



Since its inception in 1997, the Virginia Historic Rehabilitation Tax Credit Program has spurred private investment in the rehab of more than 1,200 landmark buildings statewide. This has generated an economic impact of nearly \$1.6 billion in the Commonwealth and created more than 10,700 jobs—representing costs paid into the construction industry for local contractors, craftsmen, architects, and material suppliers.

historic. Photographs showing the property in its pre-rehabilitation state are submitted with Part 1.

Part 2 requests certification that the proposed rehabilitation work appears to be consistent with the *Secretary of the Interior's Standards*. Part 2 requires a description of each significant architectural feature of the property and how it will be treated in the rehabilitation.

Part 3 requests certification that the completed work is consistent with the *Secretary of the Interior's Standards*.

FOR MORE INFORMATION:

Virginia Department of Historic Resources (DHR)
www.dhr.virginia.gov/tax_credits/tax_credit.htm

Elizabeth Tune, Office of Preservation Incentives,
804-482-6093

The Federal Rehabilitation Tax Incentive Program,
National Park Service
www.nps.gov/tps/tax-incentives/before-you-apply.htm

Secretary of the Interior's Standards & Guidelines
for Rehabilitation
www.nps.gov/tps/standards/four-treatments/treatment-rehabilitation.htm

Online Tutorials
www.nps.gov/tps/education/online-training.htm

FAUQUIER COUNTY

**Department of
Community Development**

PLANNING DIVISION

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Additional information available online at
www.fauquiercounty.gov



Historic Rehabilitation Tax Credits



FAUQUIER COUNTY

Department of Community
Development

Historic places connect us to our heritage and give our communities a sense of identity, stability and orientation. They also provide economic benefits. Through the Federal Rehabilitation Tax Incentive Program and Virginia Historic Rehabilitation Tax Credit Program, historic property owners are given substantial incentives for rehabilitation projects.

What is a tax credit?

A tax credit differs from a tax deduction in that a credit is a dollar-for-dollar reduction in income tax liability. In other words, a tax credit of one dollar reduces the amount of income tax owed by one dollar. The amount of the historic tax credit is based on total rehabilitation costs.

The federal historic tax credit is 20% of eligible rehabilitation expenses. The state credit is 25% of eligible expenses. In some cases, property owners can qualify under both programs, allowing them to claim credits of 45% of their eligible rehabilitation expenses.

What buildings qualify?

The credits are available only for *Certified Historic Structures*.

Under the federal program, a certified historic structure is one that is either:

- Listed individually in the National Register of Historic Places, or
- A “contributing” property to a district listed in the National Register of Historic Places.

The federal credit is available only for properties that are income-producing,

including commercial, industrial, agricultural, and rental residential uses.

Under the state program, a certified historic structure is one that is:

- Individually listed on the Virginia Landmarks Register, or
- Certified as eligible for listing on the Virginia Landmarks Register, or
- Certified as a contributing structure in a district that is so listed.

What work qualifies for historic tax credits?

The rehabilitation work for the entire project must meet the *Secretary of the Interior’s Standards for Rehabilitation*. Eligible expenses include any work that is properly chargeable to a building’s capital account in connection with a certified rehabilitation. Essentially, this means that all work done to structural components of the building and certain soft costs, like architectural and engineering fees, construction period interest and taxes, construction management costs, and reasonable developer fees, are eligible. Expenses related to new heating, plumbing and electrical systems, updating kitchens and bathrooms, compliance with ADA regulations, and fire suppression systems are also eligible. Acquisition costs and any expenses attributable to additions or enlargements of a building are not eligible.

How much money do I have to spend?

To qualify under the federal program, the project must be a “substantial rehabilitation.” The IRS defines “substantial” as exceeding the owner’s adjusted basis in the building, or \$5,000, whichever is greater. Adjusted basis is generally defined as the purchase price, minus the value of the land, minus

any depreciation already claimed, plus the value of any earlier capital improvements. Under the state program for owner-occupied structures, expenses must be at least 25% of the assessed value of the building for the year before the rehabilitation work began. For eligible structures not owner-occupied, expenses must be at least 50% of the assessed value of the building for the year before the rehabilitation work began.

How long do I have to complete the rehabilitation?

The “substantial rehabilitation” test (for the federal program) and the “material rehabilitation” test (for the state program) must be met within a consecutive 24-month period that ends some time during the year in which the credits are claimed. For most projects, the greatest expenditures must be made within a 2-year period.

When can I claim the credit?

The credit is claimed in the year the rehabilitation is completed. If you cannot use up the full amount of the credit in the first year, it can be carried forward.

How can a nonprofit organization take advantage of the tax credits?

By taking on taxpayers under a limited partnership arrangement and maintaining a minority ownership interest as a general partner, many nonprofit organizations have been able to use the tax credits.

How do I apply for the credit?

The application is a three-part process. See the Virginia Department of Historic Resources for application forms.

Part 1 requests certification that the building is

With a few exceptions, a Virginia property that is listed in the National Register of Historic Places is listed on the Virginia Landmarks Register.