DOWNTOWN DEVELOPMENT TOOLKIT

HISTORIC TAX CREDITS

WISCONSIN ECONOMIC DEVELOPMENT

HISTORIC REHABILITATION TAX CREDITS

Tax credits for historic restoration and preservation are a valuable tool for economic and community development. This category of tax credits was created at the federal level in 1976 to encourage the reuse and renovation of income-producing historic buildings. Several states, including Wisconsin, have created similar programs at the state level as well. Through these programs, owners of designated historic commercial buildings can apply for and receive tax credits for eligible and appropriate renovation expenses. Currently in Wisconsin, there is a 20% state credit available, which can be used on its own or in tandem with the 20% federal credit for a potential total tax credit of 40% of eligible expenses.

To qualify for these credits, a building must be listed on the National Register of Historic Places, either individually or as a contributing building within a National Register-designated historic district. If a building is not yet listed but is deemed eligible by the Wisconsin Historical Society, property owners can officially nominate their buildings or work with other adjacent property owners to nominate a historic district. Renovation projects that use this tax credit must undergo formal design review by the Wisconsin Historical Society and the National Park Service to ensure they align with the Secretary of the Interior's Standards for Rehabilitation, which address design and preservation standards, processes, and use of materials.

This toolkit will focus solely on the process of applying for and claiming tax credits for historic restoration and preservation. For more detailed information on nominating a building for the National Register, see the Wisconsin Economic Development Corporations (WEDC's) Downtown Development Toolkit for Historic Preservation.



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FEDERAL AND STATE TAX CREDITS FOR HISTORIC PROPERTIES

Name	Federal Certified Historic Rehabilitation Tax Credit	State Certified Historic Preservation Tax Credit
Percent of Project Costs Eligible for Credits	20%	20%
Eligibility	• Be on or eligible for the National Register, or a contributing building within a designated historic district • Taxable property • Income-producing properties	• Be on the National Register or a contributing building within a designated historic district • Taxable property • Income-producing properties
Application Process	• Three-part application process	• Submit federal approval or complete federal Part I & II to Wisconsin Historical Society
Project Timing and Scope	• Must follow Secretary of the Interior's Standards for Historic Preservation • Work can begin prior to approval, but only approved work will qualify • Spend the greater of $5,000 or the adjusted basis of the property (see below)	• Must follow Secretary of the Interior's Standards for Historic Preservation •Part 2 of federal application must be approved by Wisconsin Historical Society prior to beginning work • Minimum project expenditure of $50,000 • Each individual parcel of land can only receive up to $3.5 million in Historic Preservation Tax Credits
Credit Use and Transferability	• Can transfer to entities listed as partners in the project that will remain engaged for five years after completion • Credits can be carried back one year and forward 20 years	• Can transfer to individuals or entities with tax liability, regardless of project participation • Credits can be carried forward 15 years

WHAT IS A TAX CREDIT?

A tax credit lowers the amount of income taxes owed by the property owner. This differs from a tax deduction, which merely lowers the amount of income subject to taxation. In general, a dollar of tax credit reduces the amount of income tax owed by one dollar. The amount of tax credits provided under these programs relates directly to the amount spent on a building's historic rehabilitation.

TAX CREDITS CAN BE COMBINED WITH OTHER SOURCES OF INCOME, INCLUDING GRANTS, LOANS, FINANCIAL CREDITS, OR ANY OTHER FINANCIAL TOOL.

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APPLICATION PROCESS

There is a multi-step application process for historic tax credits. Fortunately, a single application can be used for both the federal and the state tax credits. The entire process can take months (or even up to a year or more if the building isn't already listed on the National Register). Make sure to plan ahead, and don't start any renovation work until your proposed plans (Part 2 of the application) are approved.

Part 1 of the application is to determine if the building is a certified historic structure. The Wisconsin Historical Society maintains an Architectural & History Index on its website at https://www.wisconsinhistory.org/Records?nodes=Preserve--Sites where one can do an initial check. Keep in mind that just because it's in this inventory does not mean it is officially listed.

If the building is already individually listed on the National Register, is it already certified. However, if the building is not yet individually listed, or is within a National Register historic district, part 1 is required. If it is within a district, part 1 will determine whether it is a contributing building within that district. If it is not contributing or is not within a district at all, and is also not individually listed, part 1 will determine if it might be eligible for listing.

If the building is deemed potentially eligible, then a formal nomination process must begin. This often requires the expertise of a historic preservation consultant and can take up to a year or even longer. Fortunately, this can be done at the same time as the tax credit application process.

There are two options for nominating potentially eligible buildings; individually or as part of a historic district. Unless the building has exceptional architectural or historical significance, it will have a better chance of approval if nominated as part of a district. While nominating a district can take longer and be more expensive, it can benefit multiple buildings, and the affected property owners may be willing to share the costs.

Contact the National Register coordinator at the Wisconsin Historical Society early to help you through the nomination process and direct you to a list of certified historic preservation consultants who have worked in Wisconsin.



Case Study: Al Ringling Theater, Baraboo

$250,000 in Historic Preservation Tax Credits were part of the $3.2 million project to renovate and preserve the historic Al Ringling Theatre in downtown Baraboo. The project, completed in time for the theater's 100th birthday, restored many of the original fixtures while also adding modern conveniences like updated restrooms and a bar. The theater regularly draws visitors to the community from Madison and Milwaukee and is responsible for driving foot traffic in the downtown area to support additional businesses. Other funding partners included the City of Baraboo, the Jeffris Family Foundation, and private contributions.



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APPLICATION PROCESS

Application Process

Part 2 is to determine if the owner's rehabilitation plans meet the Secretary of the Interior's Standards for Historic Preservation. It can take some time for the owner or their architect to pull the information together and submit the application, which asks for floor plans, elevations, photographs of current conditions, cost estimates, material selections, written descriptions of the proposed work, etc. It is highly recommended that the historic preservation architect/tax credit reviewer at the Wisconsin Historical Society be contacted at the beginning of the planning phase and brought in for a tour of the property to make sure the plans will meet the Secretary of the Interior's Standards.

Once completed, the application is sent to the Wisconsin Historical Society, who has up to 60 days to review it before it is forwarded on to the National Park Service, which has an additional 60 days for review.

If the application is approved, the owner will receive a letter saying so. If the applicant is seeking state tax credits, a copy will also be sent to WEDC, which will then verify that the qualified renovation costs are over $50,000 and the credits being requested are under $3.85 million per parcel. WEDC will also determine if the renovation is planned to be completed within two years (or five years for a phased project) and perform a background check on the owner for things such as tax delinquency. WEDC is also responsible for approving any request for transfer or sale of state tax credits from the applicant to another entity. It's recommended that the owners contact their WEDC regional economic development director at the beginning of the application process to help them navigate these various steps.

Regional Economic Development Director List

Part 3 begins once renovation work is completed. This part of the application process requires photographs and a written narrative from the owner, contractor, or architect attesting that they did all the work as approved in part 2.

Once completed, the building must be placed back in service (returned to use). The date the building is placed in service is key in determining the date for beginning to claim tax credits. From the return to use date, the owner must not sell the building for at least five years and must not perform any unapproved alterations during that time. If either occurs, the U.S. Internal Revenue Service or the Wisconsin Department of Revenue can recapture the tax credit in increments of 20% per year, depending on the number of years since the building was placed in service. During this five-year period, the Wisconsin Historical Society and the National Park Service can inspect the building at any time.

Tax credits do not need to be claimed all at once. In fact, current state law requires that the state credits be claimed over at least five years. The federal credits can be claimed retroactively one year before the building is placed back in service and up to 20 years afterward. State credits can be claimed for up to 15 years afterward.

Since the factors involved are complex, using an accountant with experience in these types of credits is recommended.





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COMMON QUESTIONS

What are eligible expenses?
Eligible expenses may include interior and exterior renovation costs as well as architectural, engineering, site survey, legal, and development fees, as long as they are added to the basis of the property and are determined to be reasonable and related to the project. .

What expenses are NOT eligible?

- Acquisition costs
- Site work (landscaping, paving, sidewalks, parking lots)
- Furnishings or movable equipment
- New construction (including additions)
- Other related facilities (e.g., outbuildings, unless listed as contributing)
- Any work on a portion of the building that serves as, or will serve as, the owner's primary residence

Note: While new additions are not eligible expenses, they are still subject to design review as part of the application process.

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 Internal Revenue Service and to the Wisconsin Department of Revenue. Repayment is prorated over the five-year period (20% per year) after the building is placed in service.

Are there limits on the project size for which I can claim credits?
Both the federal and Wisconsin state tax credits have a minimum project amount as an eligibility requirement. For federal credits, the owner must spend the greater of $5,000 or the adjusted basis of the property. For the state (Wisconsin) credits, the owner must spend at least $50,000 per parcel. There is no maximum limit for federal credits, but in Wisconsin, there is a $3.5 million cap per parcel for state credits.

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 programs, including many WEDC community development grant programs.

When can I claim my credits?
Both the federal and Wisconsin credits can be claimed once the property is placed back into service.



The Brick House, Fond Du Lac, before

Case Study: Brick House, Fond Du Lac

In 2017, Laurie and Dan Baumhardt purchased a long-vacant building in an underutilized area of downtown. With consultation from the Wisconsin Historical Society, they worked on replacing the electrical system, windows, doors, and plumbing. After a $500,000 investment in new seating booths, tables, lighting, a baking kitchen, and a new bar, with the help of federal and state tax credits, the Brick House was reopened in December 2018.



The Brick House, Fond Du Lac, after

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COMMON QUESTIONS (CONTINUED)

What is adjusted basis?
The purchase price of the property, minus the value of the land at the time of purchase, plus improvements already made, minus depreciation already taken.

Is there a fee for applying?
For the federal 20% credit, the National Park Service charges a fee for reviewing applications. Fees are charged for the review of proposed work (Part 2) and for the review of completed projects (Part 3). The fees are based on rehabilitation costs. Payment should not be sent until requested by the National Park Service; a certification decision will not be issued until payment has been received.

- For rehab costs less than $80,000, there is no fee.
- For rehab costs of $80,000-$3,849,999, the fee is $845 + 0.15%
- For rehab costs of $3,850,000 or more, the fee is $6,500.

Can my application be denied?
Your application can be denied in various ways, depending on which credit you are applying for.

- For the federal and Wisconsin tax credits, you can be denied at any of the three parts of the application. You can be denied in Part 1 if your building is deemed not eligible for listing. However, the Wisconsin Historical Society will work with you, to a reasonable extent, to determine how the plans can be adjusted to meet the standards. You can be denied in Part 2 if your renovation plans do not meet the Secretary of the Interior's Standards for Rehabilitation. You can also be denied in Part 3 if the work done does not follow the approved plans from Part 2.
- For state tax 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 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, if the Legislature has ceased funding, you will still be able to claim the original amount but not for the costs exceeding that amount.



167 N Iowa Street, Dodgeville. Wisconsin Historical Society

Case Study: Bob's Bitchin' BBQ, Dodgeville

The owner of Bob's Bitchin' BBQ in Dodgeville started making his famous barbecue in the 1980s, and by 2011, he was selling it at famers markets and retail stores. In 2014, he was certified for $100,000 in historic tax credits, using an extension to allow him more time to complete the project.



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What if I can't use any or all of my credits?

- 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 Department 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 adviser is recommended during early stages of development planning to appropriately phase the project, apply for credits, and establish development partnerships.

- A nonprofit organization with no tax liability or an individual with less tax liability than the credits are worth may be able to transfer (sell) them to other entities (either 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 (although this varies significantly by project). The amount generated is used as an equity investment in the project in exchange for use of the credits once the project is completed.

- 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 five years after the property is placed into service and the credits are claimed. If recapture is required within those five years, the partners as well as the developer are liable for repayment.

What is an income-producing property?

- Commercial properties (retail, office, manufacturing, warehousing, service, hotels, etc.)
- Rental or condo housing that is not the owner's primary residence
- Depreciable or amortizable properties

What is NOT an income-producing property?

- Owner-occupied housing
- Churches and religious properties
- Government properties
- Note: Some nonprofit 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).



The Square in the 1950's, Ripon

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CONTACTS

Who can I contact for more information?

Wisconsin Historical Society

- Historic Preservation Officer
  Amy Wyatt
  608-264-6535
  amy.wyatt@wisconsinhistory.org

- National Register Coordinator
  Elizabeth Hilton
  608.264.6501
  Elizabeth.hilton@wisconsinhistory.org

Department of Revenue

- Claiming State Tax Credits
  Dale Kleven
  608.266.8253
  Dale.kleven@revenue.wi.gov

IMPORTANT LINKS

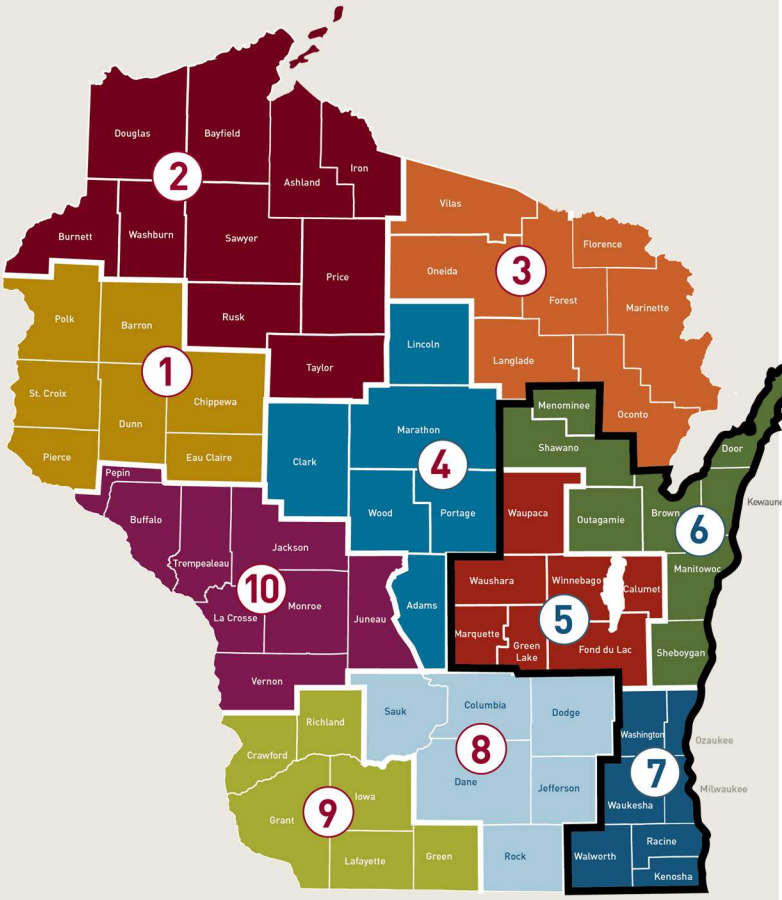
National Register Nomination Preparation
https://wisconsinhistory.org/preserve/state-historic-preservation-office/state-national-registers-of-historic-places/national-register-of-historic-places-eligibility

Wisconsin Historic Register
https://www.wisconsinhistory.org/preserve/state-historic-preservation-office/state-national-registers-of-historic-places/

Application Forms for Federal and State Tax Credits
https://wisconsinhistory.org/preserve/state-historic-preservation-office/historic-rehabilitation-tax-credits/

Historic Preservation Toolkit Link

Wisconsin Economic Development Corporation
Regional Directors Map



Wisconsin Economic Development Corporation

There are 10 regions in Wisconsin, each with their own regional economic development director who can assist you in applying for tax credits. For the most updated map and contact information, see https://wedc.org/contact-us/staff-directory/#regional-economic-development-directors