



**GUIDELINES REGARDING SPECIAL TAX VALUATION ELIGIBLE EXPENSES**

**Costs that are generally eligible for Special Tax Valuation must meet the definitions for “actual cost of rehabilitation” specified in WAC 254-20-030 and the IRS definition for “Qualified Rehabilitation Expenditure.”<sup>1</sup>**

For the purposes of Special Tax Valuation, “Qualified Rehabilitation Expenditures” generally include:

1. Direct construction costs;
2. Certain soft costs, including:
  - Architectural and engineering fees;
  - Construction permit fees;
  - Development management fees;
  - Construction loan interest and fee;
  - Utilities, taxes, and insurance for the construction period; and
  - State sales tax.

Qualified Rehabilitation Expenditures generally do not include:

1. Any costs related to acquisition of the property;
2. Any expenditure attributable to enlargement of the building; except to make the building fully usable (i.e. add a bathroom if one is not existing, add a kitchen if a kitchen is not existing)
3. Any costs of valuation and permanent financing of the property; and
4. Overhead costs or other "costs of doing business."

**Examples of Expenses that Do and Do Not Qualify**

In addition to the above list, the table to the right provides a limited overview of certain categories of items often purchased during renovations that have been determined by the Tacoma Landmarks Preservation Commission (LPC) to generally meet or not meet the definition of Qualified Rehabilitation Expense, based upon the Washington State and IRS guidelines.

This list is not exhaustive and does not supersede the authority of the Commission to consider applications on a case-by-case basis. It is intended to provide guidance to applicants for the preparation of applications.

ITEMS GENERALLY ELIGIBLE	ITEMS GENERALLY NOT ELIGIBLE
<p><u>Appliances</u></p> <p>Water heaters                      Furnances                      Other mechanical: HVAC, A/C units, ventilation, blowers, etc.</p>	<p>Portable counter top appliances (toaster ovens)                      Washers and Dryers                      Commercial kitchen appliances                      Home electronics (stereo, TV, CCTV etc)                      Kitchen Appliances                     <ul style="list-style-type: none"> <li>• Refrigerators</li> <li>• range-ovens</li> <li>• Cooktop ranges</li> <li>• Drop in ranges</li> <li>• Wall ovens</li> <li>• Dishwashers</li> <li>• Range Hoods</li> </ul> </p>
<p><u>Furnishings</u></p> <p>Built-ins                      Cabinetry                      Shelves                      Window seats/nooks</p>	<p>Moveable furniture                      Chairs, sofas, beds, tables, islands (if not permanently affixed to floor)</p>
<p><u>Plumbing and electrical</u></p> <p>Supplies and materials                      Fixtures                      Faucets, sinks                      Light fixtures                      Required exterior work (sewer lines, etc)                      Fire suppression systems and other code-related requirements</p>	<p>Security and alarm systems (i.e. CCTV)                      Table or floor lamps</p>
<p><u>Landscaping</u></p> <p>Sitework necessary for rehabilitation (including clearing, disposal, stabilization restoration)                      Sitework for utilities and foundation work                      Landscape stabilization</p>	<p>(NOTE: If site is specifically landmarked, then landscape design and plantings may be included)</p> <p>Plants, soil amendments, etc.                      Landscape design work                      Accent lighting                      Sprinkler systems</p>

<sup>1</sup> **WAC 254-20-030**

"Actual cost of rehabilitation" means costs incurred within twenty-four months prior to the date of application and directly resulting from one or more of the following:

- (a) Improvements to an existing building located on or within the perimeters of the original structure; or
- (b) Improvements outside of but directly attached to the original structure which are necessary to make the building fully useable but shall not include rentable/habitable floorspace attributable to new construction; or
- (c) Architectural and engineering services attributable to the design of the improvements; or
- (d) All costs defined as "qualified rehabilitation expenditures" for purposes of the federal historic preservation investment tax credit.

**The definition used by the IRS for “qualified rehabilitation expenditure” includes:**

*In general, the term “qualified rehabilitation expenditure” means any amount properly chargeable to capital account... AND ...does not include-- (ii) COST OF ACQUISITION --the cost of acquiring any building or any interest therein. (iii) ENLARGEMENTS -- Any expenditure attributable to the enlargement of the existing building except attachments to make the building fully usable.*