Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 03-2446/2	Introduction Number AB-499

Subject

Historic buildings and downtown development

Fiscal Effect

State:

☐ No State Fiscal Effect
☒ Indeterminate

☐ Increase Existing Appropriations
☐ Decrease Existing Appropriations
☐ Create New Appropriations

☐ Increase Existing Revenues
☒ Decrease Existing Revenues

☒ Increase Costs - May be possible to absorb within agency's budget
☐ Yes ☒ No
☐ Decrease Costs

Local:

☐ No Local Government Costs
☒ Indeterminate

1. ☐ Increase Costs
☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs
☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue
☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue
☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
☐ Towns ☐ Village ☐ Cities
☐ Counties ☐ Others
☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 10/21/2003

LRB Number **03-2446/2**	Introduction Number **AB-499**	Estimate Type **Original**
Subject Historic buildings and downtown development		

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 of Revenue 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.

Under current law, the amount of the historic credits is used to compute the working families credit. The working families credit is defined as gross tax liability less the itemized deductions, school property tax credit and the historic rehabilitation credits when income is less than $18,000 for married couples filing jointly and $9,000 for other tax filers. The working families credit essentially eliminates tax liability when income is below these ceilings and is phased out over the next $1,000 when income is above these ceilings.

Description of the Bill

Persons who are not eligible for the federal credit because qualified rehabilitation expenditures do not satisfy the adjusted basis requirement may claim the supplemental state credit if qualified expenses are at least $10,000 and the project is recommended for approval by the state historic preservation officer before physical work on the project begins. Claimants must submit evidence to the Department of Revenue that the project was recommended to the Secretary of the Interior for approval by the state historic preservation officer before construction began and must claim the credit for the same taxable year as the credit would have been claimed for federal purposes.

The bill expands the expenditures included under the supplemental state credit to include expenditures for rehabilitation to property that is not a certified historic structure and increases the amount of the credit for these structures from 5% to 20%. Except for being a historic structure, the property must otherwise qualify for credit under IRC section 47, be located in a certified downtown or a business revitalization area under the Main Street Program designated by the Department of Commerce and have approval for the rehabilitation from the State Historical Society.

Up to five municipalities per year may be selected by Commerce to participate in the Main Street Program. Criteria include private and public sector interest in and commitment to revitalization of the area, potential private sector investment, local organizational and financial commitment to employ a program manager for at least three years, local assistance in paying for design consultants and local commitment to assist in training. By rule, Commerce considers the historical significance of the area and the interest and commitment to historical preservation.

All or a portion of the supplemental credit must be paid back to the state if the property is sold or conveyed or the Historical Society determines that the property has been altered to the extent that it does not comply with the standards for rehabilitation.

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

The bill expands the expenditures included under the state credit for owner-occupied residences to include expenditures for rehabilitation to property that is not a certified historic structure and increases the amount of the credit for these structures from 25% to 30%. The credit may not exceed $10,000 (or $5,000 for persons filing separately) per project. Properties that do not satisfy the historic certification standards would still be eligible for a 30% state credit if they were located in a certified downtown or in business revitalization area under the Main Street Program.

The bill also amends the definition of net tax liability for purposes of the working families credit so that the state historic credit for owner-occupied residences would not be deducted from gross tax liability in computing the amount of the working families credit and allows the state historic credit to offset the alternative minimum tax.

Amendment to the Bill

The amendment deletes the credit for rehabilitation expenses related to nonhistoric properties in a certified downtown or revitalization area. The amendment provides a tax credit for 20% of qualified expenses to a person who is not eligible to claim the federal rehabilitation tax credit because the person's qualified expenses do not satisfy the adjusted basis requirement if the property is located in a certified downtown or is included in a business revitalization area, the qualified rehabilitation expenses are at least $10,000, and the rehabilitation is approved by the Historical Society before physical work begins.

The amendment deletes the provision that would have allowed properties that do not satisfy the federal adjusted basis requirement to claim the credit if qualified expenses are at least $10,000; this provision is allowed only for historic properties located in a certified downtown or revitalization area.

The amendment deletes the 30% tax credit for rehabilitating a personal residence that is not historic property and does not satisfy the federal adjusted basis requirements. The amendment provides a 30% credit for qualified rehabilitation expenses of a historic personal residence that does not meet the federal adjusted basis requirements if the property is located in a certified downtown or a revitalization area.

Fiscal Effect

Data are not available to estimate the additional revenue loss attributable to credits for rehabilitation in certified downtowns or revitalization areas if the property does not satisfy the federal adjusted basis requirements.

The proposed legislation makes no provision for the funding of the costs involved in administering the activities required. The department estimates one-time costs for developing forms and programming at $62,500. Annual ongoing costs are estimated at $2,800.

Long-Range Fiscal Implications

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Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

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Subject Historic buildings and downtown development			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): One-time costs for developing forms and programming of $62,500.			
II. Annualized Costs:		**Annualized Fiscal Impact on funds from:**	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	$2,800	
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	**$2,800**	**$**
B. State Costs by Source of Funds			
	GPR	2,800	
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
		Increased Rev	Decreased Rev
	GPR Taxes	$	$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	**$**	**$**
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		$2,800	$
NET CHANGE IN REVENUE		$	$

Agency/Prepared By	**Authorized Signature**	**Date**
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