



Proposed Regulation Agency Background Document

Agency name	Department of Historic Resources
Virginia Administrative Code (VAC) citation	17 VAC 10-30
Regulation title	Historic Rehabilitation Tax Credit
Action title	Amend the regulation to clarify application process, strengthen reporting requirements, and adjust application review fees
Date this document prepared	August 1, 2013

This information is required for executive branch review and the Virginia Registrar of Regulations, pursuant to the Virginia Administrative Process Act (APA), Executive Orders 14 (2010) and 58 (1999), and the *Virginia Register Form, Style, and Procedure Manual*.

Brief summary

In a short paragraph, please summarize all substantive provisions of new regulations or changes to existing regulations that are being proposed in this regulatory action.

The purpose of this regulatory action is to clarify existing language, strengthen the requirements and standards for reporting by the applicant, and revise the existing fee structure for review of applications.

Acronyms and Definitions

Please define all acronyms used in the Agency Background Document. Also, please define any technical terms that are used in the document that are not also defined in the "Definition" section of the regulations.

DHR: Virginia Department of Historic Resources

VAC: Virginia Annotated Code

Owner: The owner of the property that is the subject of the rehabilitation tax credit project

Rehabilitation: The process of returning a building or buildings to a state of utility, through repair or alteration, which makes possible an efficient use of the building and its site and environment

which are significant to its historic, architectural, and cultural values as determined by the Department of Historic Resources.

MSA: Metropolitan Statistical Area

Certification: Approval by the Department of Historic Resources

CPA: Certified Public Accountant

Legal basis

Please identify the state and/or federal legal authority to promulgate this proposed regulation, including (1) the most relevant citations to the Code of Virginia or General Assembly chapter number(s), if applicable, and (2) promulgating entity, i.e., agency, board, or person. Your citation should include a specific provision authorizing the promulgating entity to regulate this specific subject or program, as well as a reference to the agency/board/person's overall regulatory authority.

The Department of Historic Resources (DHR) has specific statutory authority under Va. Code § 58.1-339.2 to promulgate regulations necessary to implement the program. The regulation is mandated in whole by the state statute. The statute provides that the Director of the Department of Historic Resources shall establish by regulation the requirements needed for the program, including the fees to defray the necessary expenses and the extent to which the availability of the credit is coextensive with the availability of the federal rehabilitation tax credit.

Purpose

Please explain the need for the new or amended regulation by (1) detailing the specific reasons why this regulatory action is essential to protect the health, safety, or welfare of citizens, and (2) discussing the goals of the proposal, the environmental benefits, and the problems the proposal is intended to solve.

Amendment and clarification of the existing program regulations is necessary to enhance the ease of use for applicants; more clearly set out the application requirements and standards of review for both applicants and DHR staff; and establish stricter reporting requirements to prevent abuse of the program. Additionally, the amendments will revise the existing fee structure to more accurately reflect the time and professional expertise necessary for DHR's review of projects.

By clarifying existing language, this amendment will make the application process and requirements easier to understand for property owners, and promote the wide use of the program, which has demonstrated direct environmental, economic, and social benefits resulting from reinvestment in existing buildings and historic communities.

Enhancing the reporting and attestation requirements on the part of the applicant, both in the description and documentation of proposed and completed rehabilitation work and in the eligible rehabilitation expenses reported as being incurred through the project, is intended to prevent abuse of the program and increase the reliability and certainty of the information presented to DHR for certification.

Substance

Please briefly identify and explain new substantive provisions (for new regulations), substantive changes to existing sections or both where appropriate. (More detail about all provisions or changes is requested in the "Detail of changes" section.)

10 VAC 10-10-10 Definitions: This section has been revised to add and define four new terms.

10 VAC 10-30-30 Certifications of Historic Significance: This section is amended to explain the application requirements for properties that are individually listed in the Virginia Landmarks Register and to clarify the procedure for Certifications of Historic Significance for moved buildings.

17 VAC 10-30-50 Certifications of Rehabilitation: The language in this section is amended to describe in greater detail the process for obtaining Certifications of Rehabilitation, clarify the information that must be disclosed by the applicant and submitted to DHR for review, enhance the attestation requirements of the property owner, and amend the requirements for CPA review of eligible rehabilitation expenses and subsequent reporting by the property owner.

17 VAC 10-30-80 Fees for processing Rehabilitation certification requests: The fee structure for review of applications as set out in this section is revised to refine the categories based on project costs, and raise the review fees.

17 VAC 10-30-100 Definition of Rehabilitation project: The language of this section is amended to more clearly define what constitutes a Rehabilitation project.

17 VAC 10-30-110 Eligible Rehabilitation Expenses: The language in this section is amended to provide a more detailed description of expenses that are not eligible for the rehabilitation tax credit.

17 VAC 10-30-150 Projects begun before 2003: This section is revised to stipulate that expenses incurred before 2003 are not eligible for the rehabilitation tax credits.

Issues

Please identify the issues associated with the proposed regulatory action, including:

- 1) the primary advantages and disadvantages to the public, such as individual private citizens or businesses, of implementing the new or amended provisions;*
- 2) the primary advantages and disadvantages to the agency or the Commonwealth; and*
- 3) other pertinent matters of interest to the regulated community, government officials, and the public.*

If the regulatory action poses no disadvantages to the public or the Commonwealth, please indicate.

Amending the existing regulations to clarify the application process and reporting requirements will benefit all users of the program. The application process, necessary documentation, and reporting requirements will be more clearly described for property owners applying for the rehabilitation tax credit. This will also aid DHR in the review of rehabilitation projects, as the

information submitted will be more complete, and DHR staff will be better able to review the information submitted and respond to the applicant.

Strengthening the attestation and reporting requirements by the owner, particularly the requirements for determining the eligible rehabilitation expenditures, will provide greater assurance to DHR and the Commonwealth that the information submitted is reliable and that subsequent certification of the application by DHR has a factual basis.

According to the existing regulations, property owners/applicants must obtain CPA certification of the eligible rehabilitation expenses for projects with expenses exceeding \$100,000. The proposed amendment would require that all projects have CPA review of expenses, according to the format proscribed by DHR policy. Thus, there will be a new requirement and associated cost for projects under the \$100,000 threshold. However, this important change is proposed to ensure that all expenses upon which tax credits are granted are valid and eligible for the credits. It should be noted that the CPA certification of rehabilitation expenses also provides assurance to the property owner, and their investors, that the statement of eligible rehabilitation expenses is reliable. This change, therefore, will be beneficial to the property owners/applicants, DHR, and the Commonwealth.

The revised fee structure increases the fees charged by DHR for review of the applications. The existing fee structure, which has been in place since the inception of the program, no longer reflects the extensive amount of time and expertise required of DHR to review the applications and administer the program. The revised fee schedule includes more refined cost categories, and the fees charged for review of an application will not exceed 1% of project costs. While this will be an increased cost to the applicant, DHR believes that it is a fair and necessary change. Again, the increased fees will more accurately reflect the investment of resources required of DHR in review of projects, and will allow DHR to maintain and perhaps expand its program capacity.

The proposed revisions have been carefully drafted to enhance the usability of the rehabilitation tax credit program, while ensuring its integrity for property owners, DHR, and the Commonwealth.

Requirements more restrictive than federal

Please identify and describe any requirements of the proposal, which are more restrictive than applicable federal requirements. Include a rationale for the more restrictive requirements. If there are no applicable federal requirements or no requirements that exceed applicable federal requirements, include a statement to that effect.

There are no requirements that are more restrictive than applicable federal requirements.

Localities particularly affected

Please identify any locality particularly affected by the proposed regulation. Locality particularly affected means any locality which bears any identified disproportionate material impact which would not be experienced by other localities.

The proposed amendments and revisions will apply equally to all projects, regardless of the locality in which the property that is subject of the historic rehabilitation tax credit project is located.

Certain localities, however, see greater historic rehabilitation tax credit activity due to the local real estate and construction market and available historic building stock. Historically, the localities with the greatest number of projects are Richmond City, the Hampton Roads MSA (projects primarily in Norfolk, Suffolk, and Portsmouth), Roanoke City, and Winchester.

Thus, the increased review fees and enhanced requirement for review of eligible rehabilitation expenses by a CPA will affect more property owners/applicants in these localities. As participation in the program is voluntary, the review fee and expense associated with the CPA review are only incurred when seeking the historic rehabilitation tax credits. So too, these expenses are eligible for the tax credit and are prorated according to the size of the project.

All applicants will be positively affected by the revisions to the regulations to clarify the application process and standards for review. Again, such changes will be experienced more frequently in those localities where rehabilitation tax credit projects are widespread.

Public participation

Please include a statement that in addition to any other comments on the proposal, the agency is seeking comments on the costs and benefits of the proposal and the impacts of the regulated community.

In addition to any other comments, the agency is seeking comments on the costs and benefits of the proposal and the potential impacts of this regulatory proposal. Also, the agency is seeking information on impacts on small businesses as defined in § 2.2-4007.1 of the Code of Virginia. Information may include 1) projected reporting, recordkeeping and other administrative costs, 2) probable effect of the regulation on affected small businesses, and 3) description of less intrusive or costly alternative methods of achieving the purpose of the regulation.

Anyone wishing to submit written comments may do so via the Regulatory Town Hall website (<http://www.townhall.virginia.gov>), or by mail, email or fax to Elizabeth Tune, Department of Historic Resources, 2801 Kensington Avenue, Richmond, VA 23221, Fax: (804) 367-2391, Email: elizabeth.tune@dhr.virginia.gov. Written comments must include the name and address of the commenter. In order to be considered, comments must be received by midnight on the last date of the public comment period.

A public hearing will be held after this regulatory stage is published in the *Virginia Register of Regulations* and notice of the hearing will be posted on the Virginia Regulatory Town Hall website (<http://www.townhall.virginia.gov>) and on the Commonwealth Calendar website (<http://www.virginia.gov/cmsportal3/cgi-bin/calendar.cgi>). Both oral and written comments may be submitted at that time.

Economic impact

Please identify the anticipated economic impact of the proposed new regulations or amendments to the existing regulation. When describing a particular economic impact, please specify which new requirement or change in requirements creates the anticipated economic impact.

<p>Projected cost to the state to implement and enforce the proposed regulation, including (a) fund source, and (b) a delineation of one-time versus on-going expenditures.</p>	<p>There would be no additional cost to the agency resulting from amendment of the existing regulations. The program is funded primarily through special revenue from the application review fees, with minimal funding from general funds.</p>
<p>Projected cost of the <i>new regulations or changes to existing regulations</i> on localities.</p>	<p>There would be no cost to localities resulting from amendment of the existing regulations.</p>
<p>Description of the individuals, businesses or other entities likely to be affected by the <i>new regulations or changes to existing regulations</i>.</p>	<p>Property owners, which include homeowners and owners and developers of commercial real estate, applying for the historic rehabilitation tax credit would be affected by the changes to the existing regulations, specifically the increase in the review fees and the new requirements for CPA review and reporting of eligible rehabilitation expenses.</p>
<p>Agency’s best estimate of the number of such entities that will be affected. Please include an estimate of the number of small businesses affected. Small business means a business entity, including its affiliates, that (i) is independently owned and operated and (ii) employs fewer than 500 full-time employees or has gross annual sales of less than \$6 million.</p>	<p>All property owners applying for rehabilitation tax credits will be required to follow the revised regulatory requirements. Consequently, all property owners will pay application fees according to the revised fee structure; fees charged for the review of applications are pro-rated according to the project’s rehabilitation expenses and equate to a small percentage (maximum 1%) of the project costs.</p> <p>Participation in the program is voluntary. The number of applications submitted and the number of projects completed within a year varies and is controlled by property owners. Data for the last five years shows an average of 184 projects completed each year, and an average of 248 applications for proposed rehabilitation projects submitted each year. Therefore, it can be estimated that an average of 184 property owners will be required to pay the increased fee for review of the completed project, and an average of 248 property owners will be required to pay the increased fee for review a proposed project. Changes to strengthen the existing requirement for CPA certification of rehabilitation expenses will likely increase the cost of the CPA review, however the level of examination by the CPA will also be based upon the complexity of the project and the sufficiency of the owner’s records.</p> <p>Small businesses that own and/or develop properties that are the subject of a rehabilitation tax credit project would be affected by the regulatory revisions. Independent analysis of the program users by Virginia Commonwealth University found that approximately 43% of program users are homeowners, and 57% of program users are commercial enterprises, most of which would be considered small businesses.</p> <p>It is anticipated, as well, that the proposed clarification of the application process will result in</p>

	<p>time and therefore cost savings for property owners.</p>
<p>All projected costs of the <i>new regulations or changes to existing regulations</i> for affected individuals, businesses, or other entities. Please be specific and include all costs. Be sure to include the projected reporting, recordkeeping, and other administrative costs required for compliance by small businesses. Specify any costs related to the development of real estate for commercial or residential purposes that are a consequence of the proposed regulatory changes or new regulations.</p>	<p>All property owners/applicants will be required to pay application review fees according to the revised fee schedule. The amount of the review fee is pro-rated according to the project cost, and equals a small percentage (maximum of 1%) of project costs. This is the first fee increase proposed since the program was established in 1996.</p> <p>Revised requirements for CPA review and reporting of rehabilitation expenses may lead to an increase in cost for this service, to be borne by the property owner/applicant. Based on extensive discussions with the Virginia Society of CPAs and the CPA community, the cost for such services will depend on the complexity of the rehabilitation project and the level of attention paid to record keeping by the property owner/applicant.</p> <p>Because there has always been a requirement that a CPA review and certify rehabilitation expenses of \$100,000 and greater and DHR reserves the right to request documentation or rehabilitation expenses, it has always been necessary for the property owner/applicant to maintain careful financial records and documentation to support the rehabilitation expenses reported. Therefore, there should not be an increased record keeping or administrative burden to the property owner/applicant.</p> <p>In the existing regulations, projects under \$100,000 in rehabilitation expenses are not required to have a CPA review and certify the costs claimed. It is expected, however, that the property owner/applicant maintains financial records and supporting documentation for the costs claimed. Under the revised regulations, all projects must have CPA review of rehabilitation expenses to ensure the veracity of the reported costs. This new requirement should not increase the record keeping or administrative burden on the property owner/applicant, but will have an additional cost for the CPA review and reporting.</p> <p>It is important to note that both the application review fee and the cost of the CPA review and report are eligible for the tax credits.</p> <p>These changes relate to the development of real estate for residential and commercial purposes, to the extent that the property is a certified historic structure and the owner has voluntarily applied for historic rehabilitation tax credits.</p>

<p>Beneficial impact the regulation is designed to produce.</p>	<p>The proposed regulatory revisions are intended to make the program easier to use by property owners/applicants and to strengthen the reporting requirements for, and therefore the accuracy of, the information submitted by the property owner/applicant, both in the documentation of the rehabilitation project and in the reporting of eligible rehabilitation expenses. CPA review and verification of the expenses incurred in all projects will provide greater assurance that the costs presented to DHR for certification were incurred in the rehabilitation of the property and are eligible for the tax credits.</p> <p>The revised fee structure for review of applications by DHR will better reflect the extensive time and high level of professional expertise required for the review of tax credit projects and administration of the program. Fee increases will offset costs for non-regulatory enhancements to the program that have been instituted, including hiring additional staff for physical inspection of all projects prior to certification.</p>
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Alternatives

Please describe any viable alternatives to the proposal considered and the rationale used by the agency to select the least burdensome or intrusive alternative that meets the essential purpose of the action. Also, include discussion of less intrusive or less costly alternatives for small businesses, as defined in §2.2-4007.1 of the Code of Virginia, of achieving the purpose of the regulation.

There is no feasible alternative to making these amendments. The regulations are mandated by state law, and they are necessary to provide clear guidance and an efficient procedure for qualifying for and claiming the tax credit. Since the regulations were promulgated on April 5, 2006, the Department and members of the affected public have identified certain areas that require improvement. Failure to implement these amendments would leave the program vulnerable to misuse.

DHR has identified and implemented procedural improvements that do not require regulatory action, the cost of which is borne by the agency, in order to increase assurance that the information submitted for review and certification by DHR is accurate. However, the regulatory amendments are critical to increasing the efficiency and maintaining the integrity of the tax credit program.

Less costly or intrusive alternatives for small businesses do not exist, as the proposed regulatory revisions are necessary to maintain the integrity of the tax credit program.

Regulatory flexibility analysis

Please describe the agency’s analysis of alternative regulatory methods, consistent with health, safety, environmental, and economic welfare, that will accomplish the objectives of applicable law while

minimizing the adverse impact on small business. Alternative regulatory methods include, at a minimum: 1) the establishment of less stringent compliance or reporting requirements; 2) the establishment of less stringent schedules or deadlines for compliance or reporting requirements; 3) the consolidation or simplification of compliance or reporting requirements; 4) the establishment of performance standards for small businesses to replace design or operational standards required in the proposed regulation; and 5) the exemption of small businesses from all or any part of the requirements contained in the proposed regulation.

DHR has identified and implemented procedural improvements that do not require regulatory action, the cost of which is borne by the agency, in order to increase assurances that the information submitted for review and certification by DHR is accurate.

However, to fully protect the integrity of the tax credit program and the Commonwealth from potential abuse, regulatory amendment is necessary in order to establish stronger standards for documentation and reporting by the property owner. The proposed changes to the regulations are crafted to achieve these goals in the most efficient and cost effective way possible, which inflicts the least administrative and financial burden on the property owner. Less stringent requirements would expose the program to potential abuse, undermine confidence in the program and its administration by DHR, and ultimately jeopardize the integrity of the program.

Participation in the rehabilitation tax credit program is voluntary. All property owners, whether individuals or small businesses, must comply with the regulations for the program. All rehabilitation tax credit projects are reviewed according to performance standards for the treatment of historic properties, specifically the *Secretary of the Interior's Standards for Rehabilitation*, the set of preservation guidelines applied to historic preservation projects nationwide. It is not feasible to replace or minimize design or operational standards for small businesses participating in the program, as all property owners must comply with the Standards for Rehabilitation as sound historic preservation treatment and the other requirements of the program.

There is no compelling reason to exempt a group of property owners from the requirements of the program.

Public comment

Please summarize all comments received during the public comment period following the publication of the NOIRA, and provide the agency response.

No comments were received.

Commenter	Comment	Agency response

Family impact

Please assess the impact of the proposed regulatory action on the institution of the family and family stability including to what extent the regulatory action will: 1) strengthen or erode the authority and rights

of parents in the education, nurturing, and supervision of their children; 2) encourage or discourage economic self-sufficiency, self-pride, and the assumption of responsibility for oneself, one's spouse, and one's children and/or elderly parents; 3) strengthen or erode the marital commitment; and 4) increase or decrease disposable family income.

These amendments will have no impact on the institution of the family or family stability.

Detail of changes

Please list all changes that are being proposed and the consequences of the proposed changes. If the proposed regulation is a new chapter, describe the intent of the language and the expected impact. Please describe the difference between existing regulation(s) and/or agency practice(s) and what is being proposed in this regulatory action.

*If the proposed regulation is intended to replace an emergency regulation, please list separately (1) all differences between the **pre-emergency** regulation and this proposed regulation, and (2) only changes made since the publication of the emergency regulation.*

For changes to existing regulation(s), use this chart:

Current section number	Proposed new section number, if applicable	Current requirement	Proposed change, intent, rationale, and likely impact of proposed requirements
10		This section contains the terms and definitions used in the chapter.	This section is amended by adding defined terms for Commonwealth, Completion Date, Program, and Work.
30		This section describes the process for determining whether a property is a certified historic structure.	<p>This section is amended to require that a Part 1 application, "Evaluation of Significance," must be submitted for properties that are individually listed in the Virginia Landmarks Register and that contain more than one building or structure. This change reflects the practice by DHR of requiring that a Part 1 application be submitted when multiple buildings or structures exist on an individually-listed property, so that DHR has a documented record of all structures present and can confirm their condition both before and after completion of the rehabilitation project to ensure that any and all changes at the property are consistent with program requirements.</p> <p>The language of this section is amended to state that any Certified Historic Structure present at a property that is the subject of a rehabilitation project must meet the definition of a rehabilitation project, as described in Section 100 of this regulation,</p>

			<p>and to state that not all buildings or structures present on a property must be rehabilitated. This language is proposed to clarify the existing language and reflect DHR’s policy and administration of the program.</p> <p>The section is amended to state that the Director of DHR may determine a property’s eligibility for listing in the Virginia Landmarks Register at his or her sole discretion. This language reflects the existing authority of the Director to make such determinations.</p> <p>Because relocation of a historic structure is not a recommended approach, and may result in denial of certification of a tax credit application, language is proposed to be inserted that recommends that property owners receive approval from DHR for a relocation plan prior to undertaking such an effort. The language is also amended to require that the owner submit a Part 1 application, “Evaluation of Significance,” following relocation of the structure but prior to its rehabilitation in order to determine whether it continues to be a Certified Historic Structure and therefore eligible for the program. These amendments are proposed in order to delineate the requirements for documentation and consultation with DHR when a property, for which rehabilitation tax credits are sought, is to be relocated. This additional language will provide greater clarity and guidance to property owners.</p>
50		<p>This section details the process and reporting requirements for obtaining DHR’s review of a proposed project and certification of a completed rehabilitation project.</p>	<p>DHR seeks to amend this section to state that if a property owner begins rehabilitation work prior to submitting a Part 2, “Description of Rehabilitation,” and receiving DHR approval for the proposed scope of work, the owner proceeds at their own risk, as the work may not be approved by DHR. This language is intended to make clear to property owners that work conducted prior to DHR review may not consistent with the program requirements and therefore may not be approved, and to encourage property owners to submit the Part 2 application prior to beginning work. This language reflects the guidance already provided by DHR to applicants,</p>

		<p>and is intended to avoid problems stemming from inappropriate work conducted before consultation with DHR.</p> <p>This section is amended by providing additional examples of the kind of documentation that should be submitted with the Part 2 application to assist DHR in its review of the proposed rehabilitation.</p> <p>This section is amended to state that the program application form as completed by the property owner takes precedence, should there be any discrepancy between the description of work or reporting of costs in the application and the supporting documentation submitted with it. The addition of this language is intended to clarify which document to use in the case of differing information, and reflects current DHR policy and practice.</p> <p>The reporting requirements are revised to require CPA review of rehabilitation expenses for all projects, according to the format proscribed by DHR. This is a new requirement for projects with rehabilitation expenses less than \$100,000, which are not currently subject to any CPA review. This change is proposed to ensure that the expenses upon which tax credits are granted are valid and eligible for the tax credits and to prevent abuse of the program. This will mean an additional requirement for projects with less than \$100,000 in rehabilitation expenses. The cost of the CPA review depends on the sufficiency of the property owner's records; the cost of the CPA review is an eligible for the tax credit. DHR believes that tightening this requirement is necessary to preserve the integrity of the program.</p> <p>This section is amended by adding language to state that by signing the application documents, the owner attests to the accuracy of the information, and that submission of false information or falsification of anything in communication with DHR may result in denial of certification and is punishable under Virginia and/or federal law. This amendment is intended to make property owners aware of their responsibility to present accurate information to DHR, and the ramifications for presenting false</p>
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		<p>information. This language is also intended to prevent abuse of the program.</p> <p>Additional information may be requested by DHR in order to determine whether the rehabilitation project meets the requirements of the program, which may include a physical inspection of the project by DHR.</p> <p>Remediation of inappropriate work may be required by DHR in order to certify the rehabilitation project.</p> <p>Explanatory language is inserted to state that a property owner is not responsible for work done by a prior owner, or for work done by the current owner more than five years prior to submission of a tax credit application, so long as that work was not done to circumvent the program requirements. This language is intended to clarify existing language and to provide guidance to property owners.</p> <p>DHR seeks to add the requirement that if the legal property boundaries change after submission of the Part 1 application, "Evaluation of Significance," the property owner must disclose this information. Such information determines the scope of DHR's review of proposed and completed work.</p> <p>Language is proposed to more fully explain when to submit an Amendment to the Part 2, "Description of Rehabilitation," or Part 3, "Request for Certification of Completed Work," applications. This is intended to clarify the application process and the information required by DHR for review and certification of the project.</p> <p>This section is revised to clarify DHR's existing right to conduct a physical inspection of the rehabilitation project to determine if the project meets the program requirements and whether the completed work is consistent with the information submitted to DHR.</p> <p>In this section, additional language is added to clarify what would occur in the case that DHR determines that a project was not conducted according to program requirements or that there is misrepresentation or material error of fact</p>
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			<p>in the information submitted to DHR. It also states that DHR may investigate any project in which it suspects fraud or misrepresentation, regardless of the time which may have passed since certification of the project. This change is intended to prevent fraud and misuse of the program, and to set out the enforcement action that would be taken by DHR.</p>
80		<p>This section sets out the fees charged by DHR for review of the applications.</p>	<p>The fees charged for review of applications are increased and the fee structure is changed by refining the cost categories.</p> <p>DHR seeks to require that phased projects incur a separate Part 3 review fee for each phase, as each phase requires a separate and complete review.</p> <p>The current fee structure has not been changed since inception of the program, and the increased fees more accurately reflect the extensive resources required of DHR for review of the applications and administration of the program. This change will mean an increased cost to the property owner, however the increased application fees are not excessive and are in line with what is charged in other similar state rehabilitation tax credit program.</p>
100		<p>This section sets out the definition of a rehabilitation project.</p>	<p>DHR proposes to add language to state that in properties containing more than one Certified Historic Structure, the work at each structure must meet the requirements of the program. Buildings that are physically connected, but that were not historically or functionally related, are separate properties for the purpose of the program. This language clarifies the requirements of the program and reflects current practice and guidance by DHR.</p>
110		<p>This section establishes what qualifies as eligible rehabilitation expenses.</p>	<p>DHR proposes to amend this section with additional language to clarify those expenses that are eligible for the rehabilitation tax credits and those that are not. Language is added to confirm that insurance proceeds, personal property, syndication costs, and deferred fees or unpaid expenses (for which there is not a charge to a capital account with a corresponding entry to a liability account) are not eligible for the tax credits.</p> <p>This will help property owners to</p>

			understand more fully what expenses serve as the basis for the tax credits.
120		This section establishes the financial thresholds that a property owner must meet in order to qualify for the credit.	Dates in the examples provided in this section are revised to be more current.
130		This section sets out the percentage of tax credits granted and the timing requirements for seeking certification.	Language is struck in this section which is no longer necessary with the definition of "Completion Date" in section 10 of this regulation.
150		This section establishes the transition rules for projects started before 1997.	DHR seeks to revise this section to require that only costs incurred January 1, 2003 and later are eligible for the tax credit. This change would preclude a property owner from claiming tax credits for expenses incurred between 1997 and December 31, 2002. DHR proposes this change because rehabilitation work conducted more than ten years ago is difficult for property owners to document and for DHR to evaluate. This change would affect very few, if any, potential applications.
160		This section describes the interaction between Virginia's rehabilitation tax credit program, and the federal historic tax credit program, administered by the National Park Service.	The section is proposed to be amended by a statement that approval under either the state or federal tax credit program does not mean approval by the other agency. This section is revised to capitalize defined terms.

Enter any other statement here