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**VIRGINIA DEPARTMENT OF HISTORIC RESOURCES**  
**Historic Rehabilitation Tax Credit Program**  
**REGULATIONS**

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## 1. LEGISLATION

### § 58.1-339.2 Historic Rehabilitation Tax Credit.

A. Effective for taxable years beginning on and after January 1, 1997, any individual, trust or estate, or corporation incurring eligible expenses in the rehabilitation of a certified historic structure shall be entitled to a credit against the tax imposed by Articles 2 (§ 58.1-320 et seq.), 6 (§ 58.1-360 et seq.) and 10 (§ 58.1-400 et seq.) of Chapter 3; Chapter 12 (§ 58.1-1200 et seq.); Article 1 (§ 58.1-2500 et seq.) of Chapter 25; and Article 2 (§ 58.1-2620 et seq.) of Chapter 26 of this title, in accord with the following schedule:

Year	% of Eligible Expenses
1997	10%
1998	15%
1999	20%
2000 and thereafter	25%

If the amount of such credit exceeds the taxpayer's tax liability for such taxable year, the amount that exceeds the tax liability may be carried over for credit against the taxes of such taxpayer in the next ten taxable years or until the full credit is used, whichever occurs first. Credits granted to a partnership or electing small business corporation (S corporation) shall be passed through to the partners or shareholders, respectively. Credits granted to a partnership or electing small business corporation (S corporation) shall be allocated among all partners or shareholders, respectively, either in proportion to their ownership interest in such entity or as the partners or shareholders mutually agree as provided in an executed document, the form of which shall be prescribed by the Director of the Department of Historic Resources.

B. Effective for taxable years beginning on or after January 1, 2000, any individual, trust, estate, or corporation resident in Virginia that incurs eligible expenses in the rehabilitation of a certified historic structure in any other state that has in effect a reciprocal historic structure rehabilitation tax credit program and agreement for residents of that state who rehabilitate historic structures in Virginia shall be entitled to a credit to the same extent as provided in subsection A and other applicable provisions of law; however, no eligible party shall receive any credit authorized under this section prior to taxable years beginning on or after January 1, 2002.

C. To claim the credit authorized under this section, the taxpayer shall apply to the Virginia Department of Historic Resources, which shall determine the amount of eligible rehabilitation expenses and issue a certificate thereof to the taxpayer. The taxpayer shall attach the certificate to the Virginia Tax return on which the credit is claimed.

D. When used in this section:

"Certified historic structure" means a property listed individually on the Virginia Landmarks Register, or certified by the Director of the Virginia Department of Historic Resources as contributing to the historic significance of a historic district that is listed on the Virginia Landmarks Register or certified by the Director of the Virginia Department of Historic Resources as meeting the criteria for listing on the Virginia Landmarks Register.

"Eligible rehabilitation expenses" means expenses incurred in the material rehabilitation of a certified historic structure and added to the property's capital account.

"Material rehabilitation" means improvements or reconstruction consistent with "The Secretary of the Interior's Standards for Rehabilitation," the cost of which amounts to at least fifty percent of the assessed value of the buildings for local real estate tax purposes for the year prior to the initial expenditure of any rehabilitation expenses, unless the building is an owner-occupied building, in which case the cost shall amount to at least twenty-five percent of the assessed value of such building for local real estate tax purposes for the year prior to the initial expenditure of any rehabilitation expenses.

"Owner-occupied building" means any building that is used as a personal residence by the owner.

E. The Director of the Department of Historic Resources shall establish by regulation the requirements needed for this program, including the fees to defray necessary expenses thereof, and, except as otherwise prohibited by this section, the extent to which the availability of the credit provided by this section is co-extensive with the availability of the federal tax credit for the rehabilitation of certified historic resources.

Act of Assembly 1999, cc. 152 and 183, cl. 2, provide: "That the provisions of this act amending subsection A of §58.1-339.2 of the Code of Virginia shall be effective for taxable years beginning on or after January 1, 1997."

Acts of Assembly 1999, cc. 152 and 183, cl. 3, provide: "That the provisions of this act amending subsection D of §58.1-339.2 of the Code of Virginia are declaratory of existing law."

Acts of Assembly 1999, cc. 152 and 183, cl. 4, provide: "That the Director of the Department of Historic Resources is authorized to provide taxpayers the election of making a special one time transfer of their credits earned pursuant to §58.1-339.2 of the Code of Virginia with respect to projects certified by the Department of Historic Resources on or before the final publication date of the regulations promulgated pursuant to subsection D of § 58.1-339.2."

## **2. REGULATIONS**

### **§ 1. Definitions.**

The following words and terms, when used in this regulation, shall have the following meaning unless the context clearly indicates otherwise:

"Certified historic structure" means a property listed on the Virginia Landmarks Register, or certified by the Director of the Virginia Department of Historic Resources as contributing to the historic significance of a historic district that is listed on the Virginia Landmarks Register, or certified by the Director of the Department of Historic Resources as meeting the criteria for listing on the Virginia Landmarks Register.

Portions of buildings, such as single condominium apartment units, are not independently eligible for certification. Rowhouses, even with abutting or party walls, are eligible for certification.

"Certified rehabilitation" means any rehabilitation of a certified historic structure that is certified by the Department of Historic Resources as consistent with *The Secretary of the Interior's Standards for Rehabilitation*.

"Department" means the Virginia Department of Historic Resources.

"Historic district" means any district listed on the Virginia Landmarks Register by the Historic Resources Board according to the procedures specified in the Code of Virginia, Chapter 22, §§ 10.1-2204, 10.1-2206.1, and 10.1-2206.2.

"Inspection" means a visit by an authorized representative of the Department of Historic Resources to a property for the purposes of reviewing and evaluating the significance of the structure and the ongoing or completed rehabilitation work.

"Owner" means the person, partnership, corporation, public agency, or other entity holding a fee simple interest in a property, or any other person or entity recognized by the Department of Taxation for purposes of the applicable tax benefits.

"Property" means a building and its site and landscape features.

"Rehabilitation" means the process of returning a building or buildings to a state of utility, through repair or alteration, which makes possible an efficient use while preserving those portions and features of the building and its site and environment which are significant to its historical, architectural, and cultural values as determined by the Department of Historic Resources.

"Standards for Rehabilitation" means *The Secretary of the Interior's Standards for Rehabilitation*, established by the United States Department of the Interior.

"Virginia Landmarks Register" means the list of historic landmarks, buildings, structures, districts, objects, and sites designated by the Virginia Landmarks Board, in accord with the procedures specified in the Code of Virginia, Chapter 22, § 10.1-2204.1.

## **§ 2. Introduction to Certifications of Significance and Rehabilitation.**

A. Individuals, estates, partnerships, trusts, or corporations may apply for certification of properties and certification of rehabilitations.

B. Requests for certifications of historic significance and of rehabilitations shall be made on the Historic Preservation Certification Application forms. Part 1 of the application, **Evaluation of Significance**, is used to request certification of historic significance. Part 2 of the application, **Description of Rehabilitation**, is used to request certification of a proposed rehabilitation project. Part 3 of the application, **Request for Certification of Completed Work**, is used to request certification of a completed rehabilitation project. If a rehabilitation project is completed before preparing Part 2 of the application, the applicant shall prepare Parts 2 and 3 simultaneously.

C. The Historic Preservation Certification Application forms are available from the Department of Historic Resources.

D. The Department generally completes reviews of certification requests within 30 days of receiving a complete, adequately documented application. Where adequate information is not provided, the Department will notify the applicant of the additional information needed to complete the review. The Department will adhere to this time period as closely as possible, but it is not mandatory, and the failure to complete a review within the designated period does not waive or alter any certification requirement.

E. Certifications are only given in writing by duly authorized officials of the Department of Historic Resources. Decisions with respect to certifications are made on the basis of the information contained in the application form and other available information.

### **§ 3. Certifications of Historic Significance.**

A. Any property owner may consult with the Department of Historic Resources to determine whether a property is listed individually on the Virginia Landmarks Register, or whether a property is located within a historic district that is listed on the Virginia Landmarks Register.

B. Properties listed individually on the Virginia Landmarks Register are certified historic structures.

C. For properties located in registered historic districts, the Applicant shall request that the Department of Historic Resources determine whether the property is of historic significance to the district. The Applicant shall prepare Part 1 of the Historic Preservation Certification Application form according to the instructions accompanying the application, including:

1. Name and mailing address of the owner;
2. Name and address of the property;
3. Name of the historic district;
4. Current photographs of the building and its site, showing exterior and interior features and spaces adequate to document the property's significance;
5. Brief description of the appearance of the property, including alterations, characteristic features, and estimated date(s) of construction;
6. Brief statement of significance, summarizing how the property reflects the recognized historic values of the historic district;
7. Map showing the location of the property within the historic district; and
8. Signature of the owner requesting certification.

D. Properties containing more than one building, where the Department determines that the buildings have been functionally related historically to serve an overall purpose, such as a mill complex or a residence and carriage house, will be treated as a single certified historic structure, whether the property is individually listed in the Virginia Landmarks Register or is located within a registered historic district. Buildings that are functionally

related historically are those which have functioned together to serve an overall purpose during the property's period of significance.

E. Properties within registered historic districts will be evaluated to determine if they contribute to the historic significance of the district by application of the standards set forth in § 4.

F. Owners of properties that are not listed on the Virginia Landmarks Register may request a determination from the Department as to whether the property meets the criteria for listing on the Virginia Landmarks Register. The Department will provide written notification to the applicant of determinations of eligibility. Individual properties determined by the Department to be eligible for listing in the Virginia Landmarks Register are Certified Historic Structures.

G. Owners of properties that are located in potential historic districts may request preliminary determinations from the Department as to whether the potential historic district meets the criteria for listing on the Virginia Landmarks Register. Owners of properties located in districts determined to be eligible for listing may apply for preliminary certification of their properties, as specified in § 4. Applications for preliminary certification of buildings within eligible historic districts must show how the district meets the criteria for listing on the Virginia Landmarks Register, and how the property contributes to the significance of that district, as specified in § 4. Preliminary certifications will become final, and the properties will become Certified Historic Structures, as of the date of listing the district on the Virginia Landmarks Register. Issuance of preliminary certification does not obligate the Department to nominate the potential district. Applicants proceed with rehabilitation projects at their own risk; if the historic district is not listed in the Virginia Landmarks Register, the preliminary certification will not become final.

H. Owners of properties that have received preliminary certifications may apply for certification of rehabilitation projects, as specified in § 5. Final certifications of rehabilitations will be issued only for Certified Historic Structures.

I. The Department of Historic Resources discourages the moving of historic buildings from their original sites. Under certain circumstances the relocation of historic buildings may be part of a historic rehabilitation project that can be certified. Building owners are advised that the relocation of a building that is listed in the Virginia Landmarks Register may result in removal of the building from the Register. The relocation of a building that has been determined eligible for listing in the Virginia Landmarks Register may result in the loss of its eligibility. The relocation of a historic building into, from, or within a historic district or to or from an individual property listed in the Virginia Landmarks Register, or

that has been found eligible for listing, may result in removal of the district or property from the Register, loss of the eligibility of the district or property, or loss of the moved building's contributing status within the district or as part of the property. For historic rehabilitation projects involving moved buildings, the following procedures apply:

1. When a building is to be moved as part of a historic rehabilitation project for which certification is sought, the owner shall contact the Department prior to moving the building, and shall follow procedures specified by the Department. When a building is moved, every effort should be made to reestablish its historic orientation, immediate setting, and general environment. In certain special cases, when there is adequate documentation about the building before its relocation and about the moving process, it may be possible to certify historic rehabilitation projects involving moved buildings when participation of the Department prior to the move did not occur. However, this approach is not recommended, and owners pursue it at their own risk.
2. For individual properties and properties in historic districts not listed in the Virginia Landmarks Register or not previously found eligible for listing, prior to the move the owner shall submit Part 1 of the historic rehabilitation application to the Department, according to § 3(C), § 3(F), and § 3(G).
3. For individual properties and properties in historic districts listed in the Virginia Landmarks Register or found eligible for listing, prior to the move the owner shall submit documentation to the Department to determine whether the move is likely to result in the loss of listing or loss of eligibility for listing. Guidance on the type of documentation required can be obtained from the Department.
4. Following the relocation of the building and its installation on a new site, reevaluation of the building will be necessary to determine whether it can become a certified historic structure. The owner shall submit Part 1 of the historic rehabilitation application to the Department, according to § 3(C), § 3(F), and § 3(G), presenting information about the building in its new location
5. The relocation of a historic building into, from, or within a listed or eligible historic district, or to or from an individually listed or eligible property, may result in alterations to the boundary definitions of the district or property, and will change the inventory of buildings in the district or on the individual property. The applicant for certification of the historic rehabilitation project involving building relocation will be responsible for amending the district or property information and nomination accordingly, following guidance provided by the Department.



#### **§ 4. Standards for Evaluating Significance within Registered Historic Districts.**

A. Some properties listed in the Virginia Landmarks Register, primarily historic districts, are resources whose concentration or continuity possesses greater historical significance than many of their individual component buildings and structures. These usually are documented as a group rather than individually. Accordingly, this type of documentation is not conclusive for the purposes of this part. The applicant shall supplement this documentation using Part 1 of the Historic Preservation Certification Application, providing information on the significance of the specific property, as set forth in § 3(C).

B. The Department of Historic Resources evaluates properties located within registered historic districts to determine if they contribute to the historic significance of the district by applying the following standards:

1. A property contributing to the historic significance of a district is one which by location, design, setting, materials, workmanship, feeling, and association adds to the district's sense of time and place and historical development.

2. A property not contributing to the historic significance of a district is one which does not add to the district's sense of time and place and historical development; or one where the location, design, setting, materials, workmanship, feeling and association have been so altered or have so deteriorated that the overall integrity of the building has been irretrievably lost.

3. Ordinarily buildings that have been built within the past 50 years shall not be considered to contribute to the significance of a district unless a strong justification concerning their historical or architectural merit is given or the historical attributes of the district are considered to be less than 50 years old.

C. Certifications of significance will be made on the appearance and condition of the property before the beginning of the rehabilitation work.

D. If a nonhistoric surface material obscures a building's facade, it may be necessary for the owner to remove a portion of the surface material before requesting certification so that a determination of significance can be made. After the material has been removed, if the obscured facade has retained substantial historic integrity and the property otherwise contributes to the significance of the historic district, it will be determined to be a certified historic structure.

## § 5. Certifications of Rehabilitation.

A. Applicants requesting certification of rehabilitation projects shall comply with the procedures listed below. A fee, described in § 8, is charged by the Department of Historic Resources for reviewing all proposed, ongoing, and completed rehabilitation work. No certification decisions shall be issued to any applicant until the appropriate remittance is received. Applicants may request the Department's review before, during, or after completion of a rehabilitation project. Applicants are strongly encouraged to request the Department's review before beginning a rehabilitation project.

1. To request review of a rehabilitation project, the project applicant shall submit Part 2 of the Historic Preservation Certification Application form according to the instructions accompanying the application. Documentation, including photographs adequate to document the appearance of the structure, both on the interior and the exterior, and its site and environment before rehabilitation, shall accompany the application. Other documentation, including plans, specifications, and surveys, may be required to evaluate certain rehabilitation projects. Where necessary documentation is not provided, review and evaluation may not be possible and a denial of certification will be issued on the basis of lack of information. Because the circumstances of each rehabilitation project are unique, certifications that may have been granted to other rehabilitations are not specifically applicable and may not be relied on by applicants as applicable to other projects.

2. To request certification of a completed rehabilitation project, the applicant shall submit Part 3 of the Historic Preservation Certification Application, "Request for Certification of Completed Work," according to the instructions accompanying the application, and provide documentation that the completed project is consistent with the work described in Part 2. This documentation includes but is not limited to:

- a. Name and mailing address of the owner;
- b. Name and address of the property;
- c. Photographs of the property showing the completed rehabilitation work, including exterior and interior features and spaces, sufficient to demonstrate that the completed work is consistent with the *Standards for Rehabilitation*;
- d. Final costs attributed to the rehabilitation work;
- e. When rehabilitation expenses exceed \$100,000, certification by a

certified public accountant or equivalent of the actual costs attributed to the rehabilitation of the historic structure; and

f. Signature of the Applicant.

B. A rehabilitation project for certification purposes encompasses all work on the interior and exterior of the certified historic structure(s) and its site and environment, as well as related demolition, new construction or rehabilitation work that may affect the historic qualities, integrity, site, landscape features, and environment of the property.

1. All elements of the rehabilitation project shall be consistent with the *Standards for Rehabilitation*, as set forth in § 6. Portions of a project that are not in conformance with the Standards may not be exempted. In general, an Applicant undertaking a rehabilitation project will not be held responsible for prior rehabilitation work not part of the current project, or rehabilitation work that was undertaken by previous owners.

2. Conformance to the Standards will be determined on the basis of the application documentation and other available information by evaluating the property as it existed before the beginning of the rehabilitation project.

C. The Department, on receipt of the complete application describing the rehabilitation project, shall determine if the project is consistent with the *Standards for Rehabilitation*. If the project does not meet the Standards, the Department shall advise the applicant of that fact in writing. Where possible, the Department will advise the project applicant of necessary revisions to meet the Standards.

D. Once a proposed or ongoing project has been approved, substantive changes in the work as described in the application shall be brought promptly to the attention of the Department by written statement to ensure continued conformance to the Standards.

E. An authorized representative of the Department may inspect projects to determine if the work meets the *Standards for Rehabilitation*. The Department reserves the right to make inspections at any time up to three years after completion of the rehabilitation and to revoke a certification, after giving the applicant 30 days to comment on the matter, if it is determined that the rehabilitation project was not undertaken as represented in the application and supporting documentation, or that the applicant, after obtaining certification, undertook further unapproved project work inconsistent with the *Standards for Rehabilitation*. The tax consequences of a revocation of certification will be determined by the Department of Taxation.

## **§ 6. Standards for Rehabilitation.**

A. The *Standards for Rehabilitation* are the criteria used to determine if a rehabilitation project qualifies as a certified historic rehabilitation. The intent of the Standards is to promote the long-term preservation of a property's significance through the preservation of historic materials and features. The Standards pertain to historic buildings of all materials, construction types, sizes, and occupancy and encompass the exterior and the interior of historic buildings. The Standards also encompass related landscape features and the building's site and environment, as well as attached, adjacent, or related new construction. To be certified, a rehabilitation project shall be determined by the Department of Historic Resources to be consistent with the historic character of the structure(s) and, where applicable, the district in which it is located.

B. The *Standards for Rehabilitation* shall be applied to specific rehabilitation projects in a reasonable manner, taking into consideration economic and technical feasibility.

1. A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
2. The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
3. Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
5. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.
6. Deteriorated architectural features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature should match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing architectural features must be substantiated by documentary, physical, or pictorial evidence.

7. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.

8. Significant archeological resources affected by a project shall be protected and preserved. If these resources must be disturbed, mitigation measures shall be undertaken.

9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.

10. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

C. The quality of materials, craftsmanship, and related new construction in a rehabilitation project should be commensurate with the quality of materials, craftsmanship, and design of the historic structure in question. Certain treatments, if improperly applied, or certain materials by their physical properties, may cause or accelerate physical deterioration of historic buildings. Inappropriate rehabilitation measures include, but are not limited to: improper masonry repointing techniques; improper exterior masonry cleaning methods; improper introduction of insulation where damage to historic fabric would result; and incompatible additions and new construction on historic properties. In almost all situations, these measures and treatments will result in denial of certification.

D. In certain limited cases, it may be necessary to dismantle and rebuild portions of a certified historic structure to stabilize and repair weakened structural members and systems. In these cases, the Department of Historic Resources will consider this extreme intervention as part of a certified historic rehabilitation if:

1. The necessity for dismantling is justified in supporting documentation;
2. Significant architectural features and overall design are retained; and
3. Adequate historic materials are retained to maintain the architectural and historic integrity of the overall structure.

E. The qualities of a property and its environment which qualify it as a certified historic structure are determined taking into account all available information, including information derived from the physical and architectural attributes of the building; these determinations are not limited to information contained in the Virginia Landmarks Register nomination reports.

## **§ 7. Appeals.**

A. A project applicant may appeal any denial of certification. A request for an appeal shall be made in writing to the Director of the Department of Historic Resources, 2801 Kensington Avenue, Richmond, Virginia, 23221, within 60 days of receipt of the decision which is the subject of the appeal. It is not necessary for the applicant to present arguments for overturning a decision within this 60-day period. The applicant may request an opportunity to meet with the Director, but all information that the applicant wishes the Director to consider shall be in writing. The Director shall consider the record of the decision in question, any further written submissions by the applicant, and other available information, and may consult with experts or others as appropriate. The Director shall provide the applicant a written decision as promptly as circumstances permit. The appeal process is an administrative review of decisions made by the Department; it is not an adjudicative proceeding.

B. In considering appeals, the Director may take into account new information not previously available or submitted; alleged errors in professional judgement; or alleged prejudicial procedural errors. The Director's decision may:

1. Reverse the appealed decision; or
2. Affirm the appealed decision; or
3. Resubmit the matter to the Department program staff for further consideration.

C. The decision of the Director shall be the final administrative decision on the appeal. No person shall be considered to have exhausted his or her administrative remedies with respect to the certifications or decisions described in this part until the Director has issued a final administrative decision in response to this section.

## **§ 8. Fees for Processing Rehabilitation Certification Requests.**

A. Fees are charged for reviewing rehabilitation certification requests. The Department of

Historic Resources shall determine the schedule of fees, based on the dollar amount of the costs attributed to the rehabilitation of the certified historic structure. The Department reserves the right to adjust the fee structure. A current schedule of fees may be obtained from the Department.

B. Payment shall be made to the Department of Historic Resources when Part 2 of the application is submitted. A certification decision will not be issued until the appropriate remittance is received. Fees are nonrefundable.

C. In general, each rehabilitation of a separate certified historic structure will be considered a separate project for purposes of computing the size of the fee.

### **§ 9. Forms.**

A. Applications for certifications of buildings and rehabilitation projects are made with the Historic Preservation Certification Application, prepared by the Department of Historic Resources. The forms are available from the Department.

### **§ 10. Definition of Rehabilitation Project.**

A. A certified historic structure shall be treated as having been materially rehabilitated only if the qualified rehabilitation expenditures (as defined in § 11) incurred in the 24-month period selected by the taxpayer ending with or within the taxable year shall equal or exceed fifty per cent of the assessed value of the buildings for local real estate tax purposes, determined for the year before the initiation of the rehabilitation project, unless the building is an owner-occupied building, in which case the cost shall amount to at least twenty-five percent of the assessed value of such building for local real estate tax purposes for the year before the initiation of the rehabilitation project.

B. Normally, a certified rehabilitation shall be completed within a consecutive 24-month period. In the case of any rehabilitation that may reasonably be expected to be completed in phases set forth in a plan of rehabilitation prepared before the physical work on the rehabilitation begins, paragraph (A) of this section shall be applied by substituting “60-month period” for “24-month period.” A rehabilitation may reasonably be expected to be completed in phases if it consists of two or more distinct stages of development. The Department may review each phase as it is presented, but a phased project cannot be designated a “certified rehabilitation” until all of the phases are completed. The applicant may elect to claim the credit allowable for each completed phase of a phased project, upon receipt from the Department of written approval of the work completed for each phase.

Any such initial claims will be contingent upon final certification of the completed project.

**§ 11. Eligible Rehabilitation Expenses.**

A. Eligible rehabilitation expenses are those expenses incurred in connection with a plan of rehabilitation on or after January 1, 1997, in the material rehabilitation of a certified historic structure and added to the property's capital account.

B. Once the material rehabilitation test is met, the qualified rehabilitation expenditures upon which a credit can be claimed are limited to expenditures incurred:

1. Within the taxable year when the twenty-four month measuring period during which the building was materially rehabilitated (as defined in § 10 (A)) begins, provided that the expenditures were incurred in connection with the rehabilitation process that resulted in the material rehabilitation of the building;

2. Within a measuring period during which the building was materially rehabilitated that ends with or within the taxable year; and

3. After the end of a measuring period during which the building was materially rehabilitated but prior to the end of the taxable year with or within which the measuring period ends.

C. Amounts are properly chargeable to capital account if they are properly includible in computing the basis of real property under U.S. Department of the Treasury, Internal Revenue Code, Reg. §1.46-3(c). Amounts treated as an expense and deducted in the year paid or incurred or amounts that are otherwise not added to the basis of real property do not qualify. Amounts incurred for architectural and engineering fees, site fees and other construction related costs that are added to the basis of real property satisfy this requirement.

D. Certain expenses are not eligible rehabilitation expenses. These expenses are:

1. The cost of acquiring a building, any interest in a building (including a leasehold interest) or land. Interest incurred on a construction loan the proceeds of which are used for eligible rehabilitation expenditures (and which is added to the basis of the property) is not treated as a cost of acquisition.

2. Any expense attributable to an enlargement of a building.



(i) A building is enlarged to the extent that the total volume of the building is increased. An increase in floor space resulting from interior remodeling is not considered an enlargement.

(ii) If expenditures only partially qualify as eligible rehabilitation expenditures 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 on factors such as the type of improvement and how the improvement relates functionally to the building.

Example: A historic rehabilitation project includes a new rear wing. A new air-conditioning system and a new roof are installed on the building. A reasonable basis for allocating the expenditures among the two portions generally would be the volume of the historic building (excluding the new wing), served by the air-conditioning system or the roof, relative to the volume of the new wing that is served by the air-conditioning system and the roof.

3. Any expense attributable to the rehabilitation of a certified historic structure, or a building located in a registered historic district, which is not a certified rehabilitation.

4. Any expense incurred before January 1, 1997.

E. The taxpayer may take into account eligible rehabilitation expenses incurred in connection with the same plan of rehabilitation by any other person who has an interest in the building. Where eligible rehabilitation expenses are incurred with respect to a building by a person (or persons) other than the taxpayer and the taxpayer acquires the building or a portion of the building to which the expenditures were allocable, the taxpayer acquiring such property will be treated as having incurred the eligible rehabilitation expenses actually incurred by the transferor, provided that no credit with respect to such qualified rehabilitation expenses is claimed by anyone other than the taxpayer acquiring the property.

F. A landlord who has incurred eligible rehabilitation expenses may elect to treat a tenant or tenants as having incurred these rehabilitation expenses. This election shall be made on the application for the certification of rehabilitation. For purposes of testing whether a

rehabilitation is material, all eligible rehabilitation expenses will be counted. In the event the election is made to treat multiple tenants as having incurred rehabilitation expenses, the allocation of eligible rehabilitation expenses to these tenants shall be made in accordance with the relative square footage occupied by the tenants or the relative amounts of eligible rehabilitation expenses spent in connection with each tenant's space. Eligible rehabilitation expenses which are not readily allocable by specific space shall be allocated in a manner consistent with the allocation method chosen.

## **§12. Qualification for Credit.**

A. Credits against tax shall be available for the material rehabilitation of a certified historic structure. Material rehabilitation means improvements or reconstruction consistent with the *Standards for Rehabilitation*, the cost of which amounts to at least fifty percent of the assessed value of the buildings for local real estate tax purposes for the year before such rehabilitation expenses were incurred, unless the building is an owner-occupied building, in which case the cost shall amount to at least twenty-five percent of the assessed value of such building for local real estate tax purposes for the year before such rehabilitation expenses were incurred. An owner-occupied building is any building that is used as a personal residence by the owner. The assessed value of the buildings for local real estate tax purposes does not include any assessment for land. The tax assessment for the year before such rehabilitation expenses were incurred means the tax assessment for the year prior to the start of rehabilitation. The determination of whether a rehabilitation has been material shall be made at the entity level, not at the partner or shareholder level.

Ex. 1. Certified historic structure has a 1996 tax assessment of \$20,000 land, \$80,000 building and a 1997 assessment of \$20,000 land, \$70,000 building. Taxpayer submits a plan of rehabilitation on December 1, 1997. Taxpayer applies for a building permit for work to be done in accordance with the plan of rehabilitation on December 15, 1997. Taxpayer incurs eligible rehabilitation expenses in the amount of \$37,500 pursuant to the plan of rehabilitation. Rehabilitation is completed in 1999. Taxpayer is not entitled to a tax credit because taxpayer's eligible rehabilitation expenses (\$37,500) do not exceed fifty percent of the assessed value of the building in the year prior to the start of rehabilitation (\$40,000).

Ex. 2. Same facts as above, except Taxpayer applies for the building permit on January 2, 1998. Eligible rehabilitation expenses (\$37,500) exceed fifty percent of the assessed value of the building in the year prior to the start of rehabilitation (\$35,000). Therefore, taxpayer is entitled to a credit of 20% (for completion in 1999) of \$37,500.

**§13. Amount and Timing of Credit.**

A. A taxpayer shall be entitled to a credit against tax in accord with the following schedule:

Year	% of Eligible Expenses
1997	10%
1998	15%
1999	20%
2000 and thereafter	25%.

The credit against tax shall be earned in accordance with the schedule above based upon the completion year. Completion year is the year in which the last eligible rehabilitation expense is incurred or the final certificate of occupancy (if appropriate) is issued.

B. The amount of the credit shall be determined by multiplying the total amount of eligible rehabilitation expenses incurred in connection with the plan of rehabilitation by the percent derived above. Eligible rehabilitation expenses may include expenses in connection with the rehabilitation which were incurred prior to the start of rehabilitation. Further, eligible rehabilitation expenses may include expenses incurred prior to completion of a formal plan of rehabilitation provided the expenses were incurred in connection with the rehabilitation which was completed.

C. Complete, adequately documented Historic Preservation Certification Application forms must be received by the Department within one year after the final expense is incurred or the final certificate of occupancy (if appropriate) is issued. Properties which do not meet the criteria for individual listing on the Virginia Landmarks Register must be located in registered historic districts by such date. Taxpayers are cautioned, however, that if Parts 1 and 2 of the Historic Preservation Certification Application forms are not submitted prior to beginning work on the rehabilitation, they proceed with the project at the risk that the building or the rehabilitation project will not be certified.

**§14. Entitlement to Credit.**

A. Effective for taxable years beginning on and after January 1, 1997, any individual, trust or estate, or corporation incurring eligible expenses in the rehabilitation of a certified historic structure shall be entitled to a credit against tax in the manner and amount set forth in these regulations. Credits granted to a partnership, electing small business corporation (S corporation), or limited liability company shall be passed through to the partners or shareholders, respectively. Credits granted to a partnership, electing small

business corporation (S corporation), or limited liability company shall be allocated among partners or shareholders, respectively, either in proportion to their ownership interest in such entity or as the partners or shareholders mutually agree as provided in an executed document. The document shall be signed by all members, partners or shareholders of the owning, partnership, corporation, or limited liability company and shall be attached to the Request for Certification of Completed work. The following form may be used:

The state historic rehabilitation tax credits shall be allocated among the [members, partners or shareholders, as applicable] as follows:

Member, partner or shareholder 1	x%
Member, partner or shareholder 2	y%
Member, partner or shareholder 3	z%
and so on through 100%	

This document shall be executed by all necessary parties prior to the Request for Certification of Completed Work. The members, partners or shareholders at the end of the taxable year in which there is an entitlement to credit shall be allocated the state rehabilitation tax credits for which a project is certified, as defined in this document.

B. The Department of Historic Resources shall certify the amount of eligible rehabilitation expenses. The certification shall consist of a letter signed by an authorized representative of the Department confirming that the rehabilitated property is a certified historic structure and that the rehabilitation is a certified historic rehabilitation; and shall specify the amount of eligible rehabilitation expenses, based on the Request for Certification of Completed Work. The Department's certification shall make reference to any partnership, S corporation, or limited liability company allocation document, as defined in § 14 (A). A person with an interest in the property who materially rehabilitates a certified historic structure may apply for a certificate of material rehabilitation. Persons with an interest in the property include those individuals or entities which have a possessory interest in the property. The application for issuance of a certificate shall set forth the name of the individual or entity which will utilize the credit on its tax return. The taxpayer shall attach the certificate to the Virginia tax return on which the credit is claimed.

C. If the amount of the credit exceeds the taxpayer's tax liability for such taxable year, the amount that exceeds the tax liability may be carried over for credit against the income taxes of such taxpayer for the next ten taxable years or until the full credit is used, whichever occurs first. For purposes of passthrough entities (eg. general and limited partnerships, limited liability companies, S corporations) this paragraph shall be applied to the partners, members or shareholders, as applicable.

**§ 15. Transition Rules for Projects Begun Before 1997.**

- A. Rehabilitation expenses incurred before January 1, 1997, do not qualify for a rehabilitation tax credit.
- B. Applicants whose rehabilitation projects commenced before 1997, but were not completed until after January 1, 1997, may apply for certification of their rehabilitation work, in accord with the provisions of §§ 2, 3, and 5, above. In these cases, the tax credit is calculated as the appropriate percentage of expenses incurred on or after January 1, 1997.
- C. For projects begun before January 1, 1997, the "material rehabilitation" test shall be determined by the entire project, rather than by those parts of the work completed on or after January 1, 1997.
- D. The Department of Historic Resources is authorized to provide taxpayers the election of making a special one time transfer of their credits earned pursuant to §58.1-339.2 of the Code of Virginia with respect to projects certified by the Department on or before the final publication date of these regulations. Any such transfer is irrevocable. Taxpayers requesting such authorization shall make written request to the Department, including the following information:
1. The Part 3 form, **Request for Certification of Completed Work**, for the project;
  2. The name(s), mailing address(es), and taxpayer I.D. number(s) of the taxpayers who completed the rehabilitation;
  3. The name(s), mailing address(es), and taxpayer I.D. number(s) of the taxpayers to whom the credits are to be transferred.

**§ 16. Coordination with the Federal Certified Historic Rehabilitation Program.**

- A. Certifications of properties and rehabilitation projects by the National Park Service, U.S. Department of the Interior, under Federal Law 36 CFR Part 67, are not equivalent to certification of properties and rehabilitation projects by the Virginia Department of Historic Resources under State Law § 58.1-339.2, except as provided in subsection B hereunder. Taxpayers are cautioned that deadlines and requirements for certifications under these state regulations may differ from deadlines and requirements for certifications under the federal program.

B. Certifications of historic significance of properties (Part 1, Historic Preservation Certification Application) by the National Park Service, U.S. Department of the Interior, dated after January 1, 1995, shall be accepted as equivalent of certification of historic significance by the Virginia Department of Historic Resources under the provisions of § 2, above.