

Frequently Asked Questions



What is a tax credit?

While not cash or a grant, tax credits essentially redirect income taxes owed to help pay the construction bills. For example, if your tax bill is \$10,000, a \$4,000 credit will reduce your tax bill to \$6,000. Credits are available from both the federal government and the State of Vermont.

Does my building qualify?

- Federal Rehabilitation Investment tax credits are available for eligible historic commercial buildings, meaning income-producing buildings, listed in the National Register of Historic Places. Many of Vermont's designated downtowns and villages are listed and pre-qualified for federal credits. If you are not sure if your building is listed or eligible for listing, contact [Caitlin Corkins](#).
- State Downtown & Village Center tax credits are available for eligible commercial buildings and non-profit owned buildings constructed before 1983 (sorry, no private residences, but rental properties are eligible) located within designated downtown or village centers. Visit smartgrowth.vermont.gov and enter the building's street address to determine if your building is located within a designated downtown or village center, or contact [Caitlin Corkins](#).

What work qualifies?

The credits support general rehabilitation, code compliance, and exterior improvements and may be combined with the federal program. Both programs to enhance the historic character of Vermont and use the Secretary of the Interior's [Standards for Rehabilitation](#) to assure changes are sensitive and appropriate. For specific advice on a project, staff is available to meet to discuss how the Standards apply to individual projects. To schedule a meeting, contact [Caitlin Corkins](#).

Are there limits on the amount of credits a project may receive?

The amount of the credit is based on total rehabilitation costs. The federal credit is 20% of eligible rehabilitation expenses. The state credit is between 10% and 50% of eligible rehabilitation expenses. However, there is an annual cap, and selection criteria are applied to ensure the credits are allocated to projects that provide the most public benefit. When taxpayers receive allocations under both programs, the return can be as high as 70% of eligible rehabilitation expenses.

For more information, please contact:

Caitlin Corkins: caitlin.corkins@vermont.gov or 802.828.3047
or visit: <http://accd.vermont.gov/historic-preservation/funding/tax-credits>

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How much money do I have to spend?

Under the federal program, the project must be a “substantial rehabilitation” to qualify for the credit. The Internal Revenue Service defines “substantial” as exceeding the owner’s adjusted basis in the building, or \$5,000, whichever is greater. The adjusted basis is generally defined as the purchase price, minus the value of the land, minus any depreciation already claimed, plus the value of any earlier capital improvements.

Example:

Purchase Price = \$100,000

Land Value = \$20,000

Adjusted Basis = \$80,000

The state program only requires that the rehabilitation expenses exceed \$5,000.

How long do I have to complete the rehabilitation?

The rehabilitation does not have to be completed within any particular period of time. However, the “substantial rehabilitation” test (for the federal program) must be met within a consecutive 24-month period that ends some time during the year in which the credits are claimed. Essentially, this means that for most projects the greatest expenditures must be made within a two-year period. For phased projects, the time limit is extended to 60 months.

The state program does not specify a time period, but projects must be finished within five years from the date of allocation.

When can I claim the credit?

The credit is claimed in the year the rehabilitation is completed. If you cannot use the full amount of the credit in the first year, it can be carried forward. The federal credit may be carried forward for up to twenty years, and back for one year. The state credit may be carried forward for up to nine years after the initial claim is made. There is no carry-back for the state credit. State credits may also be incrementally claimed upon the completion of an identifiable phase (e.g. elevator or sprinkler installed) of a larger project.

Can I sell my building after I complete the rehabilitation?

Under the federal program, if the building is sold, or if it loses its income-producing status within five years after the project is complete, the tax credit will be recaptured. The amount of recapture is reduced by 20% in each succeeding year after the year the rehabilitation is completed. In other words, if the building is sold after one year, 80% of credit will be recaptured, if it is sold after two years, 60% is recaptured, and so forth. Under the state program there is no ownership requirement following completion of the project.

Can I sell my tax credit?

It depends. Federal credits may be “sold” through the use of a limited partnership; however, these syndicated transactions are quite complicated and must be carefully considered. The rule of thumb is that the new investment must exceed \$1 million to justify the transactional costs.

The state credit may be sold to Vermont-based banks or insurance companies.

How can a nonprofit organization take advantage of the tax credits?

By taking on investors in a limited partnership arrangement (and maintaining a minority ownership interest as a general partner), many Vermont nonprofit organizations have used the tax credits – particularly to build affordable housing.

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How do I apply for the credit?

The process to apply for the federal and state credits are different.

- **Directions and Application for Federal Tax Credits:** While this is a federal application, completed applications are submitted to the Division for Historic Preservation. Applications may be submitted at any time and are non-competitive (meaning all applicants who meet the program requirements will receive tax credits). The Division reviews the application and makes a recommendation to the federal government. The federal government makes the final decision within 30 days.
- **Directions and Application for State Tax Credits:** State tax credit applications are submitted to the Department of Housing and Community Development annually on July 1. Allocations are competitively awarded (meaning not all applicants who meet the program requirements will receive tax credits). Applications are reviewed by the Vermont Downtown Board and decisions are made within 45 days.

How do I claim the credit?

The federal credit is claimed on IRS Form 3468. The IRS requires information related to the substantial rehabilitation test and a copy of the certification of the completed work by the Secretary of the Interior.

To claim the state credit, the taxpayer must attach a copy of the tax credit certificate to their tax return.

Where can I find the regulations governing these programs?

The federal regulations governing the National Park Service's review of tax credit applications are found at [36 CFR 67](#). The regulations governing the use of the tax credit itself are found here, [Internal Revenue Code, Section 47](#).

The Vermont legislation authorizing the state tax credit is found at [32 V.S.A. § 5930aa-ff](#).



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