
- Subdividing primary spaces
- Removal of circulation paths (halls and stairs)



■ Features and Finishes

- Painted vs. stained woodwork
- Exposing brick
- Addition of conjectural decorative features



Common Rehab Concerns – Repointing



Common Rehab Concerns – Systems



Common Rehab Concerns – Systems



What not to do...



Common Rehab Concerns – Systems

What to do instead!



Common Rehab Concerns – New Additions

What not to do...



Common Rehab Concerns – New Additions

What to do instead!





Keys to a Successful Project

- Contact DHR early in the planning process
- Submit a complete application **before** beginning work and wait for a response.
- Respond fully to any questions asked, or additional information requested, by your reviewer.
- Submit good, clear photos of the entire building and site **before** work begins.
- Follow through with work as approved and submit amendments for **any** changes after approved work begins.
- Be an informed owner – monitor what your contractors and sub-contractors are doing.

Photo credit: David Edwards/DHR, 20 22
Berkley North HD, Norfolk

Thank You.

CONTACT INFO FOR STATE REHABILITATION TAX CREDIT STAFF

First point of contact:

Chris Novelli – Tax Credit Specialist

Chris.Novelli@dhr.virginia.gov

804-482-6097

Jessica Ugarte – Program Supervisor

Jessica.Ugarte@dhr.virginia.gov

804-482-6452