

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.