

Sustainable Communities Tax Credit

Description:

Note: This credit replaces the Heritage Structure Rehabilitation Tax Credit as of June 1, 2010. This credit is an expansion of the Heritage Structure Tax Credit and alters eligibility requirements of the credit.

A refundable credit may be allowed for substantial expenditures incurred to rehabilitate certified structures in Maryland on or after June 1, 2010, but before July 1, 2014.

The credit may be taken against the corporate income, personal income or insurance premium tax.

Sole proprietorships, corporations, tax-exempt non-profit organizations and pass-through entities, such as partnerships, subchapter S corporations, limited liability companies and business trusts may claim the tax credit.

To qualify for the credit:

The business must undertake the rehabilitation of a qualified historic structure that is located in a certified heritage area, or that receives a Gold rating under the current version of the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) green building rating system or a similar sustainable development rating system. The business must receive certification from the Maryland Historical Trust (MHT). A credit will not be approved if work has already begun on a project prior to the application, or if the applicant for a commercial rehabilitation has previously submitted three or more applications for commercial rehabilitations exceeding a total of \$5000,000 in the same year.

A qualified rehabilitated structure is a building other than a single-family, owner-occupied residence that is located in either a commercial area designated by the Secretary of Housing and Community Development as a Main Street Maryland Community or by the Mayor of Baltimore City as a Main Street, or - beginning in fiscal 2012 - designated as a sustainable community. A sustainable community is a geographic area that demonstrates a need for reinvestment and whose development is supported by the local government of that community.

To qualify as a rehabilitation project, the rehabilitation expenses incurred during the 24-month rehabilitation period must meet certain thresholds. For single-family, owner-occupied residential property, rehabilitation expenses must exceed \$5,000. For a structure located in a Main Street Maryland Community, qualified expenses must exceed the greater of \$25,000 or 50% of the adjusted basis of the structure.

For all other properties, qualified expenses must exceed the greater of \$25,000 or the adjusted basis of the structure. Expenses for which a credit is claimed may not have been reimbursed by any state or local grants, grants made from the proceeds of certain tax-exempt bonds or any other state tax credits.

The rehabilitation must retain specified minimum percentages of internal and external walls and internal framework during the rehabilitation.

How the credit is calculated:

Depending on the type of rehabilitation project undertaken, an individual or business entity may claim a tax credit for a portion of the qualified rehabilitation expenditures: • 25% if the certified project is a certified historic structure and a high performance building • 10% if the certified rehabilitation is a qualified rehabilitated structure • 20% for all other certified rehabilitation projects.

For certified commercial rehabilitation projects, the credit is limited to \$3 million. For all other certified rehabilitation projects, the credit is limited to \$50,000. The amount of the credit that exceeds tax liability in the year the credit is claimed may be refunded.

The total amount of credits approved by MHT and approved for properties located in certain areas of the state during each fiscal year is subject to certain limitations.

A pro-rated percentage of the credit is subject to recapture if disqualifying work is performed, or the certified rehabilitation is disposed of, during a five-year period that begins with the year in which the certified rehabilitation was completed.

Documentation required:

Within 18 months of a credit certificate being issued, the business or individual undertaking the rehabilitation must notify the MHT that work on the project has begun. In general, without additional approval by the MHT, commercial rehabilitations must be completed within 30 months of the issuance of the initial credit certificate.

Corporate income tax:

Form 502S must be completed and submitted with the income tax return (Form 500) along with the MHT certification.

Individual income tax:

Form 502S must be completed and submitted with the income tax return (Form 502 or Form 505) along with the MHT certification. If the business is a pass-through entity, Form 502S must be prepared for the pass-through entity and submitted with the entity's income tax return (Form 510). A modified federal Schedule K-1 provided by the pass-through entity to its members must separately state their shares of the credit. Individuals or entities must attach this statement to Form 502S when filing their personal (Form 502 or Form 505), corporate (Form 500) or pass-through entity (Form 510) income tax returns.

Insurance premiums tax:

Documentation of the credit shall be maintained by the taxpayer in their files and be made available to the Insurance Commissioner, upon request, in accordance with COMAR 31.06.04.03. The documentation should include documents from the agency granting the credit, and a list of the names and telephone numbers for the taxpayer's staff who are directly involved in granting the credits. All information shall be retained for a minimum of three 2010 years from the date of the filing of the final tax return on which the credit is taken.

For more information,contact:

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