Homeowner Rehabilitation Tax Credit

A new initiative to revitalize Vermont's neighborhoods in and around downtown and village centers.

Background

Act 157 directed the Agency of Commerce and Community Development (ACCD) to convene a diverse steering committee of housing, municipal, financial policy experts and ACCD staff to review existing programs and statutes, gather data and stakeholder input and evaluate the housing and infrastructure needs throughout Vermont.

These recommendations helped set the stage for a successful legislative session that streamlined state permitting for housing within state designated centers, created a $35M bond for affordable and market rate housing, and allowed six new Tax Increment Financing Districts to support new investment in infrastructure. However, several recommendations to address the quality of Vermont's existing housing stock were not taken up.

The Challenge

Despite the $35M housing bond and the good work of many Vermont-based institutions to improve and increase the supply of housing in Vermont – there's a growing gap between existing housing availability and need. The Act 157 report highlighted the success of state tax investment credits to improve "Main Street" buildings and bring new vitality to Vermont's downtowns and village centers. The report noted a similarly structured homeowner rehabilitation tax credit could do the same to improve the quality of the housing stock that surrounds Vermont's downtowns and villages.

In many communities the cost to repair and update existing housing stock can exceed the appraised value of the building or an owner's ability to borrow. Without tools or funding to close that gap, property values and quality of life continue to decline in many neighborhoods.

The Solution

Policy makers recognize that investing in housing improves our quality of life, creates jobs, leverages private investment, generates local property tax revenues, revitalizes downtowns and villages and builds stronger communities. Targeted rehabilitation tax credits are a proven strategy to spark new investment needed to increase the value of the grand list. H. 766 is modeled after the state's downtown and village center tax credits that have helped transform communities – supporting new rental housing, attracting new businesses, fostering business expansions, and creating good jobs in downtowns and villages across the state.

More public investment in homes that are affordable, desirable and within a reasonable distance of work, schools or shopping, is needed to attract and house the young families and the workforce needed for businesses and communities to thrive. This program will help meet the pent-up demand for walkable housing in and around our centers, it will help reverse grand list declines and transform economies in Vermont's distressed downtowns and villages.

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VERMONT
AGENCY OF COMMERCE & COMMUNITY DEVELOPMENT
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT

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Key Provisions

Amount of Credit

- 30% of qualified rehabilitation expenditures for the owner-occupied residence, including accessory dwelling units.

Maximum Credit

- $25,000 tax credit per project with a $5,000 bonus for the creation of an accessory dwelling unit.

Qualified Applicants

- Property owners of a qualified building, who are not delinquent in taxes or have liens.

Qualified Buildings

- Owner occupied, residential properties within state designated "neighborhood planning areas." Multifamily buildings are eligible, so long as they are owner-occupied. Property must be owned and occupied for a minimum of five years.

Qualified Rehabilitation Expenditures

- Capital costs, (replace the roof, upgrade the heating system etc.) including materials, labor, and design fees, and including new additions and housing units in outbuildings (barns, garages etc.).

Energy Efficiency

- Energy audit required to encourage participation in rebates and incentives that can make the operation of the property more affordable.

Approval Process

- Applications to the Downtown Board in accordance with guidelines and criteria set by the board.

Design Review Standards

- Projects reviewed in accordance with guidelines and criteria set by the downtown board.

Claims and Transfer Provisions

- Taxpayers may claim the credits against individual income tax, corporate tax, bank franchise or insurance premiums tax liability the first tax year the project is complete. Tax credits may be sold via a credit certificate to a bank or insurance company.

Recapture

- Recapture for failure to complete project within two years of receiving an approved application, for work inconsistent with local permit or approved state application, or for failure to supply accurate information.

Pilot Program

Municipalities submit applications to the Downtown Board to compete for $625,000 in homeowner tax credits (2-3 communities). The application would identify a benefit area (a neighborhood or smaller geographic area) with demonstrated needs. The proposal would list the potential applicants/addresses, the banks and/or insurance companies willing to purchase tax credits, and commit municipal staff capacity to support implementation (e.g. local permitting, building inspection, etc.). While the tax credit could be used to expand the reach of existing home or neighborhood improvement programs, the most competitive proposals would include partners that bring additional financial resources or expertise (e.g. philanthropies, major employers, utilities, Efficiency Vermont, trade unions, vocational schools, and others) to make the building improvement process as easy as possible for the homeowner.

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