



FACT SHEET

STATE & FEDERAL HISTORIC TAX CREDITS

FOR INCOME -PRODUCING PROPERTIES

Rev. Oct. 15, 2024

Beginning in 2014, Wisconsin property owners and developers who invest in renovating and restoring historic properties can take advantage of a 20% state tax credit to help finance this type of project. This act expanded the state match for federal tax credits on certified historic properties. 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 federal and state credits and how they can be applied to individual projects.

What Types of Rehabilitation Tax Credits are Available?

	Federal	State
Name	Federal Certified Historic Rehabilitation Tax Credit	State Certified Historic Tax Credit
Percent of Project Costs Eligible for Credits	20% of qualified rehabilitation expenditures (QREs)	20% of qualified rehabilitation expenditures (QREs)
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"> • Be on the national register, or a contributing building within a historic district • Taxable property • Income producing properties • Non-profits with a plan to sell (transfer) the credits
Application Process	<ul style="list-style-type: none"> • 3-part application process 	<ul style="list-style-type: none"> • Same 3-part application process as federal • WHS notifies WEDC of the conditional Part 2 approval
Project Timing & Scope	<ul style="list-style-type: none"> • Must follow secretary of interior standards for rehabilitation • Work can begin prior to approval, but only approved work will qualify 	<ul style="list-style-type: none"> • Must follow secretary of interior standards for rehabilitation • Part 2 of federal application must be approved by Wisconsin Historical Society prior to work beginning

LOOK FORWARD ➤

	<ul style="list-style-type: none"> • Minimum project expenditure of \$5,000 or adjusted basis (whichever is higher) 	<ul style="list-style-type: none"> • Minimum project expenditure of \$50,000 AND adjusted basis • \$3.5 million maximum
Credit Use & Transferability	<ul style="list-style-type: none"> • Can transfer to entities listed as partners in the project, must remain partners for 5 years after completion • Credits can be carried back 1 year and forward 20 years, spread out 5 years minimum 	<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, spread out 5 years minimum

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 individually listed on the register: <https://www.wisconsinhistory.org/Records?nodes=Preserve--Sites>
 - **If it is not individually listed**, complete Part 1 of the Historic Preservation Certification Application—"Evaluation of Significance" and submit 2 copies to the Wisconsin Historical Society (WHS). The Application is located here: <https://www.wisconsinhistory.org/Records/Article/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 and/or purchasers of potential credits.
- **Step 3:** Apply for the desired credits, and receive notice of approval.
 - Part 2 of the Historic Preservation Certification Application—"Description of Rehabilitation" must be completed and submitted to WHS. Note: this application can take months to complete. WHS has 30 days to review the Part 2 application, then forwards it to the NPS, who has another 30 days to review it. Note that any missing information in the application or amendments can extend this review timeline. Once Part 2 is approved, WHS will contact WEDC to verify that funding is still available for the state credits, and that the applicant passes all background check criteria.
- **Step 4:** Complete your renovation project as approved, and within the designated timeframe. Submit an amendment for any changes to the approved plans before proceeding with that portion of the renovation.

- **Step 5:** Claim your credits.
 - After rehabilitation work is completed and the building is placed back into service, the owner submits 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 for certification. The NPS then evaluates the completed project against the work proposed in the Part 2—Description of Rehabilitation.

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 the National (and Wisconsin) Registers of Historic Places. Note: if a property is not listed, but is deemed potentially eligible for listing by the WHS, the owner must officially nominate it for listing. This can be done concurrently with Part 2 of the tax credit application.
- Any contributing building within a National Register Historic District may be a certified historic property, but Part 1 of the application still needs to be completed & approved before Part 2 can be approved.
- To determine if a property is already listed, contact the Wisconsin Historical Society, or visit: <https://www.wisconsinhistory.org/Records?nodes=Preserve--Sites>

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
- Contributing 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 (excluding units used as owner's primary residence)
- Depreciable or amortizable properties

What is NOT an Income-Producing Property?

- Any home or unit that serves as owner's primary residence
- Churches and religious properties
- Government properties

Note: See below for ways that tax exempt entities such as churches and government entities can utilize tax credits.

Can a tax-exempt (nonprofit) entity receive tax credits?

- For the federal credits, 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).
- For state credits, a tax-exempt entity can receive the credits, but must transfer (sell) them to a taxable entity.

What Are Eligible Expenses?

- The cost of all approved 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 <https://www.nps.gov/articles/000/treatment-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, and must be spread out for at least 5 years, not used all at once.

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. 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 performed did not follow the approved plans from Part 2.
- For Wisconsin credits, you can be denied if you are in default of any of the standard underwriting criteria, are in non-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 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 (federal or state), 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 may be willing to invest.
- Typically, credits are sold for a rate of 80-95 cents per dollar of credit. 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 be located in Wisconsin.
- 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 (or a portion thereof) 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 for other funding programs, including many WEDC community development programs. You can also combine the federal rehabilitation tax credits and Wisconsin historic tax credits. In general, the federal credits cannot be used along with federal energy credits.

The Fine Print

- 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 construction or demolition 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.

20% Wisconsin

- Part 2 of the application must be approved by the Wisconsin Historical Society before any construction or demolition begins.
- Project must have \$50,000 in eligible expenses AND meet the adjusted basis of the property.
- Can be applied for independently from 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.

For more information

Federal 20% Rehabilitation Tax Credits (National Park Service)

<https://www.nps.gov/subjects/taxincentives/index.htm>

Wisconsin 20% Historic Tax Credits (Wisconsin Historical Society)

<https://www.wisconsinhistory.org/Records/Article/CS3215>

Contact Information

Wisconsin Historical Society

- For Eastern Wisconsin:

Paul Porter
(608) 264-6491
paul.porter@wisconsinhistory.org

- For Western Wisconsin:

Andrea Herries
(608) 264-6490
andrea.herries@wisconsinhistory.org

Wisconsin Department of Revenue

- Kelly Vanden Branden

(608) 264-6890
Kelly.VandenBranden@wisconsin.gov

Wisconsin Economic Development Corporation

- There are 10 regions in Wisconsin, each with their own Regional Economic Development Direct who can assist you in applying for tax credits. For the most updated

map and contact information, see <https://wedc.org/wp-content/uploads/2024/09/REDD-Map-2024-09.pdf>