

Historic Rehabilitation Tax Credits— **Preservation PAYS**

BY JUDD BANKERT AND JENNIFER HALLOCK

PHOTO BY BRUCE SNYDER

Virginia property owners may be able to earn both federal and state tax credits based on the amount they spend rehabilitating historic structures. A tax credit is different than a tax deduction. A deduction reduces the amount of income that is subject to a tax. For example, if you are being taxed at a rate of 25%, a \$1.00 deduction will save 25 cents in taxes. A credit is a dollar-for-dollar reduction of your tax bill. In the case of a credit, one first determines what

income-producing properties. QRE expenditures are real property improvements, such as roof repairs, new plumbing, new HVAC systems, painting, carpentry, and masonry—anything that rehabilitates or restores the structure.

A property that produces income, a rental property, or the site of a business may qualify for both federal and Virginia historic tax credits (HTC) and thereby earn a combined 45% of QRE in federal and Virginia credits.

The next time you wonder how an owner can make money restoring an old building, the answer may well be historic tax credits.

There are several things to keep in mind when considering whether a building is a candidate for federal and Virginia historic tax credits. First, is the rehabilitation going to be significant enough to qualify? The amount spent must pass thresholds before HTC will be awarded. To earn federal HTC, the amount spent in QRE over a 24-month period must be equal to or greater than the owner's basis in the building. For Virginia HTC, the amount spent must be equal to 50% of the building's real estate tax-assessed value, unless the property will be owner-occupied; that is, used as a personal residence by the owner. In

this case, the amount of QRE required to earn Virginia HTC is only 25% of the assessed value.

Assuming the rehabilitation will be material enough to meet these thresholds, the next question is whether the building will be recognized as historic. To determine this, an owner may request a determination by submitting Part 1 of a Historic Tax Credit Application to the Virginia Department of Historic Resources. A structure may be recognized as historically

significant by itself or more often, as contributing to the historic character of a recognized historic district. Since it is much easier to achieve recognition as a contributing property, the creation of Certified Historic Districts is a critical first step in communities encouraging restoration of historic properties.

If the building is recognized as historic, the Virginia Department of Historic Resources must agree that the plans for the rehab conform to the U.S. Secretary of the Interior's Standards for Rehabilitation. This confirmation is requested by submitting Part 2 of the HTC application,

which outlines the rehabilitation plan, to the Virginia Department of Historic Resources. Part 2 is reviewed and either approved in total or returned to the applicant with recommendations for changes that will allow the plan to be approved. Keep in mind that the historic architects who review your Part 2 are trying to protect the character of your building and its historic materials so that its historic, as well as monetary worth is not devalued. Reviewers have often saved owners from making changes or damaging historic materials that would have greatly reduced the value of their property.

The final step in the process is completing the rehabilitation in accordance with the plan approved in Part 2 and then reporting the final amount of QRE incurred by submitting Part 3 of the HTC application.

A simple example will illustrate. Assume a couple purchases a qualified historic property for \$175,000 and plan to make it their home. Since it will not be an income-producing property, it cannot qualify for federal HTC. The structure has been neglected and will need a complete rehabilitation of the kitchen, baths, mechanical, electrical, as well as interior and exterior painting. The tax-assessed value of the property for the previous tax year was \$135,000, of which \$35,000 was attributed to the land, so the assessed value of the structure is \$100,000. If the couple spends \$65,000 in QRE renovating the home following a rehabilitation plan approved by the Virginia Department of Historic Resources, they will be entitled to \$16,250 ($\$65,000 \times 25\%$) in Virginia HTC.

If you would like to learn more about HTC, consider attending the CAAR-sponsored Introduction to Historic Tax Credits course to be taught by the authors of this article on October 24 from 9 to 11 a.m. at CAAR's offices. Please contact Marie at (434) 817-2399 or marie@caar.com to register. 🏠

Judd Bankert is a certified public accountant with the firm of Norris and Associates in Staunton. He holds a Virginia Class B contractor's license and specializes in historic tax credit and enterprise zone projects. Bankert can be reached at jbankert@norrispcas.com or by phone at (540) 248-1800.

Jennifer Hallock is the principal of Arcadia Preservation, LLC, a historic preservation consulting firm helping clients place properties and historic districts on the National Register of Historic Places and complete historic tax credit applications. Hallock can be reached at jhb@arcadia-preservation.com or by phone at (434) 293-7772.



one owes in taxes, and then reduces the amount one dollar for every dollar of tax credit available. We like deductions; we love credits.

Both the federal government and the Commonwealth of Virginia allow taxpayers to earn a number of different types of tax credits, one of which is a tax credit for rehabilitating historic property. In the case of the federal government, the owner of an income-producing historic property may earn tax credits equal to 20% of the amount of qualified rehabilitation expenditures (QRE) made. Virginia provides a similar credit awarded at the rate of 25% of the QRE, but does not limit the credit to

The next time you wonder how an owner can make money restoring an old building, **the answer may well be historic tax credits.**