

Introduction to the Virginia State and Federal Rehabilitation Income Tax Credit Program



presented to

Virginia Association of Assessing Officers

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Local Incentives for Preserving Historic Properties (abbreviated list)

Tax Exemption A program allowing real estate owned by religious, educational, and charitable organizations to be exempt from taxation.

Tax Abatement A program allowing property owners to be eligible for real estate tax adjustment if they have been unable to use their home or a building for more than 30 days due to damage by a fortuitous happening beyond the control of the owner

Rehabilitation Exemption Program A program encouraging both homeowners and businesses to rehabilitate their properties and in return not pay full taxes on those improvements

Land Use Assessment Program A program permitting localities to offer special assessments for agricultural and horticultural lands



*Capital detail, Oatlands Tea House
Dates to early 20th c*

State and Federal Incentives for Preserving Historic Properties

Rehabilitation Tax Credit Program A state and federal income tax program, created under the Historic Preservation Tax Incentives Program, designed to incentivize owners of historic properties to rehabilitate their structures. This program is administered by the National Park Service in partnership with state historic preservation offices.

Low Income Housing Tax Credit Program (LIHTC) A federal income tax program, created under the Tax Reform Act of 1986, designed to incentivize investment in affordable housing. Administered in partnership with the IRS.

New Markets Tax Credit Program (NMTC) Federal income tax programs, created under the Community Renewal Tax Act and established by Congress in 2000 to spur new investment into operating business and low-income communities. Administered by the Community Development Financial Institution within the Department of the Treasury.



*Oatlands Greenhouse, Built circa 1810
Phase 1 restoration 2001; Phase 2 will be 2011*

Overview of Renovation Tax Credit Program

A key driver

The tax credit program was created to *incentivize private investment* in historic structures. Since its inception in 1997, the program has encouraged \$1.5 billion investment in rehabilitation projects in the state of Virginia

In a 2006 survey, 93% of respondents stated that the *tax credit was a key driver in their decision* to undertake a substantial rehabilitation project.

In Virginia, the Rehabilitation Tax Credit is managed by the Virginia Department of Historic Resources, located in Richmond with regional offices located throughout the state.



*Fireplace mantel detail, before and after restoration
Restored in 2005 using the state rehabilitation tax credit*



What is the Rehabilitation Tax Credit?

Leveraged investment

The Rehabilitation Tax Credit is a reduction in income tax liability, based on a percentage of investment in the rehabilitation of historic buildings.

The state of Virginia offers a particularly strong program, consistently ranking nationally among the highest percentage of successful tax credit projects approved, *allowing owners to leverage their initial investment in a historic property.*

More than 30 states offer a state tax credit of up to 25% of moneys spent to renovate a historic building. As well, the federal government offers an additional 20%, *allowing owners to take up to 45% of qualified construction costs in a tax credit.*



Rock Hill Dairy, circa 1810
Loudoun County, Virginia
Restored using the state rehabilitation tax credit



Summary of Program Requirements

Federal

20% of qualified restoration expenses can be taken in a federal tax credit

Available for income producing properties only

The property must be held for five years to absorb the entire federal credit

If the tax credit can not be absorbed in year one, federal credits may be carried back one year and carried forward for 20 years



*Rock Hill, circa 1797
Bluemont, VA
National Register of Historic Places*

State

25% of qualified restoration expenses can be taken in a state tax credit

Available for both income producing and owner-occupied properties

No holding period; property may be transferred immediately after absorbing credit

If the tax credit can not be absorbed in year one, state credits may be carried forward ten years.



*Rock Hill, parlor detail
House and dependencies were restored with state credit*

How does the tax credit work?

Key Components

Tax credits are allocated only to the property owner. The LLC is an ideal vehicle for tax credit transfer among multiple owners.

State tax credits are available to all property owners. The Federal tax credit is reserved for income producing properties only.

Historic structures, which have undergone a ***Qualified Renovation***, are eligible for the tax credit.



*Sunny Side Farm corn cribs, circa 1820
Palmyra VA*



What is a Qualified Renovation?

Key Qualifiers

Qualifying properties must be listed as a contributing resource to a state or *National Historic District* or be listed on the *National Register of Historic Places*

The restoration work must meet *Secretary of Interior Standards*

The renovation must be substantial - the project must meet minimum spending thresholds - 25% of adjusted basis of the structure for the state credit for owner-occupied homes; and 100% of adjusted basis in the structures for income producing properties.



Oatlands Garden Library
Fireplace mantel detail, circa 1810
Oatlands Historic District

What is the National Register?

The National Register is the official list of the Nation's historic places worthy of preservation. This list is maintained by the National Park Service with help of state Historic Preservation offices.

National Register listing is honorific, recognizing the historic value of a property and encourages owners to continue good stewardship through the renovation tax credit program.

National Historic Districts and National Register listing are very separate from local zoning codes. There is no legal oversight of properties associated with the National Register.

Local historic districts, also called design overlay districts, can invoke local design review for a Board of Architectural Review, and are subject to local zoning code

When assessing a property, be aware of this distinction.



Downtown Leesburg Virginia. Much of downtown is both a National Historic District, eligible for the rehabilitation tax credit, and part of a historic district zoning overlay, and under the jurisdiction of local zoning law.

Charlottesville properties on the National Register – 60 individually listed properties (abbreviated list)

- Abell-Gleason House
- Anderson Brothers Book Store
- Armstrong Knitting Factory
- Barringer House
- Belmont
- Benjamin Tonsler House
- Carter Gilmer House
- Dabney-Thomson House
- Delevan Baptist Church
- Enderly
- The Farm
- Ficklin-Crawford Cottage
- Four Acres
- Gardner – Mays Cottage
- Hard Bargain
- Hotel Gleason
- House at Pireus
- J.S. Young & Company Office Building
- Jefferson School
- John Vowles House
- Johnson W Pitts House
- King Lumber Company
- King-Runkle House
- Locust Grove
- Marshall-Rucker Smith House
- Monroe Hill
- Montebello
- Morea
- Mount Zion Baptist Church
- Nicholas Lewis House
- Oak Lawn
- Patton Mansion
- Paxton Place
- Peyton-Ellington Building
- Peyton-Ellington Building
- Pireus Store
- Preston Court Apartments
- Recoleta
- Robert L. Updike House
- Judge William Robertson House
- Rock House
- Rose Cottage
- Stone field
- Sunny side
- Timberlake-Branham House
- Turner-LaRowe House
- White Cross-Huntley Hall
- William McGuffey School
- Woolen Mills Chapel
- Wyndhurst



Properties must be on the National Register or a contributing structure within a National Historic District in order to qualify for the renovation tax credit. The Paramount Theater was restored with generous community donations, which were leveraged using the rehabilitation tax credit

Historic Districts in Charlottesville and Albemarle

City of Charlottesville Historic Districts:

- Albemarle and Charlottesville Courthouse
- Fifeville and Tonsler Neighborhoods
- Martha Jefferson Historic District
- Oakhurst-Gildersleeve
- Ridge Street Historic District
- Rugby Road/ University Corner University of Virginia
- Wertland Street
- Woodlen Mills



Banister Shackleford House, located in the Fifeville-Tonsler neighborhood of downtown Charlottesville, restored using the renovation tax credit and tripling the assessed value

Albemarle County Historic Districts:

- Advance Mills
- Batesville
- Covesville HD
- Proffit HD
- Scottsville
- Southern Albemarle Rural HD
- Southwest Mountains Rural HD



Albemarle properties on the National Register

- Anchorage Farm/ North Garden
- Arrowhead at Red Hill
- Ashlawn Highland
- Bel Aire
- Bellair
- Birdwood
- Bentivar
- Blenheim
- Blue Ridge Farm
- Boyd Tavern
- Brooks Hall, UVa
- Bucks Mountain Church
- Carr's Hill
- Carrsbrook
- Casa Maria
- Castle Hill
- The Cedars
- Christ Episcopal Church in Glendower
- Clark Hall UVa
- Cliffside
- Clifton
- Cobham Park Estate
- Cocke's Mill and Miller's House
- Cove Presbyterian Church
- Crossroads Tavern
- D. S. Tavern
- East Belmont
- Earlysville Free Union Church
- Edgchill
- Edgemont
- Ednam House
- Emmanuel Episcopal Church
- Easmont
- Estes Farm
- Estouteville
- Farmington
- Faulkner House
- Gallison Hall
- Grace Episcopal Church
- Guthrie Hall
- Home Tract
- High Meadows
- Kendrige
- Lewis Mountain
- Limestone Farm
- Longwood
- Malvern
- Mechum River Farm
- Michie Tavern
- Midway
- Miller School
- Mirador
- Monticello
- Monticola
- Morven
- Mountain Grove
- Mount Fair
- Mount Ida
- Mount Wala
- Pantops Farm
- Piedmont at Greenwood
- Pine Knot
- Plain Dealing
- Plainview Farm
- Ramsay
- Red Hills
- Redlands
- Rotunda, UVa
- Seven oaks Farm
- Shack Mountain
- Spring Hill
- Sunny Bank
- Sunnyfileds
- UVA Observatory
- Wavetree Hall Farm
- West Cote
- William Walker House
- Wood burn
- Woodlands
- Woodstock Hall Tavern



*Shack Mountain, Albemarle County
National Register of Historic Places*

Secretary of Interior Standards

Standards of Restoration

The Secretary of Interior is responsible for establishment of standards governing preservation of historic properties.

“Rehabilitation is the process of returning a property to a state of utility through repair or alteration, **making efficient, contemporary use while preserving features** of the property which are significant to its historic, architectural, and cultural values.”



Furr Farm, Meat House chinking detail; eligible for the National Register for Historic Places; tax credit candidate

<http://www.nps.gov/hps/tps/tax/rhb/stand.htm>

Substantial Renovation

Minimum investment required

The tax credit program is designed for the *significantly deteriorated property*

To take advantage of the state credit, a minimum of 25% of the assessed value of the property improvements, the year before the start of the renovation, must be made. For the federal credit, the investment threshold is 100%.

Because of the spending requirements, the renovation tax credit allows for a substantial investment into a locality's building stock, increasing investment and local property assessments



*Southern Albemarle Rural Historic District
Fireplace mantel restored using renovation tax credit*

505 Ridge Street – Case Study

Qualified Renovation:

Contributing Structure to Ridge Street
National Historic District

Followed Secretary of Interior Standards
rebuilt front porch according to historic
photographs, all new systems discretely installed
into historic fabric, retained windows and doors;
architectural elements were carefully preserved
or replicated

Met minimum spending requirements; tax
assessment of the property was \$94,000
(improvements only) the year before the start of
the project; \$190,000 construction budget

Completed within the 24 month allowable
construction period for a **single phase project.**

Investment in distressed neighborhood with
exceptional housing stock. Encouraged other
owners to renovate



Financial Comparison

IRR without the tax credit

505 Ridge Street		Year 1	Year 2	Year 3
Purchase Price		(123,000)		
Construction			(194,000)	
Financing	7.5%	(9,225)	(14,550)	
Tax Credit	0			
Net Sales Price				522,500
IRR	35%	(132,225)	(208,550)	522,500

Financial Comparison

IRR with the tax credit

505 Ridge Street		Year 1	Year 2	Year 3
Purchase Price		(123,000)		
Construction			(194,000)	
Financing	7.5%	(9,225)	(14,550)	
Tax Credit	25%		48,750	
Net Sales Price				522,500
IRR	47%	(132,225)	(159,800)	522,500

505 Ridge Street – Case Study

Financial Impact on Real Estate Assessment

Spurred additional investment in the neighborhood

Increase 3 times assessed value, leveraged through rehabilitation tax credit

Purchase price before restoration 2003:
\$123,000

Sales Price after restoration 2004:
\$522,000

Current 2011 assessment: \$578,000



High impact areas in the state:

Virginia's Rehabilitation Tax Credit Program has been in effect since 1997 and is repeatedly one of the nation's top performing rehabilitation tax credit programs measured by number of projects completed and construction moneys invested.

Over the lifetime of the program, state tax credits have been awarded for 1,219 qualified projects, and these projects were responsible for a total expenditure of approximately \$1.5 billion, leveraging a value of \$355 million in state tax credit.

The Rehabilitation Tax Credit is a key driver in construction investment; and high impact areas are

Richmond, 48% of all projects representing \$780 million in construction investment

Northern Virginia, 15% of all projects, representing \$68 million construction investment

Hampton Roads, 13% of all projects, representing \$171 million of construction investment

Non-Metro areas, 10% of all projects, representing \$123 million of construction investment

And the Winners are ...

- Richmond MSA = 587
- Northern Virginia MSA = 181
- Hampton Roads MSA = 155
- Non-Metro Areas MSA = 117
- Roanoke MSA = 57
- Lynchburg MSA = 49
- Charlottesville MSA = 30
- Winchester MSA = 15
- Blacksburg-Christiansburg-Radford MSA = 9
- Danville MSA = 7
- Harrisonburg MSA = 3
- Bristol MSA = 0

Metropolitan Statistical Area (MSA) Regions and numbers of Rehabilitation Projects, 1997-2006

Intangible and Economic Benefits

Improved and affordable housing stock The rehabilitation tax credit has made adaptive reuse economically viable, allowing investment into factories, warehouse and other redundant buildings to be reused as apartments or condos, increasing the availability of housing in urban downtowns.

Urban revitalization and increased business activity The rehabilitation tax credit is one of the strongest tools for revitalization of inner cities, allowing owners to leverage their capital investments in their historic buildings, resulting in revitalization of historic downtowns and enhanced retail business activity

Efficient development Rehabilitation of historic building makes use of existing infrastructure, reducing need for tax payer dollars to construct new roads, utility lines, schools and fire stations. In addition, the cost of rehabilitation is often less than new construction, provided cost of demolition is included.

Conservation of resources Rehabilitation projects take advantage of the embodied energy in existing building stock, using fewer building materials and reducing pressure on landfills through reduced demolition volumes.

Enhanced local revenues Rehabilitation activity and the resulting increase in property value, enhances local revenue. In Virginia, state tax revenues increased by \$46 million in the first ten years of the program



Downtown Winchester Virginia. Much of downtown was revitalized using the historic renovation tax credit. Investment in historic building stock contributed to increased city revenues

Impact of Virginia's Rehabilitation Tax Credit

Historic Preservation Tax Incentives Program, administered by the NPS in partnership with State Historic Preservation Offices, *is the nation's most effective federal program to promote urban and rural revitalization and encourage private invest in historic building rehabilitation.* Preservation Tax Investives Program is vital as a means of leveraging private investment and increase local assessment values

Virginia's Historic Rehabilitation Tax Credit Program benefits Virginia communities in multiple ways. *Since its inception, the program has spurred private investment of approximately \$1.5 billion in the rehabilitation of more than 1,200 landmark buildings.* This investment in turn has generated an economic impact of nearly \$1.6 billion in Virginia and created more than 10,700 jobs and \$444 million in associated wages and salaries.



Rock Hill, built circa 1797 in Loudoun County, is on the National Register of Historic Places and was renovated using Virginia's Rehabilitation Tax Credit program.

Jane Covington

Education

BA Architectural History, University of Virginia,
Charlottesville VA

MS Historic Preservation, Columbia University,
New York, NY

MBA Darden School of Business, University of Virginia
Charlottesville Virginia

Publications

Zanzibar, A Plan for the Historic Stone Town, Aga Khan
Trust for Culture, 1996

Awards

APVA (Preservation Virginia) Fredrick Donovan Nichols
Award, 2007

Boards

Oatlands

Loudoun County Historic District Review Committee

Accreditation

LEED AP

Class A General Contractor's License No 2705 124 105A



*Seven Oaks, 1860 Keswick VA
Southwest Mountains Rural Historic District
Restored using the state rehabilitation tax credit*

Resources

Virginia Department of Historic Resources

Resource for state tax credit

VDHR reviews tax credit applications

www.dhr.virginia.gov/tax_credit

Virginia Department of Tax

Tax code governing VA state standards for rehabilitation

www.tax.virginia.gov

National Park Service

Resource for federal tax credit

Secretary of Interior Standards compliance

www.nps.gov/hps/tps

IRS

Tax code governing federal standards for rehabilitation

www.irs.gov

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*Johnston Chapel, circa 1857 Bloomfield VA
Ceiling by Lucien Powell, circa 1880
Unison Battlefield Historic District
Restored using the state rehabilitation tax credit*