Instructions for 2025 Schedule HR

Purpose of Schedule HR

There are two Wisconsin historic preservation credits are available. The Schedule HR is used to claim either credit.

Part I – ***Supplement to the Federal Historic Rehabilitation Tax Credit***

This credit is equal to 20% of qualifying expenditures incurred in a rehabilitation project of a historic building used for the production of income. It is available to individuals, C-corporations, and on a limited basis, tax-exempt entities.

Part II – *State Historic Rehabilitation Credit* – Individuals Only

This credit is equal to 25% of qualifying expenditures incurred for preserving or rehabilitating an owner-occupied personal residence. There is no similar federal credit.

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

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.

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.

Part I - Supplement to the Federal Historic Rehabilitation Tax Credit

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 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 claimed 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).

Specific Line Instructions

Line 1 – Enter the adjusted basis of the historic building prior to incurring QREs.

The adjusted basis of a building is the cost of the property (excluding land) plus or minus adjustments to basis. Increases to basis include capital improvements, legal fees incurred in perfecting title, zoning costs, etc. Decreases to basis include deductions previously allowed or allowable for depreciation. See Treasury Regulation 1.48-12(b)(2)(iii) for more information.

Lines 2a & 2b – Check 2(a) if the credit is calculated using the total QREs in the year the project is completed. Check 2(b) if the election is being made to calculate the credit using progress expenditures. See Calculating, Claiming and Transferring the Credit on page 1 of the instructions.

Lines 2c & 2d – Enter the dates on which the 24 or 60-month measuring period begins and ends.

Line 2e – Enter the total amount of qualifying expenditures incurred on the project so far.

Line 2f – Enter the QREs used to calculate the credit in the current year. .

CAUTION: In order to claim the credit, the QREs during the 24-month or 60-month rehabilitation period must exceed the adjusted basis of the property and be at least $50,000.

Line 3 – The credit is equal to 20% of the QREs. Multiply line 2f by 20% (.20) and enter the result.

Line 4 – If the credit must be claimed over a 5-year period, multiply line 3 by 20%, otherwise enter the amount on line 3.

Line 5 – Complete when the credit is received from a partnership, LLC treated as a partnership, tax-option (S) corporation, estate, or trust.

Line 6 – Complete when the credit was purchased 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.

Line 9 – Add lines 7 and 8 unless you are a fiduciary. Fiduciaries should add lines 7b and 8.

Line 10 – Enter the credit amount transferred during the current taxable year.

Line 11 – Subtract line 10 from line 9. This is the available supplement to the federal historic rehabilitation tax credit. Enter the credit as follows:

- **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.
- **Partnerships and LLCs Treated as Partnerships:** Prorate the credit on line 11 among the partners or members in accordance with the partnership agreement. If the agreement is silent on the allocation of the credit, the credit is distributed on a pro-rata basis based on ownership. Show the credit for each partner or member on Schedule 3K-1, Part II.
- **Corporations:** Enter the amount of credit from line 11 on the proper 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

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 2(a) is checked but the approved Part 3 has not yet been received, include a copy of the Part 3 submitted for approval.
- If Line 2(b) 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 2(b) is checked indicating the credit being claimed is calculated using the progressive expenditure election, submit the approved Part 3 after the project is completed.
3. If the credit is calculated using QREs 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.
4. If QREs from a partnership or LLC treated as a partnership are distributed using a special allocation percentage, include the documentation agreeing to the special allocation.
5. A copy of the WEDC contract.
6. 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.

Part II – State Historic Rehabilitation Credit – Individuals Only

Qualifications to Claim the State Historic Rehabilitation Credit

To qualify for the state historic rehabilitation credit, the following requirements must be met:

- The taxpayer,
  - Must own and occupy the rehabilitated property as a personal residence.
  - Did not sell the property during the first year after the project is completed.
  - Did not acquire the property under an agreement requiring the taxpayer to sell or otherwise dispose of the historic property back to the previous owner within 5 years after the date that the historic property was acquired.
- The property cannot 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 part of the residence is used for income-producing activities, the credit may be prorated.
- The State Historical Society certifies 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 which 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 issued under sec. 44.02(24), Wis. Stats., and the completed preservation or rehabilitation follows the proposed plan.
- The preservation or rehabilitation project is completed within 2 years after the date that the physical work begins. If a project is initially planned for completion in phases, the 2-year requirement is replaced with 5 years.
- The qualifying preservation or rehabilitation costs,
  - Must be greater than $10,000 per project ($5,000 per project for married couples filing separate returns).

    This limit is applied over the 2 or 5-year rehabilitation period, not the tax year in which Schedule HR is completed, unless the project begins and ends during the current taxable year.

    If property is used for both business and personal purposes, the qualified preservation costs relating to the personal residence part of the property must be more than $10,000.
  - May include architectural fees incurred for the nomination form for listing in the National or State Register of Historic Places, if the nomination is made within 5 years before submission to the Wisconsin Historical Society.
  - Related to the physical work are incurred after the Wisconsin Historical Society has approved the proposed preservation or rehabilitation plan 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.

- Cannot include the costs of buying or enlarging the property

Specific Line Instructions

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.

Line 12c – 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.

Lines 13a - 13f – For each project, 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, but do not enter more than $40,000 per project ($20,000 per project if married filing separate).

Note: If filing on paper and there are more than six projects, enter the total costs for projects six and up on line 13f and include the cost details for projects six and up on a separate schedule. When entering the total on line 13f, the total projects can be more than $40,000 ($20,000 if married filing separate).

Line 14 – Enter 25% of the amount on line 13g, but not more than $10,000 per project ($5,000 per project if you are married and file a separate return). The maximum credit available for each preservation or rehabilitation project is $10,000 ($5,000 if you are married and file a separate return).

Line 15 – Enter any unused state historic rehabilitation credit carried over from prior years from Schedule CF. Include Schedule CF with your tax return.

Line 16 – Enter the amount of credit from line 16 on the appropriate line of Form 1 or Form 1NPR. Include Schedule CF if the credit was not fully used to offset tax.

Required attachments

After the work is completed, you must include with Schedule HR a copy of the signed and approved Part 3 – *Request for Certification of Completed Work,* from the Wisconsin Historical Society.

For projects not yet completed, include a copy of the signed and approved Part 2 – *Description of Rehabilitation,* from the Wisconsin Historical Society.

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

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.

NOTE: Only the supplement to the federal historic rehabilitation tax credit may be transferred; the state historic rehabilitation credit may not be transferred.

The purchaser can first use the credit in the tax year the purchase is completed. For example, a tax credit from the 2021 tax year is purchased in 2024. The credit can be used by the purchaser in tax year 2024 or later. The purchaser cannot amend their return to use the credit in 2021, 2022, or 2023.

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 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 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 follows 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 buy 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.

Capital Gain Recognition

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 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, 2023, long-term capital gain treatment would apply beginning September 17, 2024.

Additional Information

For more information, you may:

- Access common questions at: revenue.wi.gov/Pages/FAQS/pcs-historic-transfer.aspx
- 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.

Applicable Laws and Rules

This document provides statements or interpretations of the following laws and regulations enacted as of the revision date: Chapter 71 Wis. Stats.