

## I. OVERVIEW

The Vermont Legislature created three tax credits described in these guidelines to support redevelopment of older and historic properties within Designated Downtown and Designated Village Center districts. A list of designated communities is available at the Vermont Downtown Program's website: <http://www.historicvermont.org/programs/downtown.html>

The tax credits are targeted at general rehabilitation work, code compliance work, and exterior improvements to the façade of buildings. It is expected that any changes to buildings will respect the historic character of the Designated Downtown or Village Center district.

Applicants may request the tax credit allocation in the form of a bank credit certificate that a bank may accept in return for cash, or for adjustments to the rate or term of the applicant's mortgage or loan related to an ownership or leasehold interest in the qualified building.

## II. DESCRIPTION OF THE CREDITS

- **10% Historic Rehabilitation Tax Credit (add-on or piggy back credit for projects approved for the 20% Federal Rehabilitation Tax Credit).** Projects eligible for the 20% federal credit receive an additional 10% Vermont income tax credit for all building improvements, unlike the following state credits, which only target certain rehabilitation costs. In effect, the combined federal-state credits reduce the entire rehabilitation cost by 30%. Maximum credit is \$50,000. Design standards apply to this program; refer to section VI for details.
- **25% Façade Improvement Tax Credit.** A state income tax credit is available to cover 25% of eligible façade improvements, with a maximum allocation amount of \$25,000. Projects eligible for the 10% Historic Rehabilitation Credit above are ineligible for this program. Design standards apply to this program; refer to section VI for details.
- **50% Code Improvement Tax Credit.** This credit covers code-related work including:
  - Elevators and sprinklers, as required to bring the building into compliance with access and life safety codes; tax credit allocation up to \$50,000 for elevator work and up to \$50,000 for sprinkler systems.
  - Platform lifts, as required to bring the building into compliance with access codes; tax credit allocation up to \$12,000.
  - Other code work required to meet ADA, electrical or plumbing codes, the abatement of hazardous substances like lead paint and asbestos, and the redevelopment of a contaminated property under a plan approved by the Secretary of Natural Resources; tax credit allocation up to \$25,000 for the combined costs of these qualified improvements.Projects must be inspected for code compliance; refer to section V for details.

## III. STANDARD PROVISIONS

- **Eligible Building:** Tax credits are available to owners or lessees of a building built prior to 1983, located within a Designated Downtown or Village Center, and not used solely as a single-family residence. Federal, state and local governments, and religious entities operating with a primarily religious purpose, are not eligible for tax credits.
- **Minimum Expenditure:** Total project costs must exceed \$5,000 for any of the three credits.
- **Application Time Frames:** Applicants are encouraged to apply before work begins; however, applicants may apply for credits within one year of project completion. Please note that post-construction applications found to harm or detract from the historic features of the building or district will be ineligible (see Section VI below for guidance in planning a project that meets the design standards).

- **Combining Credits:** The 50% code improvement credit may be used with either the 10% rehabilitation or 25% façade improvement credit on the same project as long as the owner is not claiming credits more than once on any eligible expenditure (no double dipping). The 10% rehabilitation and 25% façade improvement credits cannot be used on the same project. Applicants intending to use more than one credit program on the same project should apply for all credit allocations at the same time.
- **Amount of State Credits Available:** The Downtown Board is authorized to allocate a total of \$1.5 M per state fiscal year to projects in four programs: three tax credits for Designated Downtowns and Village Centers and the sales tax reallocation for building materials that is available in Designated Downtowns only. Requests for credits are allocated on a first-come, first-served basis.
- **Maximum Amount:** Combined projects in any one municipality may not receive more than \$450,000 in tax benefits per fiscal year.
- **Limitations:** Buildings receiving a tax credit allocation(s) are ineligible for additional tax credits for two years from the date of the allocation. The sales tax reallocation program that is available to Designated Downtowns may not be used with any of the tax credits on the same project.
- **Design Standards:** Projects must be designed to meet the design standards in Section VI. Applicants will be notified if their project does not meet the standards and may modify their project to meet the standards and re-apply at another time.

#### IV. USING THE CREDITS

- **Bank Credit Certificate:** An applicant may request the credit allocation in the form of a bank credit certificate that a bank may accept in return for cash, or for adjustments to the rate or term of the applicant's mortgage or loan related to an ownership or leasehold interest in the qualified building.
- If, at the time of application, the applicant knows which bank will be accepting the bank credit certificate, that information should be included in the application form. Applicants accepting tax credit allocations may subsequently convert the tax credit into a bank credit certificate; however that request must be made in writing to the Downtown Board and must indicate the unused credit balance. The dollar amount of the converted bank credit certificate is subject to the Tax Department's review and certification.
- **Submitting the Credit with the State Tax Return:** A tax credit allocation may be used in the first tax year in which the project is complete. A copy of the tax credit allocation certificate must be submitted with the first tax return and subsequent returns on which the credit is claimed. Any unused credit may be carried forward nine years.
- **Expiration of the Credits:** Applicants forfeit their allocation if they do not complete the project and claim the tax credit within 5 years from the date of the allocation.
- **Recapture:** A recapture penalty may be assessed within a five-year period after completion of construction for inappropriate work or fraud, or if in the case of the 10% historic credit, the property loses its federal "certified rehabilitation" status. The applicant remains responsible for this penalty even if the credit is sold to a bank via the bank credit certificate or if the property is sold. If the property is sold, applicants should ensure that subsequent owners understand this provision, and may want to seek legal advice. In the event of recapture, the total amount of the allocated tax credit shall be recaptured or disallowed.

## V. APPLICATION INFORMATION

- **Deadlines:** Applications are due in the offices of the Vermont Downtown program by 4:30 P.M. the first Monday of any month. The Vermont Downtown Board generally meets the 4th Monday of each month to review applications and make tax credit allocations. The Board will not consider incomplete applications, e.g., any missing required attachments or projects determined not to meet the design standards discussed in section IV.
- **Selection Criteria:** When there is competition among applicants for tax credit allocations, the board will rank projects using the Competitive Criteria on page twelve. Applicants may contact [Chris.Cochran@state.vt.us](mailto:Chris.Cochran@state.vt.us) or at 802-828-3047 in advance of an upcoming round to see if competition is likely. If there is competition, the applicant must include a written response to the criteria with their application.
- **Attachments for the 50% Code Credits:** Applicants must provide evidence that they have met on site with a building inspector from the Division of Fire Safety at the Department of Public Safety ( <http://www.dps.state.vt.us/fire/> ) or, where authorized, a municipal fire marshal or building inspector to discuss the specific code requirements of the project. Typically this meeting is documented in a *Plan Review* letter confirming the meeting from the state or municipal code official and identifying the scope of work required to bring the building into code compliance. This letter is required to assure that the work is required to bring the building in compliance with codes and that it receives a final inspection from a code official. Please note that local code compliance costs that exceed state requirements, e.g., energy efficiency requirements, are not eligible for state tax credits.
- **Attachments Required for 25% Façade Credits:** Projects must meet the design standards described in section VI. Applicants must include good, clear photographs that show all elevations of the building and its setting on the street **before** construction. Photographs should be labeled with the property address and the view (e.g., 122 Main, SW) and placed in a separate envelope. Digital photographs may be e-mailed to [Chris.Cochran@state.vt.us](mailto:Chris.Cochran@state.vt.us) with the property address and view as the name of the file, (e.g., 122 Main Street, SW.jpg). Applicants must also include plans sufficiently detailed to show existing wall configurations and anticipated changes, e.g., elevations or floor plans. Please note that project plans are photocopied and shared with the board and therefore must be submitted on letter (8.5 x 11) or legal (8.5 x 15) sized paper only.
- **Post-Construction Applications:** Applicants should be aware that the tax credits are to enhance the historic character of Vermont's Designated Downtowns and Village Centers. While applicants may apply after project completion without state consultation, all rehabilitation projects must comply with the design standards as determined by the Downtown Program staff to qualify for the benefits. Applicants who apply without consultation proceed at their own risk. Projects that use synthetic siding, make incompatible window replacements, or destroy historic features are ineligible for these incentives. See Design Standards and Applicant Assistance (Section IV) for additional information. Also note that permit reviews by municipalities or local design review boards do not automatically qualify projects for the state tax credits.
- **Application Submission:** Make sure the application forms are complete, signed and include all necessary attachments. Applications may be submitted electronically, but an original signature page is required by the deadline (a scanned signature page is not acceptable). Failure to submit required information or attachments could result in the delay of the application the review process. Faxed applications and signature pages are not accepted.

- **Send Applications and the Required Attachments to:**  
Department of Housing and Community Affairs  
Vermont Downtown Program, Division for Historic Preservation  
National Life Building, Drawer 20  
Montpelier, VT 05620  
ATTN: Chris Cochran

## VI. DESIGN STANDARDS AND APPLICANT ASSISTANCE

**Changes to Historic Buildings:** The Vermont Downtown Board assumes that some alteration of older or historic buildings will occur to provide for an efficient contemporary use. However, the project must not damage, destroy, or cover materials or features that help define the building's historic character. **Changes found to harm or detract from the historic character of the district or building may disqualify the entire project from the tax credits**, so applicants are strongly encouraged to contact the Downtown Program during the project planning phase. It is expected that any changes to buildings will respect the historic character of the Designated Downtown or Village Center district.

The Secretary of the Interior's Standards for Rehabilitation and special considerations for the 25% Façade Credit (below) not only provide guidance to applicants, but also serve as the tool to evaluate applications for overall design compatibility for the building and its surroundings. The underlying concern expressed in the Standards is the preservation of historic materials and features of the building in the process of rehabilitation. The Standards apply with equal force to both interior and exterior work, and the staff from the Downtown Program review the entire rehabilitation (including any attached, adjacent, or related new construction), not just the eligible portion of work.

**Getting Help:** The guidance found in the Standards is general in nature because no one building or rehabilitation is alike. For specific advice on proposed changes, staff from the Downtown Program is available to meet on site and discuss how the Standards would be applied to individual projects. Applicants are encouraged to consult with program staff prior to construction to avoid incompatible work. To schedule a meeting, contact Chris.Cochran@state.vt.us or 802-828-3047.

Additional information about the Standards may be found at

<http://www.cr.nps.gov/hps/tps/tax/incentives/>

In most instances, code compliance work can be done without removing or damaging historic interior or exterior features or materials. Depending on your community, the Department of Public Safety, local Fire Marshal and/or Building Inspector, and the Downtown Program staff are available to assist owners in planning appropriate solutions to common life safety and accessibility issues in historic buildings. Scheduling a joint meeting with state or local code officials and Downtown Program staff is the best way for applicants to learn more about design options that protect both life and safety and a building's historic features.

## **SECRETARY OF THE INTERIOR'S STANDARDS FOR REHABILITATION**

The Standards are to be applied to specific rehabilitation projects in a reasonable manner, taking into consideration economic and technical feasibility. The Standards apply to historic buildings of all materials, types, and sizes. They apply to both 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.

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 property shall be preserved.
6. Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall 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 such 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.

## **SPECIAL CONSIDERATIONS FOR 25% FAÇADE CREDIT**

**Storefront Alterations:** Historic storefronts should be retained and repaired. Where historic storefronts were prior altered beyond recognition or missing, new storefronts should be contemporary, but compatible. Justify changes to storefronts and provide photographs of the areas to be altered. Information should be provided on when the existing storefront was constructed; on what the existing physical conditions are, and if a historical treatment is planned, on what evidence the proposed new storefront designs are based. Storefront changes on the ground floor that alter the character of the structure and its relationship with the street or that causes destruction of significant historic material may result in an ineligible project.

**New Windows:** Applicants are encouraged to retain and repair historic windows. If replacement is planned, indicate the condition of existing windows (sash, glazing, muntins, etc.) and the reasons for replacement. Photographs of the window must be provided as evidence of severe deterioration. Where replacement of existing windows appears justified by supporting documentation and where the windows are an integral part of the building's design and character, replacement sash should match the original in material, size, pane configuration and size, color, and trim details. The installation of vinyl replacement windows disqualify applicants from tax credits.

**Interior Partitions and Removing Interior Plaster.** When storefront alterations affect interior partitions, indicate existing condition of the interior area to be affected and document with photographs. Show which walls are to be removed or altered. Note whether trim elements will be affected. Owners are strongly discouraged from changing floor plans unnecessarily and from exposing masonry surfaces unless this condition is supported by historical evidence.

**Exterior Masonry Cleaning:** Owners are strongly encouraged to clean masonry only when necessary to halt deterioration or to remove graffiti and stains. If cleaning is necessary, it must be done using the gentlest means possible without damaging the surface of the masonry and in accordance with the guidance found in Preservation Brief 1, The Cleaning and Waterproof Coating of Masonry Buildings <http://www.cr.nps.gov/hps/TPS/briefs/presbhom.htm>. Specifications and test cleaning samples should be carefully reviewed before proceeding with this work.

**Exterior Masonry Repair:** Owners are encouraged to repoint only those portions of the masonry that require repair. If determined necessary, indicate deteriorated areas that require repair and provide evidence that repointing mortar will match the original in composition (i.e., ratio of lime, cement, sand and any additives, color, texture, and tooling. Mortars with high percentage of Portland cement are not acceptable as they are too hard for many old bricks and cause the bricks to crumble or spall). Specifications and repointing samples should be reviewed and approved by before proceeding with this work.

**New Additions and New Construction:** New exterior additions may alter the appearance and form of historic structures and may cause denial of credits. Similarly, new construction, including site work, may affect the relationship of a structure to its site, change the historic landscape, or otherwise damage the historic character of the property. Owners are strongly encouraged to obtain approval from the Downtown Program before undertaking projects involving new construction on buildings where state tax credits are planned.

## VII. OTHER HELPFUL PROGRAMS

**Federal Rehabilitation Tax Credits:** In addition to the state tax credits, there is an unlimited 20% federal tax credit that can be combined with the state credit to maximize the return on the rehabilitation investment. In the past ten years, nearly 200 Vermont projects qualified for over \$20 million in federal tax credits. Projects range from small bed and breakfasts and rental apartments to multi-million dollar downtown redevelopments.

To qualify for the federal credit, the building must be income producing (not a private residence), must be historic (listed or eligible for listing in the National Register of Historic

Places), and the new investment must exceed the building's adjusted basis. In addition, changes must comply with the Secretary of the Interior's Standards as determined by the National Park Service.

For additional information about this program and to learn if your project qualifies, contact Chris.Cochran@state.vt.us or at 802-828-3047.

Full program details can be found at

<http://www.historicvermont.org/financial/federal.html>

**Federal Incentives for Improving Accessibility:** There are two tax incentives available to businesses to help cover the cost of making access improvements. The first is a tax credit that may be use for building adaptations, equipment acquisitions, and services such as sign language interpreters. The second is a tax deduction that can be used for building or transportation adaptations.

Full program details can be found at

<http://www.ada.gov/taxpack.htm>

#### **Fee Rebate from Department of Public Safety**

Building owners or lessees who install qualified sprinkler systems in buildings that have been awarded downtown tax credit are eligible for a rebate of up to \$2,000 on construction permit fees. The fees for the entire construction project are eligible. To qualify for the rebate:

- The sprinkler system must be a complete automatic fire sprinkler system installed according to Department of Public Safety rules;
- The sprinkler system must receive Department of Public Safety final acceptance testing and approval;
- The system must be installed in a building located within a designated downtown district (Village Centers are ineligible) and the project must have received a tax credit by the Downtown Board; and
- The applicant must provide a letter to the Department of Public Safety stating that the building is located within a designated downtown.

If in any year, applications exceed \$40,000, the Department of Public Safety shall grant rebates according to the date the building was awarded a downtown tax credit, with the earlier date receiving priority. To apply for a rebate, or for more information, contact either the manager of your regional Department of Public Safety, Fire Safety Division office or the chief fire prevention officer in Montpelier.

**APPLICATION FOR DOWNTOWN AND VILLAGE CENTER TAX CREDITS**

Complete the boxes below and transfer totals from the budget worksheet. If approved by the Downtown Board, a copy of this application and worksheet will be provided to the Vermont Tax Department.

**(Please Print or Type)**

NAME OF OWNER/LESSOR		LAST 4 DIGITS OF TAXPAYER ID
ADDRESS OF OWNER /LESSOR:		
BUILDING ADDRESS:		
DAYTIME PHONE & E-MAIL		
CONTACT NAME & PHONE & E-MAIL IF DIFFERENT FROM ABOVE:		
ORIGINAL DATE OF BUILDING CONSTRUCTION (MUST BE BUILT PRE-1983 TO BE ELIGIBLE):		
CONSTRUCTION START DATE:	COMPLETION DATE:	
TOTAL PROJECT COSTS:	TOTAL QUALIFIED COSTS (FROM WORKSHEET):	
AMOUNT OF 10% HISTORIC CREDIT REQUESTED (FROM WORKSHEET):	AMOUNT OF 25% FACADE CREDIT REQUESTED (FROM WORKSHEET):	
AMOUNT OF 50% CODE CREDIT REQUESTED (FROM WORKSHEET)	TOTAL CREDIT REQUESTED (FROM WORKSHEET)	

**BANK CREDIT CERTIFICATE INFORMATION:** The state tax credits can be assigned to your bank in exchange for cash, points off your loan or more favorable loan terms. If you would like credits issued as a Bank Credit Certificate, please complete the section below.

BANK NAME:
BANK ADDRESS:
BANK CONTACT:
CONTACT PHONE & E-MAIL

**ATTACHMENT CHECK LIST:**

- Code Credits Only – Letter from Code Official (see section V for details)
- Façade Credits Only – Photos and Plans (see section V for details)
- YES  NO -- Would you have planned this rehabilitation without this investment incentive?



**SIGNATURE PAGE:** Check the boxes indicating that you understand the following provisions.

- Qualified Project:** I certify that I am a qualified applicant and that building was built prior to 1983, is located within a Designated Downtown or Village Center, and is not used solely as a single-family residence.
- Project Inspection and Recapture:** I understand that the Vermont Downtown Board reserves the right to make inspections at any time up to five years after the completion of the work and to recapture or disallow tax credits and or reclaim from the applicant the value of the bank certificate if it is determined that work was not undertaken as presented in the application form and supporting documentation of receipt of this allocation or if the applicant undertook further alterations inconsistent with the Secretary of the Interior’s Standards for Rehabilitation or if the property loses its federal “certified rehabilitation” status. I understand that I am responsible for this penalty even if the credit is sold to a bank via the bank credit certificate or if the property is sold.
- Earning the credit:** I understand the tax credit tax credit allocation may be used in the first tax year in which the project is complete. I understand that if the actual qualified rehabilitation expenditures are less than that stated in application; the tax credit is accordingly adjusted to that lesser amount.
- Use of Application Materials:** I understand that all application materials, including photographs, become the property of the Downtown Program and may be used or reproduced without permission.
- Credit Expiration:** I understand that the credits shall be forfeited if the project is not complete and the credits have not been claimed within 5 years from the date of the allocation.
- Certification:** Under penalties of perjury, I declare that the information I have provided, to the best of my knowledge and belief, are true, correct, and complete and that I own or lease the property described in this application.

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Print Name

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Applicant Signature Date

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**Downtown Program Use Only**

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Downtown Board Authorized Signature Award Date

10% Tax Credit Allocation: \_\_\_\_\_

25% Tax Credit Allocation: \_\_\_\_\_

50% Tax Credit Allocation: \_\_\_\_\_

**Total Credits Allocated:** \_\_\_\_\_

Total Tax Credit Assigned as  Tax Credit  Bank Credit Certificate

TO: \_\_\_\_\_

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**Examples:**

**A sample project combining the 50% Code Improvement and 10% Historic Rehabilitation Credits.**

The total qualified expenditures are \$500,000 including \$60,000 for the installation of a sprinkler system and \$120,000 for an elevator. Total project cost is \$510,000, but \$10,000 of these costs is for landscaping and parking lot improvements and is not eligible for state or federal benefits.

Of the \$180,000 invested in the sprinkler and elevator, only \$160,000 is qualified for the 50% Code Improvement Credit (50% of the 60,000 sprinkler system is \$30,000; 50% of the 120,000 elevator is \$60,000, but the maximum credit is \$50,000).

The remaining \$340,000 in qualified expenditures is eligible for the 10% historic tax credit (\$500,000 minus \$160,000 for qualified sprinkler/elevator expenditures, for which the owner will use the 50% credit), a \$34,000 credit allocation.

The total net credit on \$500,000 qualified expenditures would be:

- \$100,000 federal RITC (20% of \$500,000 total qualified expenditures)
- \$30,000 state credit (50% up to \$50,000 max for a sprinkler system)
- \$50,000 state credit (50% up to 50,000 max for an elevator)
- \$34,000 state credit (10% of total project cost less qualified cost of sprinkler/elevator)

\$214,000 in combined state and federal total credits

**A sample project combining the 25% Façade Credit with a 50% Code Improvement Credit**

Total qualified expenditures are \$120,000 with a total project cost of \$150,000. \$30,000 in costs are ineligible for tax credits due to caps in total allocations and the fact that the state program provides incentives for certain types of rehabilitation work, unlike the federal program, which includes all rehabilitation costs—roofs, HVAC systems, foundations, etc.

\$20,000 is the estimated cost for the installation of a sprinkler system, \$60,000 for code improvements -- ADA bathrooms, asbestos abatement, and wiring upgrades, and \$55,000 for restoration of the storefront, 2<sup>nd</sup> and 3<sup>rd</sup> floor windows, and cornice. \$15,000 is budgeted for a new roof, but this is an ineligible cost as it is neither a code or façade improvement

- 10,000 state tax credit (50% up to \$50,000 max for a sprinkler system)
- 25,000 state tax credit (50% up to \$25,000 max for code improvements)
- 25,000 state tax credit (25% up to \$25,000 max for facade improvements)

60,000 in combined state credits

## **COMPETITIVE CRITERIA For Tax Credit and Sales Tax Re-allocations**

**Statement of Purpose:** The awards given by the Vermont Downtown Development Board are intended to support local revitalization efforts by preserving and enhancing historic commercial areas through compatible development, and supporting the variety of diverse uses that define their quality of life. The goals include the encouragement of private and public investment in small businesses, transportation systems, infrastructure, housing, historic resources, and human services.

Consistent with the above statement of purpose, the Board will use the following weighted criteria for tax credits and sales tax re-allocations when applications for competitive based financial benefits exceed the funds available:

### **30% Impact and community benefit**

- Degree to which project addresses a demonstrated need in the downtown/village, and will have a significant and long lasting impact on the community
- Degree to which the work will make the building accessible or place vacant/underused floors into service
- Urgency of work required; is the building threatened or unsafe?
- Uniqueness or significance of the building (listed or eligible for the National Register?)

### **25% Compatibility**

- Extent to which the project best preserves the features and character of the community, including especially the downtown/village historic resources and streetscape, in terms of materials, features, size, scale, proportion and massing of buildings

### **10% Readiness**

- Financing and permits are in place
- Project will be complete within 18 months

### **10% Economic Need**

- Vacancy rate in downtown/village district
- Unemployment rate for the labor market area in which the municipality is located

### **25% Financial**

- Number of Vermont tax payers investing in the project.
- Efforts applicant has made to obtain funding from other sources