

# HISTORIC PRESERVATION TAX CREDITS — A BRIEF OVERVIEW



The preservation of historic buildings benefits communities. Historic places connect us to our heritage and enrich the quality of our lives in countless intangible ways. The Virginia Rehabilitation Tax Credit (state credit) has been in effect since 1997 and applies to buildings listed on the Virginia Landmarks Register. Modeled on the highly successful Federal Rehabilitation Tax Credit (federal credit), it has already spurred private investment of over \$316 million in the rehabilitation of more than 264 landmark buildings. The state tax credit is administered through the Virginia Department of Historic Resources (DHR). The federal tax credit is administered through the National Park Service (NPS).

This reference sheet is intended as a starting point for those wishing to determine whether a property rises to the level of significance required to be nominated to the Virginia Landmarks Register, and potentially, by extension, the National Register of Historic Places. It will discuss how a property is registered, the approach to treatment through rehabilitation, and what improvements qualify for tax credits. The state credit provides a 25% credit on all eligible rehabilitation expenses. The federal credit provides 20%. The federal government also allows a 10% rehabilitation tax credit for buildings which were constructed before 1936, but are not certified historic structures, subject to a number of conditions. Complete information about each tax credit program may be accessed online at:

Federal Tax Credit (20% and 10%): <http://www.cr.nps.gov/hps/tps/tax/hpcappl.htm>  
Virginia Tax Credit (25%): [http://www.dhr.virginia.gov/tax\\_credits/tax\\_credit.htm](http://www.dhr.virginia.gov/tax_credits/tax_credit.htm)

The state and federal tax credit programs are administered in three sequential steps.

## **PART I: EVALUATION OF SIGNIFICANCE - DOES MY PROPERTY QUALIFY?**

Buildings and places may be added to the Virginia Landmarks Register through four criteria:

- The property is associated with events that have made a significant contribution to the broad patterns of our history.
- The property is associated with the lives of persons significant in our past.
- The property embodies the distinctive characteristics of a type, period, or method of construction or represents the work of a master, or possesses high artistic values, or represents a significant and distinguishable entity whose components lack individual distinction.
- The property has yielded, or is likely to yield information important in prehistory or history.

A building that qualifies for the Virginia Register may also be placed on the National Register. Generally, official consideration of a property begins with a DHR district reviewer and the review of a Preliminary Information Form (PIF). If you feel your property may fall within the significance criteria above, DHR can guide you with the completion of a PIF. The PIF is then reviewed by DHR and a determination on whether an official application should be submitted is made. A historic designation by DHR or NPS does not obligate a property owner or affect property rights. It does provide for the opportunity for tax credits on qualified rehabilitation work. The decision to apply for tax credits is voluntary, but specific standards must be met to receive the credits. Qualified rehabilitation expenses must be presented and approved by DHR and NPS.

## **PART II DESCRIPTION OF TREATMENT—WHAT SORT OF REHABILITATION TREATMENT IS REQUIRED?**

DHR is exacting in its approach to rehabilitation treatment. Because our places of history and significance are unique, the state treats each resource individually. The National Park Service provides guidelines for the treatment of historic property through *The Secretary of the Interiors Standards for Historic Rehabilitation* which may be found on either website referenced earlier. However, specific treatment of individual resources must be submitted to and approved by DHR. Virginia Department of Historic Preservation staff holds regular conferences to review and discuss treatment on an individual basis. These conferences are held on the first Friday of each month at DHR headquarters in Richmond.

Alterations (other than repair) to the building's exterior, such as new window and door openings, additions, or use of historically inappropriate materials, are generally prohibited. The approach to changes to the building's interior is more subjective and specific. For example, a historic home would likely need to maintain existing walls in their place. However, in a larger renovation such as a school, where the historic use is changed, important areas like the auditorium and corridors would need to be retained intact. Selective demolition of less important areas might be permitted to accommodate the ultimate change in use.

## **PART III REQUEST FOR CERTIFICATION OF COMPLETED WORK—HOW ARE TAX CREDITS VERIFIED?**

Part III certification involves documenting that the prescribed treatment was completed. DHR expects that each tax credit applicant abide exactly to the plan for treatment codified in the Part II, Description of Treatment. If completed successfully, the State's 25% tax credit (and the federal 20% credit), will cover qualified expenses which include facets of the building's structure, systems, and finishes.

Third party photo documentation and a CPA-certified accounting of the rehabilitation work are the two most important aspects of the Part III application. Reviewers from DHR may coordinate to tour the resource in conjunction with the Part III. A Part III Request for Certification must be submitted within one year of completing work. DHR has structured the tax credit program to penalize the owner/taxpayer if the resource is sold within five years of a Part III certification. The total amount of qualified rehabilitation expenses are credited back to the taxpayer in five equal parts over five years.

## **ELIGIBLE AND INELIGIBLE EXPENSES**

### **What are some costs that qualify for the rehabilitation tax credit?**

Any expenditure for a structural component of a building will qualify for the rehabilitation tax credit. Treasury Regulation 1.48-1(e)(2) provides a complete definition of all eligible and ineligible expenses and a detailed list can be found on the following page. In summary, components of the restoration that are fixed and cannot be removed qualify for tax credits. Components that can be removed, such as cabinets and certain types of carpeting, for example, do not qualify.

In addition to the above named "hard costs", there are "soft costs" which also qualify. These include construction period interest and taxes, architect fees, engineering fees, construction management costs, reasonable developer fees, and any other fees paid that would normally be charged to a capital account.

## **ELIGIBLE EXPENSES**

- Walls
- Partitions
- Floors
- Ceilings
- Permanent coverings such as tile
- Windows
- Doors
- Central HVAC
- Plumbing
- Plumbing fixtures
- Electrical wiring
- Lighting fixtures
- Chimneys
- Stairs
- Escalators
- Elevators
- Sprinkling systems
- Fire escapes
- Components related to the operation or maintenance of the building
- Construction period interest and taxes
- Architect fees
- Engineering fees
- Insurance fees related to construction
- Construction management costs
- Reasonable developer fees
- Tax credit consultant fees
- DHR tax credit review fees

## **INELIGIBLE EXPENSES**

- Acquisition costs
- Appliances
- Cabinets
- Carpeting (if tacked in place and not glued)
- Decks (not part of original building)
- Demolition costs
- Enlargement costs
- Fencing
- Feasibility studies
- Financing fees
- Furniture
- Landscaping
- Leasing Expenses
- Moving (building) costs (if part of acquisition)
- Outdoor lighting remote from building
- Parking lot
- Paving
- Planters
- New porches and porticos
- Retaining walls
- Sidewalks
- Signage
- Storm sewer construction costs
- Window treatments

## **ADDITIONAL RESOURCES**

Virginia Department of Historic Resources  
2901 Kensington Ave  
Richmond, VA 23221  
(804) 367-2323

National Park Service  
Preservation Assistance Division  
Technical Preservation Services  
P.O. Box 37127  
Washington, DC 20013-7127

National Trust for Historic Preservation  
Southern Field Office  
1785 Massachusetts Ave., NW  
Washington, DC 20003

County of Albemarle, Dept of Community Development  
401 McIntire Road  
Charlottesville, VA 22901  
(434) 296-5832

Albemarle Charlottesville Historical Society  
200 2nd Street NE  
Charlottesville, VA 22902  
(434) 296-1492

Preservation Piedmont  
[preservationpiedmont@gmail.com](mailto:preservationpiedmont@gmail.com)

Preservation Virginia  
204 West Franklin Street  
Richmond, VA 23220  
804-648-1889  
[www.preservationvirginia.org](http://www.preservationvirginia.org)



County of Albemarle Historic Preservation Committee

## Albemarle County Historic Resources—Request for Information

In order to manage historic preservation inquiries and requests from property owners, the County of Albemarle Historic Preservation Committee has developed this form. The committee implements the County's Historic Preservation Plan, which is a part of the Comprehensive Plan. The committee aids County Planning staff in identifying local historic properties, working with new owners of historic properties, promoting and encouraging preservation by making available information regarding designation procedures, tax credits, and restoration resources, implementing community events to recognize historic resources, and pursuing other voluntary and incentive measures.

Please provide as much specific information as possible in the questionnaire below and utilize the information found within to gain a better understanding of the process of determining historic significance, rehabilitation treatment, and utilizing historic tax credits to rehabilitate qualified historic properties.

Name \_\_\_\_\_ Name of Property (if any) \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_ E-mail Address \_\_\_\_\_

Historic District (if so, please list) \_\_\_\_\_ Tax Map / Parcel #(s) \_\_\_\_\_

Please describe your property including year(s) built, structures (primary and support structures, construction type, materials, typical elements, and unique features).

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After reviewing this document, list specific questions you have about your property, the process of listing the property on the Virginia Landmarks Register or National Register, historic tax credit process, or any other questions you may have for the committee. (Attach an addendum if necessary.)

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This form should be submitted to Margaret Maliszewski, Principal Planner (MMaliszewski@albemarle.org)  
Albemarle County Department of Community Development, 401 McIntire Road, Charlottesville, VA 22902