



Frequently Asked Questions

What are the rehabilitation tax credits?

- dollar-for-dollar reductions in income tax liability for taxpayers who rehabilitate historic buildings
- Credits are available from both the federal government and the State of Virginia.

The amount of the credit is based on total rehabilitation costs. The federal credit is 20% of eligible rehabilitation expenses. The state credit is 25% of eligible rehabilitation expenses. In some cases, taxpayers can qualify under both programs, allowing them to claim credits of 45% of their eligible rehabilitation expenses.

What buildings qualify for the tax credit program?

- Under the federal program, a certified historic structure is one that is either:
 - Individually listed on the National Register of Historic Places, or
 - Certified as contributing to a district that is so listed
- 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, or
 - Certified as a contributing structure in a district that is so listed.

With a few exceptions, most Virginia properties that are listed on one of these registers are listed on both. Note, however, that National and Virginia register historic districts may be different from locally designated historic districts. Certification that a building contributes to a listed district, or for purposes of the state credit, is eligible for individual listing, is obtained only by submitting Part 1 of the tax credit application.

What work qualifies for the credits? The rehabilitation work for the entire project must meet [*The Secretary of the Interior's Standards for Rehabilitation*](#). If the project does not meet these standards, no part of the credit may be claimed. If the work is certified as meeting these standards, the credit is based on all eligible expenses.

Technically speaking, 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 will be eligible, as well as certain soft costs such as architectural and engineering fees, construction period interest and taxes, construction management costs, and reasonable developer fees. Expenses related to new heating, plumbing and electrical systems are eligible, as well as expenses related to updating kitchens and bathrooms, compliance with ADA, and fire suppression systems and fire escapes. Acquisition costs, however, and any expenses attributable to additions or enlargements of the building, are not eligible. Under the federal program, site work and landscaping elements are not eligible expenses. Under the state program, certain site work may be eligible.

How much money do I have to spend?

- To qualify for the federal credit:
 - The project must be a “substantial rehabilitation” to qualify the investor for the credit.
 - The Internal Revenue Service defines "substantial" as exceeding the owner's adjusted basis in the building, or \$5000, whichever is greater.
 - adjusted basis is generally defined as:
 - The purchase price (-) value of the land (-) any depreciation already claimed (+) the value of any earlier capital improvements.
- To qualify for the state credit, the rehabilitation expenses must be:
 - For owner-occupied structures, at least 25% of the assessed value of the buildings for local real estate tax purposes for the year before the rehabilitation work began.
 - For all other eligible structures, at least 50% of the assessed value of the buildings for local real estate tax purposes for the year before the rehabilitation work began.

How long do I have to complete the rehabilitation? The rehabilitation does not have to be completed within any particular period of time. However, 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. Essentially, this means that for most projects the greatest expenditures must be made within a 2-year period. For phased projects, the time limit is extended to 60 months.

My project has taken longer than I expected, and although I have spent more than my adjusted basis in the building, I have not spent it within a 24-month period. Can I decide to phase my project in order to take advantage of the 60-month measuring period? No. In order to use the 60-month measuring period for a phased project, the taxpayer must phase the project from the beginning. This means that a phasing plan, showing what work will be completed during each phase of the project, must be submitted before work begins. For some projects, it may be a good idea to submit a phasing plan at the start of the project, even if there is a possibility the project can be completed within two years. This will “hold open” the 60-month time period, but does not obligate the taxpayer to take that long to complete the project.

If my building is in a historic district that is not yet listed, can I start my rehabilitation anyway? Yes, but you do so at the risk that for some reason the district will not be listed. Generally speaking, it is a good idea to wait until the listing process is at least well underway and appears to be on track before doing any substantial work. You will not be eligible to claim the credit until the district is actually listed. If you complete your project before the district is listed, you will not be able to claim the credit at all unless the listing is completed within a year after your completion date.

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. The federal credit may be carried forward for up to twenty years, and back for one year. The state credit may be carried forward for up to ten years. There is no carryback for the state credit.