

Fiscal Estimate Narratives

DOR 3/1/2006

LRB Number	05-0140/2	Introduction Number	AB-1047	Estimate Type	Original
Description The supplement to the federal historic rehabilitation tax credit and the state historic rehabilitation tax credit and granting rule-making authority					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, two nonrefundable credits are provided to encourage the rehabilitation of historic buildings in Wisconsin: a supplement to the federal historic rehabilitation credit for commercial properties and a state credit for non-commercial properties.

The supplement to the federal historic rehabilitation credit, equal to 5% of qualified rehabilitation expenditures, can be claimed for projects that are eligible for the federal credit to substantially rehabilitate certified historic buildings for use in a trade or business. The credit is patterned after the federal 20% credit for commercial rehabilitation of historic buildings. Claimants must submit evidence to the Department that the rehabilitation work was approved by the Secretary of the Interior before construction began. The rehabilitation work must meet historic preservation standards and the expenditures must exceed the taxpayer's adjusted basis in the building. Unused amounts of the credit can be carried forward for up to 15 years.

The state historic rehabilitation credit is equal to 25% of qualified expenditures to substantially rehabilitate certified historic buildings for owner-occupied personal residences not used in the course of a trade or business. The rehabilitation work must meet historic preservation standards and the expenditures must exceed \$10,000. The maximum credit amount is \$10,000 (\$5,000 for married persons filing separately). Unused amounts of credit can be carried forward for up to 15 years.

Description of the Bill

The bill would increase the amount of the supplement to the federal credit for rehabilitation of commercial properties from 5% to 20% of qualified expenditures if the physical work of construction or destruction in preparation of construction begins after December 31, 2004. Persons not eligible for the federal credit because their qualified rehabilitation expenditures do not satisfy the adjusted basis requirement could claim the state credit if qualified expenses were at least \$10,000 and the project was recommended for approval by the state historic preservation officer before physical work on the project began. Claimants would be required to submit evidence to the Department that the project was recommended to the Secretary of the Interior for approval by the state historic preservation officer before construction began and would have to claim the credit for the same taxable year as the federal credit.

The bill would require that all or a portion of the credit be paid back to the state if within 5 years after the rehabilitation work was completed, the property was sold or conveyed or the State Historical Society of Wisconsin determined that the property did not comply with the standards for rehabilitation.

Subject to Department approval, the bill would allow persons who were not residents of the state and not required to file returns in the state to enter into agreements so that another person could claim the credit.

The bill would increase the owner-occupied residential credit from 25% to 30%. It would also allow the residential credit to offset the alternative minimum tax.

Persons who are not residents of the state and not required to file tax returns in the state, but who have incurred qualified expenses, could enter into an agreement, subject to the Department's approval, so that another person could claim the credit.

Fiscal Effect

The estimated fiscal effect of increasing the residential and commercial credits is \$2.4 million annually.

Information is not available to estimate the cost of allowing a 20% credit for persons who are not eligible for

the federal credit because qualified rehabilitation expenditures do not satisfy the adjusted basis requirement. Information from the State Historical Society suggests that the number of projects could increase significantly with this provision, but that they would probably involve smaller investments.

Long-Range Fiscal Implications