

## STATE PART 3 FINANCIAL CERTIFICATION REQUIREMENTS

The Virginia Department of Historic Resources (DHR) believes strongly that maintaining the integrity of the State Historic Rehabilitation Tax Credit Program is essential to the program's continued success and revitalization of individual properties and historic neighborhoods throughout the Commonwealth. This document provides guidance for property owners, CPAs, and other program users about their responsibilities and DHR's expectations for the way in which projects are conducted and the financial information that is submitted for review.

It is imperative that all information submitted to DHR throughout the application process is accurate, comprehensive, and reliable. The property owner bears and accepts responsibility, as evidenced by their signature, for the accuracy and sufficiency of the information submitted to DHR. So too, it is incumbent on a property owner to draft and execute all legal agreements necessary for completion of the rehabilitation project in a way that is consistent with applicable laws.

In order to certify a project, DHR requires the property owner's attestation that:

- The project has been conducted according to the approved Part 2 application, "Description of Rehabilitation," and that the work is consistent with the Secretary of the Interior's *Standards for Rehabilitation (Standards)*;
- Ownership of the property has been properly structured and is accurately represented; and
- All expenses have been properly incurred and are eligible for the tax credits according to 17 VAC 10-30-110 and relevant sections of the Internal Revenue Code and Treasury Regulations.

Photos submitted with the Part 3 application, "Request for Certification of Completed Work," should fully illustrate the completed project. DHR Tax Credit Staff reviews the photos to determine compliance with the approved scope of work and *Standards*. It is the practice of DHR to conduct a physical inspection of the project to confirm that the completed work meets the *Standards*.

All costs presented as eligible rehabilitation expenses must have been incurred by the property owner in connection with the specific project. Allocation or estimation of costs among properties and projects is not acceptable. Eligible expenses must be consistent with 17 VAC 10-30-110 and Treas. Reg. § 1.48-12(c).

### Projects with \$500,000 or more in **total** rehabilitation expenses

Examination of the project costs by an independent CPA is required to establish the eligible rehabilitation expenses upon which the rehabilitation tax credits are based. DHR requires that a CPA conduct an Audit of rehabilitation expenses for projects with total project costs of \$500,000 or more, to provide assurance that the expenses meet the requirements of the Program and are eligible for the tax credit. The CPA's resulting Audit report, which includes a supporting schedule of rehabilitation expenses, schedule of construction costs, and relevant disclosure notes, is submitted with the Part 3 application and is an important component in DHR's review of the completed project. Any unpaid or deferred expenses, and the terms for their repayment, as well as any related parties among owner, developer, and service providers will be disclosed in notes to the audit report. See "Illustrative Audit Report."

### Projects with less than \$500,000 in **total** rehabilitation expenses

An Agreed-Upon Procedures (AUP) engagement will be conducted for projects with total rehabilitation expenses less than \$500,000. The CPA's resulting AUP report, which includes a supporting schedule of rehabilitation expenses, schedule of construction costs, and relevant disclosure notes, is submitted with the Part 3 application and is an important component in DHR's review of the completed project. See "Illustrative Report of Independent Accountant on Applying the Virginia Rehabilitation Tax Credit Agreed-Upon Procedures."

Please contact Jessica Ugarte, Tax Credit Program Supervisor with questions:

[Jessica.Ugarte@dhr.virginia.gov](mailto:Jessica.Ugarte@dhr.virginia.gov) or (804) 482-6452.

Report of Independent Accountant on Applying the  
Virginia Rehabilitation Tax Credit Agreed-Upon Procedures

[Name of property owner/organization] and the Virginia Department of Historic Resources

We have performed the procedures enumerated below, which were agreed to by [name of property owner/organization] (“the Company”) and the Virginia Department of Historic Resources (collectively, the “Specified Users”) solely to assist you in evaluating the Schedule of Eligible Rehabilitation Expenses, which is required to be submitted to the Virginia Department of Historic Resources, in conjunction with a Part 3 application, “Request for Certification of Completed Work.”

The management of the Company is responsible for the accuracy of the Schedule of Rehabilitation Expenses. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Specified Users. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Using information provided to us by the management of the Company, we have performed the procedures and noted the findings below.

We were not engaged to, and did not, conduct an audit of the Schedule of Rehabilitation Expenses, the object of which would be the expression of an opinion on this schedule. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Specified Users and is not intended to be and should not be used by anyone other than the Specified Users.

Signature:

City

Date

***Procedure 1: Completed Schedule and Statements***

We compared the required application attachments to the prescribed format, and determined that they contain the signatures prescribed.

Documentation of Completion Date	Exhibit A
Schedule of Eligible Rehabilitation Expenses	Exhibit B
Schedule of Construction Costs	Exhibit C

**Findings:**

***Procedure 2: Property Information***

We compared the name and address of the property listed on the Part 3 application, Request for Certification of Completed Work, to the name and address of the property listed on the Part 2 application, Description of Rehabilitation.

**Findings:**

***Procedure 3: Completion Date***

- A. We compared the date of the Certificate of Occupancy listed on the Part 3 application to the date of the Final Certificate of Occupancy, Temporary Certificate of Occupancy, Final Building Inspection, or other documentation supporting the date the final rehabilitation expense was incurred (in the case that no Certificate of Occupancy was required), which is attached to this report as Exhibit A.

**Findings:**

- B. We compared the physical address on the Final Certificate of Occupancy, Temporary Certificate of Occupancy, Final Building Inspection, or other documentation supporting the date the final rehabilitation expense was incurred to the physical address listed on the Part 3 application.

**Findings:**

***Procedure 4: Ownership Information***

- A. We compared the owner name and organization listed on the Part 3 application to the owner name and organization listed on the Part 2 application or subsequent Amendment.

**Findings:**

- B. We compared the owner name listed on the Part 3 application with the name of the entity entitled to receive the tax credits, according to the terms of the Operating Agreement or Partnership Agreement, if applicable.

**Findings:**

- C. We compared the Taxpayer Identification Number (TIN) listed on the Part 3 application with the TIN issued by the Social Security Administration or Internal Revenue Service for the owner and organization.

**Findings:**

***Procedure 5: Eligible Rehabilitation Expenses***

- A. We compared the Schedule of Eligible Rehabilitation Expenses, attached as Exhibit B, and the Schedule of Construction Costs, which expenses are included in the Schedule of Eligible Rehabilitation Expenses and which is attached as Exhibit C, to those cost categories qualifying for the Virginia Rehabilitation Tax Credit, according to 17 VAC 10-30-110. In the case of cost categories listed on the schedules that include more than one type of work, e.g. “hardware and fixtures,” we obtained a breakdown of the work included in such category and compared the cost categories to eligible rehabilitation expenses specified by 17 VAC 1-30-110. (The CPA will note any items that he or she is uncertain are eligible rehabilitation expenses, with the corresponding dollar amount, in this report.)

**Findings:**

- B. We reviewed the invoices or equivalent billing documents for all items in the Schedule of Construction Costs and Schedule of Eligible Rehabilitation Expenses to determine, based on the description of the work done, whether the relevant costs would be charged to an asset account according to generally accepted accounting principles. We determined whether all charges in the Schedules are reflected in the bank statements, cancelled checks, or general ledger for the project as having been paid within 60 days of the date of the Certificate of Occupancy listed on the Part 3 application.

**Findings:**

***Procedure 6: Minimum Investment***

*(for single-phase project or final phase of a multi-phase project)* We calculated the ratio of the eligible rehabilitation expenses shown on the Schedule of Rehabilitation Expenses to the assessed value of the building for local real estate tax purposes, not including land, in the year prior to the beginning of the rehabilitation project to determine whether the eligible rehabilitation expenses are at least [25 or 50]% of the assessed value of the building, according to the requirements of 17 VAC 10-30-100.

**Findings:**

January 2015

# **ILLUSTRATIVE AUDIT REPORT**

## **Independent Auditor's Report**

The Members  
Historic Rehabilitation Development, LLC  
Richmond, Virginia

We have audited the accompanying schedule of eligible rehabilitation expenses incurred for the structure at XXX Main Street, Richmond, Virginia, during the period from July 1, 2012 through August 31, 2013, and the related notes to the schedule.

### **Management's Responsibility for the Schedule**

Management is responsible for the preparation and fair presentation of this schedule in accordance with the provisions of Chapter 30 of Agency 10, Title 17, of the Virginia Administrative Code. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a schedule that is free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the schedule.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the schedule referred to above presents fairly, in all material respects, the eligible rehabilitation expenses incurred for the structure at XXX Main Street, Richmond, Virginia during the period from July 1, 2012 through August 31, 2013, in accordance with the provisions of Chapter 30 of Agency 10, Title 17 of the Virginia Administrative Code.

### **Basis of Accounting**

We draw attention to Note A to the schedule, which describes the basis of accounting. As described in that note, the schedule was prepared on the basis of provisions of Chapter 30 of Agency 10, Title 17 of

January 2015

the Virginia Administrative Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. That basis was used to comply with the requirements of the Virginia Historic Rehabilitation Tax Credit Program of the Department of Historic Resources for granting credits against Virginia income taxes for the material rehabilitation of a certified historic structure. Our opinion is not modified with respect to this matter.

#### Restriction on Use

Our report is intended solely for the information and use of Historic Rehabilitation Development, LLC and the Virginia Historic Rehabilitation Tax Credit Program of the Department of Historic Resources and is not intended to be and should not be used by anyone other than these specified parties.

#### **ABC, CPAs**

Richmond, Virginia  
September 30, 2013

## **ILLUSTRATIVE NOTE DESCRIBING THE BASIS OF ACCOUNTING**

### **Note A – Basis of Accounting**

The accompanying schedule of eligible rehabilitation expenses incurred for the structure at XXX Main Street, Richmond, Virginia was prepared as part of the application by Historic Rehabilitation Development, LLC for the Virginia Historic Rehabilitation Tax Credit Program of the Department of Historic Resources to grant credits against Virginia income taxes for the material rehabilitation of a certified historic structure. Those credits are granted for expenses that meet the qualifications prescribed by Chapter 30 of Agency 10, Title 17 of the Virginia Administrative Code. Eligible rehabilitation expenses would be capitalized as a cost of the structure under accounting principles generally accepted in the United States of America. However, those accounting principles may require other expenditures to also be capitalized.

APPLICANT NAME

Historic Rehabilitation Tax Credit

Schedule of Qualified Rehabilitation Expenses

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The following qualified rehabilitation expenses were incurred at the real property located at [ADDRESS] in [CITY], Virginia during the period of [PROJECT START DATE] through [PROJECT COMPLETION DATE]

Expense	Total Costs Incurred	Non-eligible State Tax Credit Basis	Eligible State Historic Tax Credit Basis
Construction Contract Costs (See attached Schedule)			
Architectural Fees			
Engineering Fees			
Civil Engineering Fees			
Environmental Testing			
Historic Consultant Fee			
Insurance During Construction			
Real Estate Taxes During Construction			
Legal - Construction Loan			
Legal - Syndication			
Legal - Permanent Loan Closing			
Financing Fee for Construction Loan			
Interest on Construction Loan During Construction			
Historic Certification Application Fee			
CPA Certification Fee			
Building Permit Fees			
Utility Connection Fees			
Other Fees:			
Total Project Development Costs			

Developer Fee ([insert] % of Qualified Rehabilitation Expenses, not including Developer Fee)\*

Total Qualified Rehabilitation Expenses

State Tax Credit 25%

Total State Historic Rehabilitation Tax Credits \$

\* Note terms for repayment of Developer Fee if portion of fee is not paid; include copy of Developer Agreement

Note any fees or payments due to Related Parties, as defined by Financial Accounting Standards Board

I declare under penalty of law that the information provided is, to the best of my knowledge, correct,



and that the reported rehabilitation costs are valid and eligible for the tax credit.  
I understand that falsification of factual representations is subject to criminal sanctions.

Applicant Signature

APPLICANT NAME  
Historic Rehabilitation Tax Credit

Schedule of Construction Costs

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The following qualified rehabilitation expenses were incurred at the real property located at [ADDRESS] in [CITY], Virginia during the period of [PROJECT START DATE] through [PROJECT COMPLETION DATE]

Expense	Total Construction Costs Incurred	Non-eligible State Tax Credit Basis	Eligible State Historic Tax Credit Basis
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Concrete  
Structural  
Masonry  
Metals  
Rough Carpentry  
Finish Carpentry  
Insulation  
Roofing  
Doors  
Windows  
Drywall/Plaster  
Flooring  
Tile  
Painting  
Plumbing  
HVAC  
Electrical  
Elevators  
Specialties  
Cabinets  
Appliances  
Excavation  
Site Utilities  
Site Work/Landscaping  
General Requirements  
Contractor's Overhead  
Contractor's Profit  
Other:

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Total Construction Costs

Less Costs Related to Addition

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Total Qualified Rehabilitation Expenses

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COMMONWEALTH OF VIRGINIA – DEPARTMENT OF HISTORIC RESOURCES  
STATE AND FEDERAL HISTORIC REHABILITATION TAX CREDIT PROGRAM  
**GUIDANCE FOR CERTIFIED PUBLIC ACCOUNTANTS  
GENERATING AUPs OR AUDITS**

This document is intended to assist CPAs with answers to common questions about the Audit and Agreed-Upon Procedures reports created for projects seeking participation in the Virginia Historic Rehabilitation Tax Credit Program.

DHR Staff are not financial professionals, but the below guidance comes from our experience with common questions brought up by both CPAs and their clients during our review of the Part 3 financial materials submitted for projects seeking participation in this Program.

For any questions or concerns not addressed below, or to discuss the specifics of the report/project you are working on, please contact the Tax Credit Program Supervisor, Jessica Ugarte, at [Jessica.Ugarte@dhr.virginia.gov](mailto:Jessica.Ugarte@dhr.virginia.gov) or 804-482-6452.

***Who can complete an AUP or Audit?***

Only Certified Public Accountants working for firms that successfully undergo the peer review process every three years may issue an AUP or Audit to be used with the Virginia Historic Rehabilitation Tax Credit Program.

The CPA completing this report for a rehabilitation project must be independent from the ownership of the project. From the AICPA publication, “Plain English Guide to Independence:”

*“Independence of mind is the state of mind that permits a member to perform an attest service without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism. Independence in appearance is the avoidance of circumstances that would cause a reasonable and informed third party, who has knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or member of the attest engagement team is compromised.”*

***Which report should be prepared for client?***

For projects with total project costs \$500,000 or above, an **Audit** must be prepared.

For projects with total project costs under \$500,000, an **Agreed-Upon Procedures Report** must be prepared.

Total project costs include both eligible and ineligible expenditures.

***The AICPA has issued a new Independent Accountant’s Report template for AUPs/Audits – do I have to use the provided DHR example?***

No. Please use the most current letter templates provided by AICPA for AUPs and Audits.

***Do I have to use the other provided templates?***

For an AUP, the Procedures starting on page 2 of the Agreed Upon Procedures template document must be included as provided.

For both an AUP and Audit, the Schedule of Eligible Rehabilitation Expenses and the Schedule of Construction Costs templates should be used as provided. Small modifications or additions to the individual line items may be made only if absolutely necessary, though this should be limited.

### **What costs should be included in the report?**

All costs related to the overall rehabilitation project should be included, both eligible and ineligible rehabilitation expenses. Eligible and ineligible costs should be reported in the appropriate columns of the Schedule of Construction Costs and the Schedule of Eligible Rehabilitation Expenses.

**NOTE:** This does not include acquisition costs for the property, which should not be included in the overall rehabilitation project cost data. Additionally, any costs for the property that were or will be expensed as in-service or operational costs on the client's tax return are ineligible, and may be excluded from the report or listed as ineligible.

Ineligible costs are often missed in reports; the following are common costs that are mistakenly omitted from an Audit or AUP:

- Additions and other types of new construction on the site.
- Site work and landscaping.
- Work done on non-contributing/ineligible buildings.
- Personal property, such as appliances or window treatments.

### **What is the "completion date?"**

The "completion date" (for un-Phased projects or for the final Phase of a project) is EITHER the date of the Certificate of Occupancy (also accepted is documentation for a Temporary Certificate of Occupancy or the final Building Inspection) OR the date that the final, eligible physical rehabilitation expense was incurred.

The following examples should not be used to establish the "completion date:"

- AIA Certificate of Substantial Completion.
- Rental Certificate of Compliance.
- Bills for soft costs, i.e., CPA or preservation consultant billing.
- Invoices for work that is ineligible for tax credits.

### **What are the differences when reporting for an initial Phase (not the final Phase) of a Phased project?**

If the project is Phased, and the financial report is being submitted for an initial Phase, the project start and end dates should be the dates that the Phase started and ended. For these initial Phases the "completion date" is typically reported as the last expenditure being claimed for that Phase. Phases should not overlap and should agree with the approved Phasing Plan that was submitted with the Part 2 (or as revised by a subsequent Amendment).

Please note that the threshold for whether an AUP or Audit should be completed is for the total project costs, not just for the completed Phase.

### **Do all costs need to have been incurred by the "completion date?"**

No. It is not uncommon for soft costs such as the CPA, preservation consultant, or State and Federal project review fees to be incurred after the identified "completion date." Or, additional, minor eligible rehabilitation work may be completed after the Certificate of Occupancy is issued; these costs could also be included. In general, any costs for the property that were incurred through the completion date and up until tax year-end are includable. Costs incurred after the tax year-end of the project completion year are not includable.

***There was still work being completed when a new year began, but the client wishes to utilize the State credits for the prior year. Can an earlier invoice be used to establish an earlier “completion year?”***

No. Per DHR regulations, the “completion year” should be established by either of the methods identified above. Artificially selecting an earlier date to obtain credits in a year other than the actual year that the project was completed is in conflict with this requirement.

***Can an owner/applicant/client pay themselves for the labor/time spent working on a project?***

An owner/applicant/client can only claim costs for their labor (often known as “sweat equity”) if the labor costs are billed by and paid to another entity with an income tax reporting requirement. Examples of applicable entities are partnerships, Limited Liability Companies (LLCs), Limited Liability Partnerships (LLPs), Corporations, S-Corporations, or Sole Proprietorship. Additionally, 1099s for these costs should be issued when paid to an entity requiring 1099 reporting.

Any relation between the owner/applicant and the developer/contractor/project management/etc. should be disclosed in the notes.

***Do all costs need to have been fully paid by the time the AUP/Audit is completed?***

Generally, all costs related to the rehabilitation of the project – except for the limited situations noted below – should be fully paid by the time the Part 3 – Request for Certification of Completed Work is submitted.

- End-of-Project Soft Costs: For certain costs such as the CPA, preservation consultant, or project review fees it is not uncommon for these costs to be outstanding at the time that the AUP or Audit is completed. A note indicating that these costs are outstanding but are expected to be paid within a typical billing cycle, is sufficient.
- Deferred Developer Fees may be outstanding at the time the AUP or Audit is completed. A note indicating these outstanding costs and the specific repayment terms identified in the Developer Agreement must be included in the financial report.
  - o **IMPORTANT**: Deferred Developer Fees may not have a repayment term of more than ten (10) years post project completion.
- Retainage Fees may also be outstanding at the time the AUP or Audit is completed. A note indicating these outstanding costs, who they are owed to, and the repayment terms should be included in the financial report.
- Limited Other Outstanding Costs: All unpaid costs related to the rehabilitation of the project must be reasonable for a project at or nearing completion, and must be demonstrated as being able to be fully paid through remaining financial assumptions of the project. In any event, payment should be made in full not later than the receipt of the remaining syndication funding from both the Federal and State tax credits. These costs should be disclosed in the notes, and include who they are owed to and the terms for repayment.

Related to the above, per DHR regulations 17VAC10-30-110 D(12), the following are ineligible costs:

*“Deferred fees or unpaid costs for which there is no charge to a capital account with a corresponding recorded entry to a liability account and either proof of subsequent payment thereof or an appropriate documentation evidencing the liability.”*

***The contractor did not separate different work scope items in their invoices – can I lump multiple types of work in a new catchall line item on the schedules?***

While we understand that sometimes invoices are not as clear or organized as might be hoped, it is the responsibility of the client to ensure that it is possible for the different types of work to be appropriately classified on the required schedules. If costs are not broken out in the information

provided to you, the client should contact the contractor/business to obtain a breakdown of work done for each line item.

**NOTE:** Allocation is not permitted between different projects/properties.

***How do I know whether to calculate 25% or 50% for the “Material Rehabilitation” test?***

The 25% threshold is only available for owner-occupied structures. An owner-occupied structure is any building, at least 75% of which is used as a personal residence by the owner, or which is available for occupancy by the owner for at least 75% of the year.

All other projects must meet the 50% threshold.

**COMMON QUESTIONS ON ELIGIBLE/INELIGIBLE COSTS:**

***A part of the work included the demolition and reconstruction of an exterior stair, porch, etc.; is the new construction a qualified expense?***

No. If the existing feature outside of the footprint of the building was demolished and re-built, this is new construction, and so is considered an ineligible cost. This is applicable even for missing historic features – such as a porch – that are being reconstructed to match the historic condition.

***A part of the work included the construction of a new exterior ramp, excavation for a new exterior egress path from a sub-grade level, or other types of work; is this exterior construction a qualified expense?***

Not necessarily.

New work completed outside of the existing building envelope to suit a new use is generally an ineligible cost, as this is considered to be new construction.

ADA ramps, lifts, other accessibility features, and fire escapes are generally considered to be eligible costs.

***I understand that for the State Program some man-made landscape features may qualify for credits. Which ones do?***

Only work done to historic, man-made landscape features that are specifically listed as “contributing” in the National Register of Historic Places nomination may be considered as eligible costs.

***Are solar panels, wind turbines, and geothermal systems eligible for tax credits?***

For the State Program, yes. The only limitation is that the power generated should only be used for the historic property.

NOTE: For the Federal Program the IRS has provided guidance that solar panels, wind turbines, and geothermal systems are 5-year property under section 168. Because costs are not included in the basis of the building, therefore, they should not qualify for the rehabilitation credit. Please see <https://www.irs.gov/pub/irs-utl/qualified-rehabilitation-expenditures.pdf> for more information on IRS guidance on eligible/ineligible costs.

***The client needed to excavate the basement by one (or more) foot in order for the space to meet code for occupancy – is this an eligible cost?***

No. Any excavation to enlarge the volume of the existing space is an ineligible cost. Please also be aware that in addition to the actual excavation costs being ineligible for rehabilitation tax credits, the work in the expanded volume of the space is similarly not eligible for credits. Finish work in the newly enlarged space or systems work for that expanded interior volume should be classified as ineligible for credits.

In cases where only part of the work is attributable to an expansion of volume, the following guidance on apportionment can be found in DHR regulations 17VAC10-30-110 D(4)(b):

*“If expenditures only partially qualify because some of the expenditures are attributable to the enlargement of the building, the expenditures must be apportioned between the original portion of the building and the enlargement. The expenditures must be specifically allocated between the original portion of the building and the enlargement to the extent possible. If it is not possible to make a specific allocation of the expenditures, the expenditures must be allocated to each portion on a reasonable basis. The determination of a reasonable basis for an allocation depends of factors such as the type of improvement and how the improvement relates functionally to the building.”*

We understand that there may be unique circumstances for these sorts of situations, so please contact the DHR Reviewer assigned to the project if you would like to speak further about the details of the project and what costs should be classified as eligible or ineligible.

***Are Feasibility Studies, Market Studies, or LEED certification costs eligible?***

No. These should be listed as ineligible for credits.

***The client had a legal dispute with a contractor/vendor over work done at the property for the Historic Rehabilitation Tax Credit Program project – are the costs for this eligible?***

No. Legal costs associated with contractor/vendor disputes, even those related to the tax credit project, are ineligible for credits. Furthermore, any such disputed costs are not qualified until the dispute is settled and costs are paid.