MASSACHUSETTS DEPARTMENT OF REVENUE
CORPORATE EXCISE
INVESTMENT TAX CREDIT; RECAPTURE

DOR DIRECTIVE

DOR-D 89-7

ISSUE: When must a corporation pay a recapture tax on the investment tax credit taken in a previous tax year?

DISCUSSION: Under G.L. c. 63, § 31A(e), a recapture tax must generally be paid if property upon which the investment tax credit has been taken in a prior tax year is disposed of or ceases to be in qualified use prior to the end of its useful life. The useful life of the property is the same as that used by the corporation for federal depreciation purposes. *Id.* The recapture tax is the difference between the credit taken and the credit allowed for actual use. No recapture is necessary if the property has been in qualified use for more than 12 consecutive years. *Id.*

The credit taken is equal to the portion, if any, of the original investment tax credit used to offset the corporate excise in any tax year. The credit allowed for actual use is calculated by multiplying the original investment credit by the percentage of qualified use, determined by dividing the number of months of qualified use by the number of months of useful life. *Id.* Calculation of the recapture tax can become quite complex when a corporation has many assets upon which the credit has been taken, carryover balances and lapsing of the credit over a span of years. See Schedule H-2 (Recapture of Investment Credit) and Schedule H-2 Worksheet (Recapture Offset Worksheet).

The examples below illustrate these rules:

EXAMPLE 1: In tax year 1, Corporation A took an investment tax credit of $10,000 on property with a useful life of 27.5 years. The entire credit was used to offset the corporation's excise. In tax year 15 the corporation disposed of the property. Corporation A will not have to pay a recapture tax because the property was in qualified use for more than 12 consecutive years.

EXAMPLE 2: In January of tax year 1, Corporation B was allowed an investment tax credit of $10,000 on property with a useful life of 5 years. The entire credit was used to offset the corporation's excise. In January of tax year 3 the corporation disposed of the property.

Corporation B will have to pay a recapture tax of $6,000. The percentage of qualified use was 40% (24 months of qualified use divided by 60 months of useful life). Therefore the credit allowed for actual use was only $4,000.

EXAMPLE 3: In January of tax year 1, Corporation C was allowed an investment tax credit of $10,000 on property with a useful life of 5 years. Only $2,000 of the credit was used to offset the corporation's excise. The remaining $8,000 of unused credit was carried over. In January of tax year 2 the corporation disposed of the property.

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Corporation C will not have to pay any recapture tax. The percentage of qualified use was 20% (12 months of qualified use divided by 60 months of useful life). Therefore the credit allowed for actual use was $2,000. The recapture tax is equal to the credit taken ($2,000) minus the credit allowed for actual use ($2,000) which equals zero. The corporation's carryover balances must be reduced by the remaining $8,000 of credit carryover in order to prevent future use of this credit since the corporation has already used the maximum amount of credit allowed for actual use ($2,000). *1/*

1/ If a corporation has carryover balances which relate to more than one asset, complete the Recapture Offset Worksheet (see Note 1) to determine exactly how many credits relate to the recapture property.

REFERENCE: G.L. c. 63, § 31A(e).

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Commissioner of Revenue

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