

Schedule HR-5 Instructions

Purpose of Schedule HR-5

Schedule HR-5 is used to claim the supplement to the federal historic rehabilitation tax when the credit must be claimed over five years and the credit is transferred before the end of that five-year period.

Note: Definitions not found in these instructions can be found at sec. 71.28(6), Wis. Stats., and [sec. 47](#) of the Internal Revenue Code (IRC) and the related [Treasury Regulations](#).

Wisconsin Agencies Administering the Credit

- The Wisconsin Historical Society administers the rehabilitation requirements of the historic preservation program. For more information, visit the Historical Society's website 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.
- The Wisconsin Economic Development Corporation (WEDC) certifies the maximum amount of supplement to the federal historic rehabilitation credits that may be awarded. For more information, contact WEDC at: wedc.org/inside-wedc/contact-us/#regional or call 1-855-469-4249.

The Department of Revenue (DOR) administers claiming and using historic tax credits on tax returns and certifies credit transfers. For more information, visit the department's website at: revenue.wi.gov/Pages/FAQS/pcs-historic-transfer.aspx, email us at: DORFranchise@wisconsin.gov, or call (608) 266-2772.

Timing for Calculating and Claiming the Credit

Calculating the credit

- **By default**, the credit is calculated in the year a rehabilitated property is placed in service.
- **By election**, the credit is calculated using progress expenditures. The credit is calculated using in the year the Qualified Rehabilitation Expenditures (QREs) are paid.

Claiming the credit

- 100% of the credit claimed in one year

When the credit is calculated using QREs paid or incurred before December 31, 2017, or the transition rule applies, 100% of the credit is claim in the year calculated. Schedule HR is used to claim the credit and is attached to the Wisconsin tax return in the year calculated.

The transitional rule applies to a rehabilitated building when (1) the claimant is the owner for the entire period after December 31, 2017, and (2) the 24-month or 60-month measurement period used to determine if a building is substantially rehabilitated must have begun no later than June 20, 2018.

- 20% of the credit claimed in 5 years

When the credit is calculated using QREs paid or incurred after December 31, 2017, and the transition rule does not apply, the credit must be claimed over a 5-year period. Schedule HR is used to report 20% of the calculated credit and is attached to the Wisconsin tax return beginning with the year the credit is calculated and for the following four years unless the credit is transferred.

When a credit subject to the 5-year spread is transferred before the end of the 5-year period, any amount of the transferred credit not yet claimed is reported on Schedule HR-5. This removes a claimant's requirement to file a Schedule HR for a credit that is no longer owned.

Important limitations

- If the QREs also produce a federal historic rehabilitation credit, the credit cannot be claimed in a different taxable year than federal historic rehabilitation credit.
- A transferred credit is first available to be claimed by the purchaser for the taxable year in which it is purchased or transferred.

Qualifications to Claim the Credit

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

- The claimant must be certified by WEDC as eligible for the credit. Once eligibility is approved, WEDC and the property owner sign a contract.
- The rehabilitation project must be approved by the National Park Service or Wisconsin Historical Society and the design must adhere to the “Secretary of the Interior’s Standards for Rehabilitation”.
- No credit may be claimed for property listed as a contributing building in the State Register of Historic Places or in the National Register of Historic Places and no credit may be claimed for non-historic, nonresidential property converted into housing if the property has been previously used for housing.
- 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:
 - 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.
 - The proposed preservation or rehabilitation plan follows standards promulgated under sec. 44.02 (24), Wis. Stats., and the completed preservation or rehabilitation substantially complies with the proposed plan.
 - The costs are not incurred to acquire any building or interest in a building or to enlarge an existing building.
 - The costs were not incurred **before** the State Historical Society approved the proposed preservation or rehabilitation plan.

The date a project is “begun” is the date on which the physical work of rehabilitation begins. The physical work of rehabilitation does not 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.

- The QREs used to calculate the credit must meet the requirements under IRC sec [47\(c\)\(2\)](#), including:
 - The rehabilitated 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.
 - The rehabilitated building must be used for the production of income.
 - The rehabilitated building must be substantially rehabilitated according to IRC sec. [47\(c\)\(1\)\(B\)](#) and Treas. Reg. [26 CFR 1.48-12](#) A building is considered rehabilitated if, the QREs incurred during the measuring period exceeds the greater of \$5,000 or the rehabilitated property’s adjusted basis. The measuring period end date occurs in the same year the rehabilitation project is completed.
 - For the purposes of the substantial rehabilitation test, the adjusted basis of a building equals the cost of the property, less the cost attributable to land plus previously made capital improvements, less depreciation.
 - A 60-month measuring period may be substituted for phased rehabilitation projects. A rehabilitation may reasonably be expected to be completed in phases if it consists of two or more distinct stages of development set forth in the architectural plans and specifications prepared before the physical work on the Rehabilitation begins.
 - Additional Information about the substantially rehabilitated test can be found on the IRS webpages, [Rehabilitation Credit](#) and [Rehabilitation Credit \(historic preservation\) FAQs](#). Consultation with a tax accountant may be required to determine the adjusted basis and if the property has been substantially rehabilitated.
 - The QREs do not include acquisition or enlargement costs.

- The QREs must exceed \$50,000.
- The credit may not exceed \$3,500,000 per parcel (\$17,500,000 of QREs).

Other Tax Issues

The Basis of the Rehabilitated Property

When the supplement to the federal historic rehabilitation tax credit is claimed, the qualified rehabilitation expenditures must be added to the basis of the building and depreciated using the straight-line method. In addition, the credit amount is subtracted from the basis of the building.

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 sec. 383, IRC, 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, DOR 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 Line Instructions

Section A – Taxpayer Information

Lines (2) and (7) – Identifying number. Only the last four digits are required.

If the taxpayer is:

- A corporation or a single member LLCs that is not disregarded use the federal employee identification number (FEIN).
- An Individual use the social security number.
- A sole member of a disregarded entity otherwise eligible to claim the credit use the sole member's identifying number on line (2). Check the line (6) box and enter the disregarded entity's FEIN on line (7). If the disregarded entity does not have a FEIN, enter NONE.

Lines (5) and (9) - Contact information

The department will use this information if more information is required.

A claimant may authorize a third-party designee to discuss credit related information with the department by completing lines (8) and (9). However, a Power of Attorney may still be needed.

- A Power of Attorney (Form A-222) executed by the taxpayer is required in order for the taxpayer's representative to perform certain acts on behalf of the taxpayer and to receive and inspect certain tax information, including receiving the Notice of Certification letter. The form is available at revenue.wi.gov/dorforms/a-222f.pdf.
- As an alternative to appointing a Power of Attorney, you may name a third party to discuss. If you check the box, you are authorizing the department to discuss with the designee any questions that may arise, and the designee to provide additional information to the department.

Note: The third-party designee cannot receive the Notice of Certification letter on behalf of the taxpayer. If you check the box, you are authorizing the department to discuss with the designee any questions that may arise, and the designee to provide additional information to the department.

Section B – The Rehabilitated Property

Line (1) - The Project Name

The national and state registers of historic properties often include an identifying name that may change as a result of the rehabilitation. Enter the name as it that appears after the rehabilitation.

Lines (2) and (3) – The Project Address

A rehabilitated property may consist of multiple addresses, enter the address identified on the WEDC contract.

Section C – Credit Information

Line (1) – The total credit being claimed

Line 1 – Enter the total credit being claimed.

Lines (1a) and (1b) – Fiduciaries Only

- Line 1(a) – Prorate the credit from line 1 between the entity and its beneficiaries in proportion to the income allocable to each. Show the beneficiaries part of the credit on line 1a. Show the credit for each beneficiary on Schedule 2K-1.
- Line 1(b) – Subtract line 1a from line 1. This is the estate's or trust's portion of the credit.

Line (2) – The claimed credit

- There are several ways a taxpayer may become the owner a credit. Check all that apply to the sum of credits being claimed on line (1).

Line (3) – Taxpayer is owner of the rehabilitated property

When a C-corporation or individual owns a rehabilitated building subject to the 5-year claim requirement there are three scenarios a Schedule HR-5 is used to claim the credit.

- The credit is calculated and transferred in the current year – use Lines 3(a) to 3(k).
- The credit being transferred was calculated and claimed in one of the previous four years – use Lines 3(l) to 3(o).
- The credit being transferred is the combination of the two scenarios – Line 3(p) = line 3(k) plus line 3(o).

Line 3(a) – WEDC is required to certify a historic rehabilitation project as eligible for the Wisconsin supplement to the federal rehabilitation credit. Once eligibility is approved, WEDC and the property owner sign a contract. Enter the number that appears at the upper right corner of the applicable contract. If the property owner is claiming and transferring credits from multiple contracts complete multiple Schedule HR-5.

Line 3(b) – Enter the adjusted basis of the historic building prior to incurring QREs.

Lines 3(c) and 3(d) – Check the box for the credit associated with WEDC contract on line 3(a). Check 3(c) if the credit is calculated using the total QREs in the year the project is completed. Check 3(d) if the election is being made to calculate the credit using progress expenditures. See *Calculating, Claiming and Transferring the Credit*.

Line 3(e) – Enter the adjusted basis at the beginning of the measuring period. The adjusted basis for the substantially rehabilitation test is the sum of the purchase price and the eligible expenditures that are of the nature to be capitalized rather than expensed, even if those expenditures have not yet been capitalized.

Lines 3(f) and 3(g) – Enter the beginning and ending date of the measuring period used for the substantially rehabilitated test.

- The end date of the measuring period must occur in the same tax year the rehabilitated property is placed in service.
- The total QREs used to calculate the credit are not limited to those incurred during the measuring period.
- The measuring period does not apply if the election is made to claim the credit in the year the expenditures are incurred.

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- See the sec. 47, IRC, and related Treasury Regulations for information about the measuring period.

Lines 3(h) to 3(j) – Enter the amounts as described. Line 3(j) is the total calculated credit, not the amount being claimed due to a current year transfer. A claimant may transfer and claim all or part of a calculated credit.

Line 3(k) – Enter the amount of the credit calculated in the current year that is being transferred in the current year and therefore required to be claimed. Enter the applicable amounts on lines 3(k)(i) to 3(k)(v).

Line 3(l) – If the claimant is transferring a credit that was calculated in one of the prior four years (but not transferred until the current year), enter the WEDC contract number associated with that credit.

Line 3(m) – Enter the total credit amount associated with the WEDC contract on line 3(l) required to be spread over 5-years. This amount is found on line 3 of the related Schedule HR previously filed with the claimant’s Wisconsin income tax return.

Line 3(n) – Enter the date the credit was first reported on Schedule HR. This should be the same year the project was completed.

Line 3(o) – Enter the amount of line 3(m) being transferred in the current year that was not previously claimed.

Line 3(p) – Add lines 3(k) and 3(o).

Line 4 - Historic rehabilitation credit calculated using QREs allocated from a pass-through entity

If the credit was calculated using QREs allocated from an estate or trust, partnership or LLC treated as a partnership, or tax-option (S) corporation, complete lines 4(a) to 4(j) as indicated.

When a pass-through entity is the owner of the rehabilitated property the QREs are allocated to its owners using the ownership interest percentage or, a special partnership allocation percentage if indicated in the partnership agreement. Once the eligible costs are allocated, the owner as the claimant determines the method for calculating and claiming the credit.

- By default, the allocated costs are accumulated until the rehabilitated property is placed in service at which time the credit is calculated.
- Alternatively, the claimant may elect to calculate the credit in the year the eligible costs are incurred. This election is made at the owner level and there is no requirement all owners must make the same election.

Line 5 - Historic rehabilitation credit received in a previous transfer

If the claimant became the owner of the claimed credit as the transferee in a previous transfer, complete lines 5(a) to 5(e) as indicated.

Line 6 – Total credits from additional Schedules HR-5

If the claimed credit was obtained from more than one WEDC contract reported on Lines 3 or 4 or from multiple transfers reported on Line 5, additional Schedules HR-5 are completed. If applicable enter the total of all additional Schedules HR-5..

Required Attachments

1. Approved and signed copies of the federal National Park Service or the Wisconsin, Historic Preservation Certification Application, Part 2, *Description of Rehabilitation* and Part 3, *Request for Certification of Completed Work*.
 - If Line 3(c) is checked but the approved Part 3 has not yet been received, include a copy of the Part 3 submitted for approval.
 - If Line 3(d) is checked indicating the credit being claimed is calculated using the progressive expenditure election, submit the approved Part 3 after the project is completed.
2. Evidence the project was completed and ready to be used for the intended purpose. For example, an occupancy certificate.

If Line 3(c) is checked indicating the credit being claimed is calculated using the progressive expenditure election, submit the approved Part 3 after the project is completed.

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3. If the credit is allocated from a partnership, LLC treated as a partnership, tax- option (S) corporation, estate, or trust, include, (i) a copy of your Schedule 3K-1, 5K-1, or 2K-1, and (ii) a copy of the entity operating agreement.
4. A copy of the WEDC contract
5. If there is a carryover of the supplement to the federal historic rehabilitation credit from a prior taxable year, include Schedule CF with the tax return.

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 secs. [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 2023 tax year is purchased in 2024. The credit can be used by the purchaser in tax year 2024 or later. The purchaser cannot amend the 2023 tax return.

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.**

Carryforward of Transferred Credits

The carryforward period for purchased credits 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.

Capital Gain Recognition

The seller of the tax credit will have 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 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 purchaser of 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 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, 2022, long-term capital gain treatment would apply beginning September 17, 2023.

Additional Information

For more information, you may:

- Access common questions at: [Transfer of Supplement to the Federal Historic Rehabilitation Credit](#)
- Email your question to: DORFranchise@wisconsin.gov

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- 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.

Applicable Laws and Rules

This document provides statements or interpretations of the following laws and regulations in effect as of the revised date: [Chapter 71](#) Wis. Stats.