

Instructions for 2018 Schedule HR

General Instructions

Purpose of Schedule HR

Use Schedule HR to claim a credit for preserving or rehabilitating historic property located in Wisconsin. Two Wisconsin historic preservation credits are available:

- (1) a supplement to the federal historic rehabilitation tax credit for rehabilitating certified historic structures and
- (2) a state historic rehabilitation credit, available only to individuals, for preserving or rehabilitating an owner-occupied personal residence that doesn't qualify for the supplement to the federal credit.

The Wisconsin Historical Society administers the historic preservation program. For more information, visit the Historical Society's web site at: wisconsinhistory.org/Content.aspx?dsNav=N:1189, write to the Division of Historic Preservation, Wisconsin Historical Society, 816 State Street, Madison, WI 53706-1417, or call (608) 264-6490.



Changes to the Wisconsin Supplement to the Federal Historic Rehabilitation Tax Credit

- Beginning July 1, 2018, the Wisconsin Economic Development Corporation may not certify a person to claim more than a total of \$3,500,000 in tax credits for all projects undertaken on the same parcel.
- The 10% credit for qualified rehabilitated buildings constructed before 1936 is eliminated.
- The credit must be claimed ratably over a five-year period beginning with the year the building is placed in service; however, there is a transitional rule that allows the full credit to be claimed for qualified rehabilitation expenditures incurred on a building that is owned or leased at all times on or after January 1, 2018 if the taxpayer selected the 24- or 60-month period measuring period by June 20, 2018.
- Sellers of the credit may only claim 20% of the credit per year for five years, and as a result, they may only transfer the amount eligible to be claimed each year.
- Purchasers of the credit are not required to claim the credit over a five-year period.

Date a Project Is Begun

The date a project is "begun" is the date on which the physical work of rehabilitation begins. The physical work of rehabilitation doesn't include preliminary activities such as planning, designing, securing financing, exploring, researching, developing plans and specifications, or stabilizing a building to prevent deterioration, such as placing boards over broken windows.

Adjustment to Basis

If you qualify for the supplement to the federal historic rehabilitation tax credit, you must add the qualified rehabilitation expenditures to the basis of the building and depreciate them by the straight-line method. In addition, you must subtract the amount of credit computed from the basis of the building.

If you qualify for the state historic rehabilitation credit, you must decrease the basis of the property by the amount of credit computed.

Carryover of Unused Credits

The historic rehabilitation credits are nonrefundable. Any unused credits may be carried forward for 15 years. If there is a reorganization of a corporation claiming historic rehabilitation credits, the limitations provided by IRC section 383 may apply to the carryover of any unused credits.

Recovery of Credits

In cases where the Wisconsin Historical Society later determines that the claimant hasn't complied with all of the requirements for the state historic rehabilitation credit, the Department of Revenue may recover all or a portion of the credit.

If DOR adjusts or disallows, in whole or in part, a credit that has been transferred, only the person who originally transferred the credit to another person is liable to repay the adjusted or disallowed amount.

If the same qualified rehabilitation expenditures are used to claim the federal rehabilitation tax credit and Wisconsin supplement to the federal historic rehabilitation tax credit, and the federal credit is required to be repaid, the Wisconsin credit must also be repaid.

Specific Instructions

Part I – Supplement to the Federal Historic Rehabilitation Tax Credit

To qualify for the supplement to the federal historic rehabilitation tax credit, you must meet the following requirements:

- You must own (or, in certain cases, lease) property that is listed on the national register of historic places in Wisconsin or the state register of historic places, or is determined by the state historical society to be eligible for listing on the national register of historic places in Wisconsin or the state register of historic places, or is located in a historic district that is listed in the national register of historic places in Wisconsin or the state register of historic places and is certified by the state historic preservation officer as being of historic significance to the district, or is an outbuilding of an otherwise eligible property certified by the state historic

preservation officer as contributing to the historic significance of the property.

- For certified historic structures, qualified rehabilitation expenditures means that the building must be depreciable property that is either nonresidential rental property, residential rental property, or real property with a class life of more than 12.5 years. If only part of the building qualifies only the rehabilitation expenditures allocable to the qualified portion may be used to figure the credit.
- For a qualified rehabilitated building, the building must have been substantially rehabilitated and was placed in service before the beginning of the rehabilitation.
- You must substantially rehabilitate the building. For certified historic structures, a building is considered to be substantially rehabilitated if your qualified rehabilitation expenditures are at least \$50,000. The expenditure test must be met within a 24-month (or, for phased rehabilitation projects, a 60-month) period that you select and that ends with or within your taxable year. Figure your adjusted basis on the first day of the 24-month or 60-month rehabilitation period.

“Qualified rehabilitation expenditures” are amounts incurred that must be capitalized and added to the basis of the building rather than deducted. Qualified expenditures don’t include any amount being depreciated under an accelerated method, the cost of acquiring the building itself or any interest in the building, or any expense incurred for the enlargement of an existing building.

- You must design and carry out the work in accordance with the “Secretary of the Interior’s Standards for Rehabilitation.”
- You must formally apply to the National Park Service, through the Wisconsin Historical Society, for certification of your project, and the Secretary of the Interior must approve the project.

Caution: The physical work of construction, or destruction in preparation for construction, cannot begin until the State Historic Preservation Officer recommends the project to the Secretary of the Interior for approval or the Secretary of the Interior approves the project, whichever is earlier.

Line 1. Enter the adjusted basis of the building on the first day of the 24-month or 60-month rehabilitation period.

Lines 2a & 2b. Check the box to indicate whether you are electing to claim this credit based on when the rehabilitation work is completed or when the expenditures are paid. If you are claiming the credit based on when the expenditures are paid, enter the total amount of qualified rehabilitation expenditures paid on the project to date.

Important limitation: You cannot elect to claim the Wisconsin supplement to the federal historic rehabilitation credit in a different taxable year than you are claiming the federal historic rehabilitation credit, unless the credit is transferred from another taxpayer.

Lines 2c & 2d. You are required to select a date on which the 24 or 60-month measuring period begins and ends. Enter the beginning and end dates on these lines.

Line 2e. Fill in the amount of qualified rehabilitation expenditures you are including in the credit computation for the current taxable year, based on the election you indicated on line 2a or 2b. If you are claiming the credit based on when the rehabilitation work is completed, fill in the total qualified rehabilitation expenditures for the project. If you are claiming the credit based on when the expenditures are paid, only fill in the qualified rehabilitation expenditures paid during the taxable year.

CAUTION:

In order to claim the credit, the qualified rehabilitation expenditures during the 24-month or 60-month rehabilitation period must be at least \$50,000.

Line 4. The credit must be claimed ratably over a five-year period beginning with the year the building is placed in service. Multiply line 3 by 20% (.20) and enter the result.

Exception: A transitional rule allows the full credit to be claimed for qualified rehabilitation expenditures incurred on a building that is owned or leased at all times on or after January 1, 2018 if the taxpayer selected the 24- or 60-month period measuring period by June 20, 2018. If the transition rule applies, do not multiply line 3 by 20% (.20), instead enter the amount from line 3 on line 4.

Line 5. Enter the amount of credit passed through from partnerships and LLCs treated as partnerships, as shown on Schedule 3K-1; tax-option (S) corporations, as shown on Schedule 5K-1; and estates or trusts, as shown on Schedule 2K-1.

Line 6. Enter the amount of supplement to the federal historic rehabilitation tax credit that was transferred from other taxpayers during the current taxable year. See the instructions for Part III for details on requirements for transferring the credit.

Line 7. Add lines 4, 5d and 6. This is the total current year supplement to the federal historical rehabilitation credit.

Line 7a. *Fiduciaries only* – Prorate the credit from line 7 between the entity and its beneficiaries in proportion to the income allocable to each. Show the beneficiaries portion of the credit on line 7a. Show the credit for each beneficiary on Schedule 2K-1.

Line 7b. *Fiduciaries only* – Subtract line 7a from line 7. This is the estate’s or trust’s portion of the credit.

Line 8. Enter the amount of unused supplement to the federal historic rehabilitation tax credit from Schedule CF. Include a copy of Schedule CF with your tax return.

Line 10. Enter the amount of supplement to the federal historic rehabilitation tax credit that was transferred to other taxpayers during the current taxable year. See the instructions for Part III for details on the requirements for transferring the credit.

Line 11. Individuals: Enter the amount of credit from line 11 on the appropriate line of Schedule CR.

Estates and Trusts: Enter the amount of credit from line 11 on the appropriate line of Schedule CR.

Tax-Option (S) Corporations: Prorate the credit on line 11 among the shareholders based on their ownership interests. Show the credit for each shareholder on Schedule 5K-1.

Partnership and LLCs Treated as Partnerships: Prorate the credit on line 11 among the partners or members based on their ownership interest or you may allocate the credit among the partners or members as provided in a written agreement. Show the credit for each partner or member on Schedule 3K-1.

Corporations: Enter the amount of credit from line 11 on the appropriate line of Schedule CR. If the claimant is a combined group member, enter the amount of credit on Form 6, Part V, line 1 instead of Schedule CR.

Required attachments:

- You must file with Schedule HR a copy of the final certification of completed work from the National Park Service. For properties not yet listed in the National Register of Historic Places, include a copy of the signed letter from the National Park Service certifying that the completed rehabilitation meets the "Secretary of the Interior's Standards for Rehabilitation." If you haven't received the final certification by the time the tax return is filed, include a copy of the "Historic Preservation Certification Application (Part 2 - Description of Rehabilitation)." Include a copy of the final certification of completed work to the first income or franchise tax return filed after receipt of the filed certification along with an explanation of the amount and the years in which the credit was claimed. If the credit is passed through from a partnership, LLC treated as a partnership, tax-option (S) corporation, estate, or trust, include a copy of your Schedule 3K-1, 5K-1, or 2K-1 instead of the final certification.
- If the credit of a partnership or LLC treated as a partnership is allocated as provided in a written agreement, the partnership or LLC must also attach a copy of the agreement to its partnership return (Wisconsin Form 3), and each partner or member

receiving the credit must attach a copy of the agreement to the return on which they claim the credit.

- A copy of the certification of eligibility issued by the Wisconsin Economic Development Corporation.
- If you are claiming a carryover of the supplement to the federal historic rehabilitation credit from a prior taxable year, include Schedule CF with your tax return.

Part II – State Historic Rehabilitation Credit – Individuals Only

To qualify for the state historic rehabilitation credit, you must meet the following requirements:

- You must own and occupy as your personal residence property that is listed, or eligible to be listed, in the National or State Register of Historic Places or is located in a historic district which is listed in the National or State Register and is certified by the State Historic Preservation Officer as being of historical significance to the district. Included are outbuildings that contribute to the historic significance of the property.

The residence, including outbuildings, can't be used in a trade or business, held for the production of income, or held for sale or other disposition in the ordinary course of your trade or business.

If you use part of your home for income-producing activities, you may be able to claim the credit for the portion that is your personal residence. See Wisconsin Tax Bulletin 86 (April 1994), page 22, which can be found at: revenue.wi.gov/ise/wtb/086tr.pdf, for more information.

- Your qualified preservation costs during the 2-year (or, for phased preservation projects, the 5-year) period beginning with the date on which the physical work of rehabilitation begins must be more than \$10,000. If property is used for both business and personal purposes, the qualified preservation costs relating to the personal residence portion of the property must be more than \$10,000. The costs must be incurred after the Wisconsin Historical Society has approved your proposed preservation or rehabilitation plan.

In order to qualify, your costs must relate only to preservation or rehabilitation work done to (1) the exterior of the historic property, (2) the interior of a window sash if work is done to the exterior of the window sash, (3) structural elements of the property, (4) the heating or ventilating system, or (5) electrical or plumbing systems, but not electrical or plumbing fixtures.

In addition, you may claim architectural fees and costs incurred in preparing nomination forms for listing in the National or State Register of Historic Places, if the

nomination is made within 5 years before submission of your preservation or rehabilitation plan to the Wisconsin Historical Society.

Qualified costs don't include the costs of acquiring the building itself, or any interest in the building, or any expense incurred for the enlargement of an existing building.

- You must design and carry out the work in accordance with the "Secretary of the Interior's Standards for Rehabilitation."
- You must complete the preservation or rehabilitation work within 2 years (5 years for a project that is initially planned for completion in phases).
- The State Historic Preservation Officer must certify that the completed project substantially complies with the previously approved plan.
- You can't claim a credit for rehabilitating a personal residence if you acquired the property under an agreement requiring you to sell or return the property to the previous owner within 5 years.

Lines 12a & 12b. Check the box to indicate whether you are electing to claim this credit based on when the rehabilitation work is completed or when the costs are paid. If you are claiming the credit based on when the costs are paid, enter the total amount of qualified preservation costs paid on the project to date.

Line 12d. Fill in the amount of qualified rehabilitation costs you are including in the credit computation for the current taxable year, based on the election you indicated on line 12a or 12b. If you are claiming the credit based on when the rehabilitation work is completed, fill in the total qualified rehabilitation costs for the project. If you are claiming the credit based on when the costs are paid, only fill in the qualified rehabilitation costs paid during the taxable year.

Caution: If your total qualified rehabilitation costs during the 2-year or 5-year period beginning with the date on which the physical rehabilitation work begins aren't more than \$10,000, you don't qualify for this credit.

Line 13. Enter 25% of the amount on line 12d, but not more than \$10,000 (\$5,000 if you are married and file a separate return). The maximum credit available for any preservation or rehabilitation project is \$10,000 (\$5,000 if you are married and file a separate return).

Line 14. Enter any unused state historic rehabilitation credit carried over from prior years from Schedule CF. Include Schedule CF with your tax return.

Line 15. Enter the amount of credit from line 15 on the appropriate line of Form 1 or Form 1NPR.

Required attachments:

- After the work is completed, you must include with Schedule HR a copy of the final certification of completed work from the Wisconsin Historical Society. For projects not yet completed, include a copy of the approved "Historic Preservation Certification Application – Part 2."
- If you are claiming a carryover of the state historic rehabilitation credit from a prior taxable year, include Schedule CF with your tax return.

Part III: Transfer of the Supplement to the Federal Historic Rehabilitation Tax Credit

For taxable years beginning on or after January 1, 2014, any person, including a nonprofit entity described in section 501(c)(3) of the Internal Revenue Code, may sell or otherwise transfer the credit, in whole or in part, to another person who is subject to the taxes imposed under sec. 71.02, 71.08, 71.23, or 71.43, Wis. Stats., if the person notifies the Department of Revenue (DOR) of the transfer, and submits with the notification a copy of the transfer documents, and DOR certifies ownership of the credit with each transfer.

The purchaser can first use the credit in the tax year the purchase is completed. For example, a tax credit from the 2014 tax year is purchased in 2018. The credit can be used by the purchaser in tax year 2018 or later. The purchaser cannot amend their return to use the credit in 2014, 2015, 2016, or 2017.

If there are multiple transfers, list each transfer on a separate attachment.

If DOR adjusts or disallows, in whole or in part, a credit that has been transferred, only the person who originally transferred the credit to another person is liable to repay the adjusted or disallowed amount.

Credit Certification

No person may claim the credit without first being certified by the Wisconsin Economic Development Corporation (WEDC) and including a copy of the certification with their return. WEDC may certify a person to claim the credit if WEDC determines that the person is conducting an eligible activity. For certification purposes, the claimant shall provide to WEDC all of the following:

- Evidence that the rehabilitation was recommended by the State Historic Preservation Officer for approval by the Secretary of the Interior under 36 CFR 67.6 before the physical work of construction, or destruction in preparation for construction, began and that the rehabilitation was approved by the State Historic Preservation Officer.
- Evidence that the taxpayer obtained written certification from the State Historic Preservation Officer that:
 1. The property is listed on the National Register of Historic Places in Wisconsin or the State Register of

Historic Places, or is determined by the State Historical Society to be eligible for listing on the National Register of Historic Places in Wisconsin or the State Register of Historic Places, or is located in a historic district that is listed in the National Register of Historic Places in Wisconsin or the State Register of Historic Places and is certified by the State Historic Preservation Officer as being of historic significance to the district, or is an outbuilding of an otherwise eligible property certified by the State Historic Preservation Officer as contributing to the historic significance of the property.

2. The proposed preservation or rehabilitation plan complies with standards promulgated under sec. 44.02 (24), Wis. Stats., and the completed preservation or rehabilitation substantially complies with the proposed plan.
3. The costs are not incurred to acquire any building or interest in a building or to enlarge an existing building.
4. The costs were not incurred before the State Historical Society approved the proposed preservation or rehabilitation plan.

Carryforward of Transferred Credits

The carryforward period for credits purchased will continue to be the remaining carryforward period of the original holder of the credits. For example, if a claimant purchases a supplement to the federal historic rehabilitation tax credit with a remaining credit carryforward of 8 years at the time of purchase, the purchaser will also have an 8 year credit carryforward.

Tax Issues

The entity transferring the tax credit will be required to recognize a capital gain on the sale of the credit equal to the difference between the basis of the tax credit, which would be zero unless the seller previously purchased the tax credit for consideration, and the fair market value of consideration received for the credit. The character of the capital gain as either short-term or long-term is determined based on the amount of time between the date the seller made the qualifying investment and the date the credit is transferred. If the time period is more than one year, it is a long-term capital gain; if the time period is one year or less, it is a short-term capital gain.

The entity purchasing the tax credit will recognize capital gain income when the credit is used to offset a Wisconsin income tax liability. The capital gain recognized is equal to the difference between the purchaser's basis in the tax credit, which is the fair market value of consideration paid for the tax credit and any transaction costs incurred to acquire the tax credit, and the amount of Wisconsin income tax liability satisfied by use of the tax credit. The character of the capital gain as either short-term or long-term is determined based on the amount of time between the date the purchaser acquired the tax credit and the date the credit is used to offset the purchaser's Wisconsin income tax liability. If the time period is more than one year, it is a long-term capital gain; if the time period is one year or less, it is a short-term capital gain.

For purposes of determining when the holding period commences, the date the seller made the qualified investment means the date the property is placed into service. For example, if a taxpayer placed qualified property into service on September 16, 2018, long-term capital gain treatment would apply beginning September 17, 2019.

Additional Information

For more information, you may:

- Email your question to: DORFranchise@wisconsin.gov
- Call (608) 266-2772 [TTY: Call the Wisconsin Telecommunications Relay System at 711, if no answer, dial 1-800-947-3529]
- Send a FAX to (608) 267-0834
- Write to the Audit Bureau, Wisconsin Department of Revenue, Mail Stop 3-107, PO Box 8906, Madison, WI 53708-8906.