

PROJECT MEASURING PERIOD DOCUMENT

*The Real Meaning of the 24-Month Measuring Period, and
Why It Is Okay If Your Project Takes More Than Two Years to Complete*

THE BASIC PRINCIPLE:

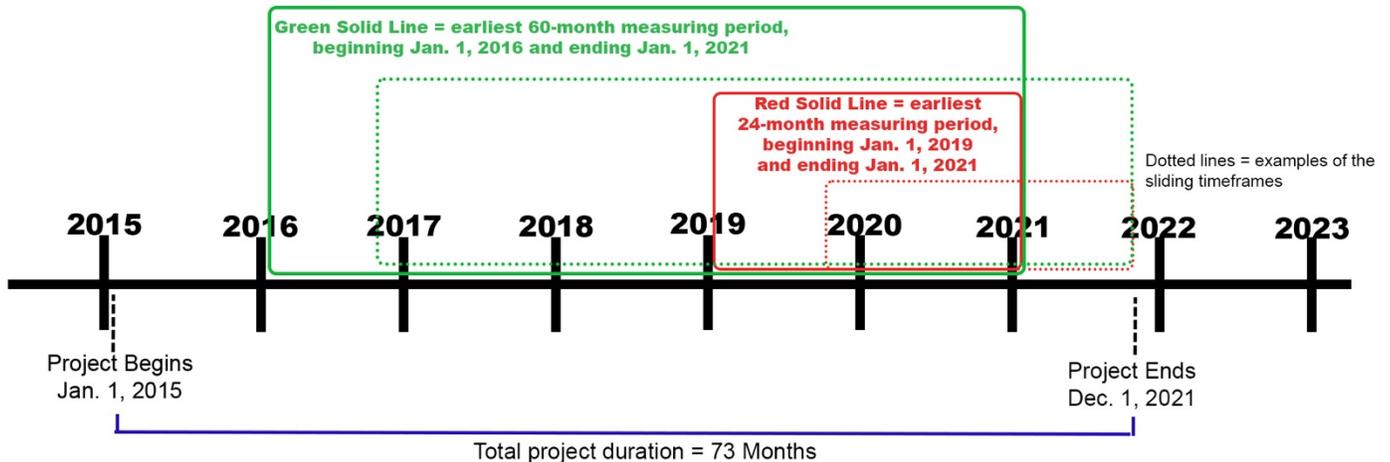
The measuring period (24 months or 60 months) is used to determine whether the substantial rehabilitation test (or, for purposes of the State credit, the material rehabilitation test) has been met. It does not limit the time in which the project must be completed or the time during which eligible expenditures can be incurred. The measuring period must end in the same calendar year the project is completed, but it doesn't have to end in the same month the project is completed. This means you can choose whatever measuring period makes your numbers work, so long as it ends the same year the building is placed in service. It also means that beginning your project does not "start the clock" in most cases where the total expenditures will significantly exceed the purchase price of the building.

THE PRINCIPLE IS PRETTY EASY TO APPLY FOR THE STATE CREDIT:

The State material rehabilitation test requires you to spend a given percentage of the building's assessed value on the rehabilitation during a specific window of time. For owner-occupied homes, you must spend at least 25%. For all other projects, you must spend at least 50%. The assessment is determined as of the year before the project begins. So in every case, you know at the start of the project how much you will have to spend on the rehabilitation in order to meet the material rehabilitation test. All you must do is make sure you spend that amount within the 24- or 60-month measuring period.

A hypothetical will make it clear:

Let's say that on January 1st, 2015 you purchase a commercial building that was assessed in 2014 for \$100,000 and begin your rehabilitation right away. You complete the rehabilitation on December 1st, 2021. You need to have a consecutive 24-month period, ending some time in 2021, during which you spent at least \$50,000 (50% of the 2014 assessed value). If the project was Phased, you need to have a consecutive 60-month period, ending sometime in 2021, during which you spend at least \$50,000 (50% of the 2014 assessed value). The graphic below shows this scenario.



IT IS MORE COMPLICATED FOR THE FEDERAL PROGRAM

The principle works the same way for the Federal Program, but here the substantial rehabilitation test is determined using the owner's basis in the building, not the assessed value. Because capital improvements must be added to basis, the amount you must spend to satisfy the test is a moving target.

Let's discuss a similar hypothetical to what was presented above, using the standard 24-month measuring period. In this case you bought a building in January of 2016 for \$100,000 and immediately began work on your project. By August 2016 you have spent \$20,000 so your basis is now \$120,000. By December 2016 you have spent an additional \$60,000, bringing your basis to \$180,000. You continue to work on the project, and by September of 2018 you have spent a total of \$150,000. You complete the last little bit over the next three months, and place the building in service on December 31, 2018 with total expenditures of \$160,000. See the chart below.

Month	Year	Eligible expenditures to date	Basis
January	2016	(Purchase)	\$100,000
August	2016	\$20,000	\$120,000
December	2016	\$80,000	\$180,000
September	2018	\$150,000	\$250,000
December	2018	\$160,000	\$260,000

Now, you cannot use a 24-month measuring period of December 2016 through December 2018, because your eligible expenditures during that period (\$80,000) are not greater than your basis at the beginning of the period (\$180,000). You can, however, use September 2016 through September 2018. Your eligible expenditures during that period are \$130,000, which exceeds your basis of \$120,000 at the beginning of the period.

BUT REMEMBER, ONCE YOU HAVE MET THE TEST, YOU DON'T HAVE TO WORRY ABOUT IT ANY MORE

The part most people worry about is whether the expenditures incurred OUTSIDE the measuring period are still eligible for the credit. The answer is **YES**. As long as the substantial/material rehabilitation tests are met as outlined above for each Program, you will claim the credit on the entire project's eligible expenditures, both before and after the test period.