



FACT SHEET

CERTIFIED HISTORIC AND QUALIFIED REHABILITATION TAX CREDITS

**For Income Producing Properties
State of Wisconsin – 2014**

Beginning in 2014, Wisconsin property owners and developers who invest in renovating and restoring historic properties can take advantage of additional state tax credits available to help finance this type of project. This act both expanded the state match for federal tax credits on certified historic properties and also created an additional tax credit category for properties built prior to 1936 but not eligible for the state or national register. Combined, these credits provide opportunities for a wide variety of additional projects to secure additional funding and become economically feasible. This document provides an overview of the various types of credits and how they can be applied to individual projects.

What Types of Rehabilitation Tax Credits are Available?

Name	Federal Credits		State Credits	
	Certified Historic Rehabilitation Tax Credit	Pre-1936 Non-Historic Properties	Certified Historic Tax Credit	Qualified Non-Historic Tax Credit
Percent of Project Costs Eligible for Credits	20%	10%	20%	20%
Eligibility	<ul style="list-style-type: none"> • Be on or eligible for the national register, or a contributing building within a historic district • Taxable property • Income producing properties 	<ul style="list-style-type: none"> • Built before 1936 • NOT on the national register or a contributing building within a historic district • Taxable property • Income producing properties, excluding residential 	<ul style="list-style-type: none"> • Be on the national register, or a contributing building within a historic district • Taxable property • Income producing properties 	<ul style="list-style-type: none"> • Built before 1936 • NOT on the national register or a contributing building within a historic district • Taxable property • Income producing properties (apartments only if no prior residential use of space)
Application Process	<ul style="list-style-type: none"> • 3 part application process 	<ul style="list-style-type: none"> • No formal review process 	<ul style="list-style-type: none"> • Submit federal approval OR Complete federal Part I & II to Wisconsin Historical Society 	<ul style="list-style-type: none"> • Completed Part I to confirm non-eligibility for historic credits.

Project Timing & Scope	<ul style="list-style-type: none"> • Must follow secretary of interior standards for historic preservation • Work can begin prior to approval, but only approved work will qualify • Minimum project expenditure of \$5,000 or adjusted basis (see below) 	<ul style="list-style-type: none"> • Work can begin at any time. <p>Minimum project expenditure of \$5,000 or adjusted basis (see below)</p>	<ul style="list-style-type: none"> • Must follow secretary of interior standards for historic preservation • Part 2 of federal application must be approved by Wisconsin Historical Society prior to work beginning • Minimum project expenditure of \$50,000 	<ul style="list-style-type: none"> • Must receive WEDC approval before work begins. • Minimum project expenditure of \$50,000
Credit Use & Transferability	<ul style="list-style-type: none"> • Can transfer to entities listed as partners in the project, who will remain engaged for 5 years after completion • Credits can be carried back 1 year and forward 20 years 	<ul style="list-style-type: none"> • One time credit claimed when building placed into service 	<ul style="list-style-type: none"> • Can transfer to individuals or entities with tax liability, regardless of project participation • Credits can be carried forward 15 years 	<ul style="list-style-type: none"> • Can transfer to individuals or entities with tax liability, regardless of project participation • Credits can be carried forward 15 years

How do I Apply?

- **Step 1:** Contact your accountant and/or attorney to determine your project tax liability and ensure that you plan for the most appropriate ownership structure for your project.
- **Step 2:** See if your building is listed on the register:
<http://www.wisconsinhistory.org/Content.aspx?dsNav=N:1190-4294963829-683&dsNavOnly=N:1189>
 - **If it is not listed**, complete Part 1 of the Historic Preservation Certification Application—"Evaluation of Significance" and submit 2 copies to the Wisconsin Historical Society (WHS). The response to this submittal will determine the type of credits you will be eligible to apply for. The Application is located here:
<http://www.wisconsinhistory.org/Content.aspx?dsNav=N:4294963828-4294963805&dsRecordDetails=R:CS3215#forms>
- **Step 2:** Contact the Wisconsin Historical Society(WHS), establish your project team, and plan your project. The WHS has two preservation architects on staff to assist you in the planning stages. If you do not intend to use the credits yourself, you will need to secure project partners or purchasers of potential credits.
- **Step 3:** Apply for the desired credits, and receive notice of approval.

- **Certified:** Then Part 2 of the Historic Preservation Certification Application—“Description of Rehabilitation” must be completed and 2 copies must be submitted to WHS. WHS reviews the Part 2 application, and forwards it to the NPS, with a recommendation. This review process can take up to 60 days. Once Part 2 is approved at the state level, WHS will contact WEDC to verify that funding is still available and that the applicant passes all background check criteria. If so, the application continues on to NPS.
- **Qualified/Non-Historic:** Go to the WEDC web site <http://inwisconsin.com/community-development/programs/htc/> , scroll to the bottom and click on the application link for the QRTC application. Complete the application form and submit it to QualifiedRehab@wedc.org.
- **Step 4:** Complete your project as submitted and planned within the designated timeframe.
- **Step 5:** Claim your credits.
 - **Certified Historic:** After rehabilitation work is completed, the owner submits 2 copies of Part 3 of the Historic Preservation Certification Application—“Request for Certification of Completed Work” to WHS. They forward it to the NPS, with a recommendation as to certification. The NPS then evaluates the completed project against the work proposed in the Part 2—Description of Rehabilitation.
 - **Qualified/Non-Historic:** To claim the credit, submit IRS form 3468 once work is completed and the building is placed into service.

Frequently Asked Questions:

What is a Tax Credit?

- A tax credit lowers the amount of tax owed (a dollar of tax credit reduces the amount of income tax owed by one dollar).
- A tax credit differs from an income tax deduction, which lowers the amount of income subject to taxation.

What is a Certified Historic Property?

- Any individual property listed on, or eligible for, the Wisconsin/National Register of Historic Places.
- Any contributing building within a National Register Historic District.
- To determine if a property is already listed, contact the Wisconsin Historical Society, or visit: <http://www.wisconsinhistory.org/Content.aspx?dsNav=N:1190-4294963829-683&dsNavOnly=N:1189>

What Criteria is Used to Determine Historic Certification?

- Age (in general, more than 50 years old)
- Historic association
- Association with a historically significant person
- Design (art, architecture, engineering)
- Past alterations
- Archaeological significance

What Types of Historic Designations Exist?

- Individually Listed Properties
- Properties within a Historic District
- Historic Landmarks

Note: The Wisconsin and National Registers, in general, mirror each other, and for purposes of this fact sheet, will be considered one and the same.

What Is an Income-Producing Property?

- Commercial properties (retail, office, manufacturing, warehousing, service, hotels, etc.)
- Rental or condo housing (note that some tax credits have restrictions on housing uses)
- Depreciable or amortizable properties

What is NOT an Income-Producing Property?

- Owner-occupied housing
- Churches and religious properties
- Government properties

Note: Some non-profit properties or property rented on a long-term lease might qualify (if their remaining lease period is at least 27.5 years for residential property or 39 years for nonresidential property).

What Are Eligible Expenses?

- The cost of all work on the historic buildings, inside and out (except furnishings or moveable equipment).
- Architectural and engineering fees, site survey fees, legal expenses, development fees, and other construction-related costs, if such costs are added to the property basis and are reasonable and related to the services performed.

What are NOT Eligible Expenses?

- Acquisition
- Site work (landscaping, paving, sidewalks, parking lots)
- Furnishings or moveable equipment
- New construction (such as new additions)
- Other related facilities (out buildings, unless listed as contributing)
- Any work on a portion of the building that serves as, or will serve as the owner's primary residence

What are the Secretary of the Interior Standards?

- Ten general guidelines, used by the Wisconsin Historical Society and the National Park Service, to review rehabilitation plans.
- Ensures that rehabilitation is consistent with the historic character of the property and/or district.
- Allows some alteration of the historic building to provide for an efficient use.
- Ensures that rehabilitation does not damage, destroy, or cover interior or exterior elements that define the building's historic character.
- Encourages reuse and repair of original elements rather than replacement.
- Ensures proper cleaning and repair methods to protect original elements.
- Ensures that new elements blend with the original.

Note: The standards can be found at <http://www.nps.gov/tps/standards/rehabilitation.htm>

How Long Do I Have To Complete The Rehabilitation?

- The beginning date to be selected by the applicant.
- Most projects must be complete within two years (24 months), however, if the project will be phased, it must be completed within five years (60 months).
- If it is a phased project, each phase must clearly be outlined in Part 2 of the application.
- If the 24 month option is chosen, it cannot be changed to 60 months afterwards.

When Can I Claim My Credits?

- Both the federal and Wisconsin credits can be claimed once the property is placed back into service.

What is Adjusted Basis?

- Purchase price of the property, minus the value of the land (at time of purchase), plus improvements already made, minus depreciation already taken.

Is there a Fee For Applying?

- For the Federal 20% Credit, the NPS charges a fee for reviewing applications. Fees are charged for the review of proposed work (Part 2) and for review of completed projects (Part 3). The fees are based on the rehabilitation costs. Payment should not be sent until requested by NPS. The NPS will not issue a certification decision until payment has been received.
 - For rehab costs of \$0-\$79,000, there is no fee.
 - For rehab costs of \$80,000-\$3,849,999, the fee is \$845 + 0.15%
 - For rehab costs of \$8,850,000 or more, the fee is \$6,500

Can I Be Denied?

- You can be denied in various ways, depending on which credit you are applying for.
- For the Federal and Wisconsin 20% Historic Tax Credits, you can be denied at any of the three parts of the application. If you're denied in Part 1, you can then apply for the Non-historic and/or qualified tax credits. You can be denied in Part 2 if your plans do not meet the Secretary of the Interior Standards for Rehabilitation. However, WHS will work with you to a certain level to determine how the plans can be adjusted to meet the standards. And finally, you can be denied in Part 3 if the work you did does not follow the approved plans from Part 2.
- For both Wisconsin credits, you can be denied if you are in default of any of the standard underwriting criteria, are not in compliance with any laws, regulations, ordinances, or have any occurrences that could be deemed as having adverse material impact on the project.
- In addition, for both Wisconsin credits, the state legislature has set an undetermined cap on the amount of funding available. If the legislature would review the credit and determine to implement a cap, WEDC reserves the right to cease funding when that cap is reached.
- In cases where the original application was approved for a certain amount, but actual rehab costs exceed that amount, but the legislature has ceased funding, you will still be able to claim the original amount, but not the difference in actual costs.

What if I Can't Use Any or All of My Credits?

- If you are a nonprofit organization with no tax liability, or an individual with less tax liability than the credits are worth, you may be able to transfer (sell) them to other entities (people or corporations). Depending on which credit you are claiming, the rules and restrictions will vary.
- Large corporations typically invest in projects with \$1 million or more in credits. For smaller projects, entities such as local banks, utilities, insurance companies, real estate professionals, major local employers, and individuals with substantial tax liability are often willing to invest.
- Typically, federal credits are sold for a rate of 85-95 cents per dollar of credit, and state credits for around 65 cents. This is used as an equity investment in the project, in exchange for use of the credits once the project is completed and the property is placed into service.
- For the federal credits, investors (tax credit purchasers) must be partners in the project from the time of application. Typically, an LLC is formed that includes the developer and partners. Investors must remain in the LLC for 5 years after the property is placed into service and the credits are claimed. If recapture is required within those 5 years, the partners, as well as the developer, are liable for repayment.
- For the state credits, the developer can transfer (sell) the credits to individuals or corporations without requiring them to be part of an LLC. They simply need to create a transfer agreement, as required by the Wisconsin Dept. of Revenue (DOR). These investors (purchasers) are not liable for non-performance by the developer. The purchaser does not even technically need to have Wisconsin ties. They can purchase them from the developer (with DOR's approval) and turn around and sell them to a Wisconsin entity.
- Consulting with an experienced legal and accounting advisor is recommended during early stages of development planning in order to appropriately phase the project, apply for credits, and establish development partnerships.

What Requirements Are There for Me After I Claim the Credits?

- If within five years of the building being placed into service, it is sold or altered in a way that diminishes its historic character, the tax credit must be repaid to the IRS and to the Wisconsin Department of Revenue (DOR). Repayment is prorated over the five-year period (20% per year) after the building is placed in service.

Can Tax Credits Be Combined With Other Funding Sources?

- In many cases, yes, tax credits can be combined and/or used as match funding for other funding programs, including many WEDC community development grant programs. And you can combine the Federal and Wisconsin 20% Historic Rehabilitation Tax Credits, and you can combine the Federal 10% non-Historic and Wisconsin 20% Qualified Tax Credits. But you cannot combine the historic tax credits with the non-historic or qualified tax credits.

The Fine Print

1. For Certified Historic Properties...

- If not in a district, but deemed eligible by the WHS through a completed Part I, the property must be officially nominated by the owner, which can be done while the tax credit application process is underway.
- For any income-producing properties (including rental housing, condos, etc.).
- Must follow Secretary of Interior Standards.
- Apply to Wisconsin Historical Society.

20% Federal

- Although not technically required, it is highly recommended that work not begin until after Part 2 of application is approved.
- Must spend \$5,000 or the adjusted basis (whichever is greater).
- Credits can be carried back one year, and forward 20 years. If all credits are not used after 20 years, the remaining can be converted to tax deductions.

20% Wisconsin

- Part 2 of the application must be approved by the Wisconsin Historical Society before construction begins.
- Can be applied for independently of the Federal 20% credit.
- Credits can be transferred to individuals or corporations without being a development partner, and they are not liable for non-performance by the developer.

2. For Pre-1936 NON-Historic Properties...

- Building must be and remain in the same location since 1935.
- At least 50% of the buildings external walls existing at the time of the rehabilitation began must remain in place as external walls.
- At least 75% of the buildings existing external walls must remain in place as either external or internal walls.
- At least 75% of the buildings internal structural framework must remain in place.
- No formal review process (unless audited by IRS or Wisconsin Department of Revenue after credit is claimed).

10% Federal

- Can begin work at any time.
- File IRS form 3468 in the year the building is placed back into service.
- One time credit (cannot be carried forward multiple years).

20% Wisconsin

- Can be applied for independently of the Federal 10% credit.
- Apply to Wisconsin Economic Development Corporation.
- Work must not begin until the Letter of Intent (approval letter) is issued by WEDC.

Who Do I Contact For More Information?

Wisconsin Historical Society

- For Eastern Wisconsin:
Mark Buechel
(608)264-6491
Mark.buechel@wisconsinhistory.org
- For Western Wisconsin:
Jen Davel
(608)264-6490
Jen.davel@wisconsinhistory.org

Wisconsin Economic Development Corporation

- For Northeast & North Central Wisconsin:
Naletta Burr
(608)210-6830
Naletta.burr@wedc.org
- For Southeast Wisconsin:
Kathryn Berger
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- For South Central Wisconsin:
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Wisconsin Department of Revenue

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