Economic Impact Analysis
Virginia Department of Planning and Budget

17 VAC 10-30 – Historic Rehabilitation Tax Credit
Department of Historic Resources
November 1, 2013 (revised January 20, 2015)

Summary of the Proposed Amendments to Regulation

The Department of Historic Resources (DHR) proposes to amend its regulations governing historic property rehabilitation tax credits. Specifically, DHR proposes to make numerous clarifying changes, add categories of fees and increase fees and change the rules under which a CPA audit is required.

Result of Analysis

There is insufficient information to accurately gauge whether benefits are likely to outweigh costs for substantive proposed changes. Since this is a voluntary program, however, owners of rehabilitated properties will likely not participate if the benefit they receive will not outweigh the costs of participation.

Estimated Economic Impact

DHR's Historic Rehabilitation Tax Credit regulations govern the allocation of tax credits for the refurbishment of historic properties. Qualifying property owners may claim credits against tax liabilities for 25% of eligible rehabilitation expenses. DHR proposes to make many clarifying changes to these regulations. None of these clarifying changes impose new restrictions or requirements on applicant property owners but instead are aimed at making regulatory text more understandable. Consequently, no entity is likely to incur any costs on account of these changes; to the extent that tax credit rules are made less opaque, affected property owners will benefit.

In addition to clarifying changes, DHR proposes to increase the number of fee categories to better calibrate fees to the cost of rehabilitation projects and also to increase fees to reflect the actual costs for DHR staff: DHR established these fees in 1997 and has not raised them since. A chart that shows current and proposed fee categories and amounts is below:

*DHR may, upon request, provide expedited review of applications within 5 days instead of the normal 30 days. Extra fees are charged when expedited review is provided.

CURRENT FEE CATEGORIES BY AMOUNT OF REHABILITATION COSTS	**Current Part 2 Review Fee**	**Current Part 3 Review Fee**	**Current Additional Expedited Review Fee***
Less than $50,000	Fee waived	$100	$100
$50,000 to $99,999	$250	$250	$250
$100,000 to $499,999	$400	$400	$400
$500,000 to $999,999	$750	$750	$750
Rehabilitation costs greater than $1,000,000	$1,500	$1,500	$1,500
PROPOSED FEE CATEGORIES BY AMOUNT OF REHABILITATION COSTS	**Proposed Part 2 Review Fee**	**Proposed Part 3 Review Fee**	**Proposed Additional Expedited Review Fee***
Less than $100,000	$250	$250	$500
$100,000 to 249,999	$500	$500	$1,000
$250,000 to $499,999	$1,000	$1,000	$2,000
$500,000 to $999,999	$2,000	$2,000	$4,000
$1,000,000 to $1,999,999	$4,000	$4,000	$8,000
$2,000,000 to $3,499,999	$5,000	$5,000	$10,000
$3,500,000 to $4,999,999	$7,000	$7,000	$14,000

Rehabilitation costs greater than $5,000,000	$8,000	$8,000	$16,000

DHR also proposes to change the criteria under which property owners must pay for a financial review of their rehabilitation projects. Current regulations do not require a certified public accountant (CPA) review of projects with rehabilitation costs equal to or less than $100,000 and only require a CPA or equivalent certification of the actual costs attributed to the rehabilitation project for projects of greater than $100,000. DHR believes that this standard allows both inadvertent mistakes as well as fraud in deciding and reporting which expenses qualify. Consequently, DHR now proposes to require a CPA agreed-upon procedures report of expenses (that is equivalent to the certification now required of projects greater than $100,000) for projects with rehabilitation costs of less than $250,000 and to require a CPA audit for projects with costs greater than or equal to $250,000. DHR staff reports that cost review work carried out under agreed-upon procedures will likely cost between $1,000 and $3,500 and an audit will likely cost between $5,000 and $10,000.

Both fees charged under these regulations and financial review costs are qualifying expenses that are eligible for the 25% tax credit offset. Increases in these costs will likely lead to a decrease in the value of tax credits to applicants but are unlikely to be of a magnitude that applying for tax credits under this program would cost more than the value received. Because this is a voluntary program, individuals whose costs for applying outweigh benefits would be expected to refrain from taking part in the program.

Businesses and Entities Affected

All historic property owners who apply for tax credits under this program will be affected by these proposed regulations. DHR reports that they have received an average of 248 applications per year for new historic rehabilitation projects over the last five years.

Localities Particularly Affected

No locality will be particularly affected by this proposed regulatory action.

Projected Impact on Employment

These proposed regulations will likely lead to a slight increase in the number of financial review projects completed by CPA's in the Commonwealth.

Effects on the Use and Value of Private Property

To the extent that the availability of tax credits encourages property owners to rehabilitate their properties, the value of those properties will likely increase. Increases in the costs of applying for tax credits may slightly dampen incentives to participate in this tax credit program.

Small Businesses: Costs and Other Effects

Small business property owners who choose to participate in this program will be subject to increased fees and financial reporting costs.

Small Businesses: Alternative Method that Minimizes Adverse Impact

There are likely no alternate methods that would both meet DHR's goals and further minimize costs for affected entities.

Real Estate Development Costs

This regulatory action will likely increase real estate development costs for individuals who choose to apply for tax credits through this program.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.