

COMMONWEALTH OF VIRGINIA – DEPARTMENT OF HISTORIC RESOURCES
VIRGINIA HISTORIC REHABILITATION TAX CREDIT PROGRAM
PROJECT PHASING & PHASED PROJECTS

What is a Phase?

A phase is basically a group of tasks completed within a certain period of time.

Phases can be organized and scheduled however an owner wishes.

Many owners, for example, elect to do a phase a year so that credit can be claimed for each tax year.

For complex or long-term projects, a five-year (60-month) measuring period may be needed. In this case, the project is referred to as being “Phased.” Phasing a project allows the owner to claim credits at the end of each Phase. This is true for both the State and Federal Programs. When an owner elects to conduct a project in Phases, that allows 60 months to reach the substantial/material rehabilitation test (i.e., cost threshold), rather than the usual 24-month substantial/material rehabilitation test window for un-Phased projects.

For some projects, it may be a good idea to submit a Phasing Plan at the start of the project, even if there is a possibility the project can be completed in a shorter timeframe. This will “hold open” the 60-month time period to meet the substantial/material rehabilitation tests. Please note that Phasing does not obligate the taxpayer to take 60 months to complete the project, nor does it require an applicant to claim their tax credits in Phases. Even if an owner Phases their project, they can still elect to claim their credits with a single, Part 3 application submitted at the end of the project.

Please note that applicants pursuing the Federal Program must elect to Phase their project and submit a Phasing Plan **before beginning work** on their rehabilitation. The State Program is more flexible, and in many cases, it is possible for a property owner to Phase their project after work has begun.

IMPORTANT NOTE: For the State Program, the credits issued for each Phase may be carried forward for ten years from the completion year of that Phase. The ten-year carry-forward clock is effective for each Phase/Part 3 that is submitted, based on the completion date identified in that, specific Part 3 application submission.

HOW TO START A PHASED PROJECT/REQUEST PHASING:

An applicant who wishes to Phase their project must submit a Phasing Plan that organizes their work into distinct and understandable time periods (Phases) during which specific work will be done.

The Phasing Plan

The Phasing Plan is a brief, bulleted list of the work to be done for each Phase on one or two pages. The detailed description of the work should be saved for the Part 2 application and subsequent Amendments. Describe the work for each Phase in as much detail as possible in the Part 2 application. Work for Phases in the far future can be described in broad brush strokes and then clarified in future Continuation/Amendment Forms submitted for approval before that work is undertaken. *A Sample Phasing Plan can be found on Page 3 of this document.*

A Phasing Plan must, at a minimum, contain the following information:

- 1) Estimated beginning/estimated end dates for each Phase.
NOTE: *The individual Phase timelines should not overlap.*
- 2) The specific work or activities to be included in each Phase.
- 3) The estimated total cost of each Phase.

NOTE: A Phasing Plan is not a list of every individual task being done in the project. It is groups of proposed tasks that are intended to be done during a particular time period.

The work outlined in each Phase should be clear and understandable, and as much as possible represent entire sections of work. For example, if “HVAC Installation” is in Phase 1, all of the HVAC work to be done in the building is expected to be completed and submitted with Phase 1. If Phase 1 work is “HVAC Installation on floors 2-4” and Phase 2 work is “HVAC Installation on floor 1,” the identified work would be expected to be completed and claimed in the appropriate Phase. Please be aware that portions or percentages of specific work items – such as “22% of windows completed in Phase 1,” or “80% of millwork completed in Phase 2” – cannot be accepted as it is not possible for DHR staff to review or approve an arbitrary portion of a work scope item.

According to National Park Service (NPS) guidance, Phased projects the Federal credit should seek to present “finished” spaces and work tasks. For example, Phase 1 could be all exterior work, Phase 2 could be the first-floor rehabilitation, and Phase 3 could be the rehabilitation floors 2-4. Unfinished or partially finished spaces will not be able to receive an Advisory Determination of the Phase’s completion from the NPS.

The State Program allows more flexibility in Phasing Plans than the Federal Program, in that the spaces do not need to be brought to a full state of completion during initial Phases. For example, proposed work in Phase 1 could be “Demolition,” “HVAC,” Plumbing and Electrical,” and “Partition Rough-In.” Phase 2 could be “drywall,” “millwork,” “finishes,” and “punch-list items.” All work indicated in the Phasing Plan for a given Phase would need to be completed for that Phase to be certified as complete; however, the space itself can be in a state of partial construction up until the final Phase is submitted for certification that the entire rehabilitation project is completed.

FINISHING AND CLAIMING CREDIT FOR PHASED PROJECTS:

All work to be done in a Phase that is submitted for approval must be completed before DHR and NPS can approve and release the tax credits for that Phase. At the end of each Phase, the State and Federal rehabilitation tax credit Reviewers are certifying that the work as accomplished so far appears to meet the *Standards* and what was approved in the Part 2 application, and that the work outlined in the identified Phase is complete.

There are some differences between how paperwork is submitted for phased projects under the State and Federal Programs:

- **State Program:** Under the State Program, the applicant must submit a separate, complete State Part 3 application at the end of each Phase. This includes the required financial documentation and “after” photographs showing the completed work (as well as photographs of the areas where work is yet to be done). The form must list the Phase start date and Phase completion date, which is the date that all work related to that Phase was completed. The applicant must pay for the required CPA reports (AUP or Audit) at the completion of each Phase, as well as the Part 3 review fees for each Phase submitted for certification.
- **Federal Program:** For preliminary Phases under the Federal Program, applicants must submit an Amendment/Advisory Determination form that lists the total cost of the Phase and the Phase completion date. Photographs and a photo key of the completed work and overall project must also be submitted.

NOTE: NPS requires a Federal Part 3 application only upon **completion of the entire** project, at the end of the **final** Phase.

For both Federal and State Programs all work must be fully complete by the time the final Phase is submitted to close the project. This includes bringing all spaces – even those that will house a future tenant who will complete their own interior design work – up to a “Warm Vanilla Shell” state. As a reminder, both the State and Federal Programs require that the building must be brought to an occupiable state in order to be considered complete and eligible for tax credits. “Mothballing” or leaving areas only partially finished is not allowed.

UNAPPROVED PHASES/DENIED PROJECTS:

Please be aware that State and Federal rehabilitation tax credits previously awarded for the successful completion of earlier Phases may be recaptured if the overall project is not approved due to unapproved or incomplete work in the final Phase.

SAMPLE PHASING PLAN

Warehouse #3
1234 North Market Street
Petersburg, Virginia

January 1, 2023

DHR #: 2022-402
NPS #: 56789

PHASING PLAN

Phase Number	Phase Description	Est. Start Date	Est. Completion Date	Estimated Budget
Phase 1	<ul style="list-style-type: none">• Repair masonry on all facades.• Repair rotten roof trusses.• Repair existing roof, install salvaged slate where slate was removed.• Replace rotten wood window lintels.• Restore original windows.	July 2023	December 2023	\$150,000
Phase 2	<ul style="list-style-type: none">• Construct exit stair from second floor to first floor.• Repair rotten floors and joists.• Repair interior masonry walls.• Complete residential units on floors 2 & 3.• Install new mechanical and plumbing on floors 2 & 3.	January 2024	May 2025	\$250,000
Phase 3	<ul style="list-style-type: none">• Install mechanical and plumbing on floor 1.• Complete commercial tenant work on floor 1.	June 2025	December 2025	\$100,000
Phase 4	<ul style="list-style-type: none">• Complete site improvements.• Construct approved garage.	January 2026	February 2026	\$100,000
				TOTAL = \$600,000