

CAUTION

Effective April 29, 2005, the telephone number for the Division of Historic Preservation at the Wisconsin Historical Society has changed to (608) 264-6490

2004

Wisconsin Historic Rehabilitation Credits

(Attach to Wisconsin Form 1, 1NPR, 2, 3, 4, 4I, 4T, 5, or 5S)

Name

Federal Employer ID Number

Schedule

HR

Wisconsin Department of Revenue

Part I Supplement to Federal Historic Rehabilitation Tax Credit

Table with 7 rows for Part I. Row 1: Enter adjusted basis in the building on the first day of the rehabilitation period. Row 2: Enter qualified rehabilitation expenditures. Row 3: Enter 5% of amount on line 2. Row 4: Enter historic rehabilitation credit passed through from other entities. Row 5: Add lines 3 and 4. Row 6: Carryover of unused supplement to the federal historic rehabilitation tax credit. Row 7: Add lines 5 and 6.

Part II State Historic Rehabilitation Credit – Individuals Only

Table with 4 rows for Part II. Row 8: Enter qualified preservation costs. Row 9: Enter 25% of amount on line 8, but not more than \$10,000. Row 10: Carryover of unused state historic rehabilitation credit. Row 11: Add lines 9 and 10.

Instructions for Schedule HR

General Instructions

Item to Note

As a result of claiming historic rehabilitation credits, individuals may be subject to Wisconsin’s alternative minimum tax. For information about computing the credit carryforward, see Wisconsin Tax Bulletin 98 (July 1996), page 29, which can be found on the Department’s web site at www.dor.state.wi.us/ise/wtb/098tr.pdf.

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 used for business purposes 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 www.wisconsinhistory.org/hp/buildings, write to the Division of Historic Preservation, Wisconsin Historical Society, 816 State Street, Madison, WI 53706-1488, or call (608) 264-6500.

Partnerships, Limited Liability Companies (LLCs) Treated as Partnerships, Tax-Option (S) Corporations, Estates, and Trusts Complete Schedule HR to figure the credit to pass through to the partners, members, shareholders, or beneficiaries. Partnerships, LLCs treated as partnerships, and tax-option (S) corporations can’t claim the credit; instead, the credit flows through to the partners, members, or shareholders based on their ownership interests. Estates and trusts must share the credit with the beneficiaries in proportion to the income allocable to each. If you are a partner of a partnership, member of an LLC treated as a partnership, shareholder of a tax-option (S) corporation, or beneficiary of an estate or trust, use Schedule HR to report your credit.

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.

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:

- a. You must own (or, in certain cases, lease) a building that is listed in the National Register of Historic Places or that is determined to be historic and will be listed in the National Register.
b. You must use the building for the production of income, such as commercial, industrial, or residential rental purposes. 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.
c. You must substantially rehabilitate the building. A building is considered to be substantially rehabilitated if your qualified rehabilitation expenditures are more than the greater of \$5,000 or your adjusted basis in the building. 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.

- d. You must design and carry out the work in accordance with the “Secretary of the Interior’s Standards for Rehabilitation.”
- e. You must formally apply to the National Park Service, through the Wisconsin Historical Society, for certification of your project. The project must be approved before the physical work of construction, or destruction in preparation for construction, begins.

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

Line 2. Enter the amount of your qualified rehabilitation expenditures. If your qualified rehabilitation expenditures during the 24-month or 60-month rehabilitation period aren’t more than the greater of \$5,000 or your adjusted basis in the building, you don’t qualify for the credit.

Line 4. 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 5. Special instructions apply to pass-through entities.

Partnerships, LLCs treated as partnerships, and tax-option (S) corporations: Prorate the credit on line 5 among the partners, members, or shareholders based on their ownership interests. Show the credit for each partner or member on Schedule 3K-1 and for each shareholder on Schedule 5K-1.

Estates and trusts: Prorate the credit on line 5 between the entity and its beneficiaries in proportion to the income allocable to each. Show the entity’s portion of the credit in the space below line 5 and label it “Form 2 portion.” Show the credit for each beneficiary on Schedule 2K-1.

Line 6. Enter any unused supplement to the federal historic rehabilitation tax credit carried over from prior years.

Required attachments: You must attach to 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, attach 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, attach a copy of the “Historic Preservation Certification Application (Part 2 - Description of Rehabilitation).” Attach a copy of the final certification of completed work to the first income or franchise tax return filed after receipt of the final 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, attach a copy of your Schedule 3K-1, 5K-1, or 2K-1 instead of the final certification.

Part II – State Historic Rehabilitation Credit – Individuals Only

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

- a. 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.

- b. 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 www.dor.state.wi.us/ise/wtb/086tr.pdf, for more information.

- c. 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.

- d. You must design and carry out the work in accordance with the “Secretary of the Interior’s Standards for Rehabilitation.”
- e. You must complete the preservation or rehabilitation work within 2 years (5 years for a project that is initially planned for completion in phases).
- f. The State Historic Preservation Officer must certify that the completed project substantially complies with the previously approved plan.
- g. 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.

Line 8. Enter the amount of your qualified preservation costs. If your qualified preservation costs during the 2-year or 5-year period beginning with the date on which the physical work of rehabilitation begins aren’t more than \$10,000, you don’t qualify for the credit.

You may elect to claim a credit for your qualified preservation costs in the year that they are paid rather than in the year in which the project is completed if (a) the project will take at least 2 years and (b) it is reasonable to expect that the completed project will qualify for the credit. To make this election, show your total project costs on the dotted line to the left of entry line 8. On line 8, show the qualified costs paid this year.

Line 9. Enter 25% of the amount on line 8, 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 10. Enter any unused state historic rehabilitation credit carried over from prior years.

Required attachments: After the work is completed, you must attach to Schedule HR a copy of the final certification of completed work from the Wisconsin Historical Society. For projects not yet completed, attach a copy of the approved “Historic Preservation Certification Application – Part 2.”