



Schedule H-2 Recapture Offset Worksheet

Part 1

| Year 1 | a. Credits available | b. Credits used | c. Credits unused | d. Unlimited carryovers | e. Three-year carryovers |
|---|----------------------------|-----------------------|-------------------------|-------------------------------|--------------------------------|
| 1 Economic Opportunity Area Credit | 1 | | | | |
| 2 Vanpool Credit | 2 | | | | |
| 3 Low-Income Housing Credit | 3 | | | | |
| 4 Brownfields Credit | 4 | | | | |
| 5 Historic Rehabilitation Credit | 5 | | | | |
| 6 Investment Tax Credit carryover which, if unused, will lapse this year | 6 | | | | |
| 7 Investment Tax Credit carryover which, if unused, will lapse in one year | 7 | | | | |
| 8 Investment Tax Credit carryover which, if unused, will lapse in two years | 8 | | | | |
| 9 Current year Investment Tax Credit | 9 | | | | |
| 10 Unlimited credit carryover from prior years | 10 | | | | |
| 11 Total credits. Add lines 1 through 10 | 11 | | | | |

| Year 2 | a. Credits available | b. Credits used | c. Credits unused | d. Unlimited carryovers | e. Three-year carryovers |
|---|----------------------------|-----------------------|-------------------------|-------------------------------|--------------------------------|
| 12 Economic Opportunity Area Credit | 12 | | | | |
| 13 Vanpool Credit | 13 | | | | |
| 14 Low-Income Housing Credit | 14 | | | | |
| 15 Brownfields Credit | 15 | | | | |
| 16 Historic Rehabilitation Credit | 16 | | | | |
| 17 Investment Tax Credit carryover which, if unused, will lapse this year (from line 7e) | 17 | | | | |
| 18 Investment Tax Credit carryover which, if unused, will lapse in one year (from line 8e) | 18 | | | | |
| 19 Investment Tax Credit carryover which, if unused, will lapse in two years (from line 9e) | 19 | | | | |
| 20 Current year Investment Tax Credit | 20 | | | | |
| 21 Unlimited credit carryover from prior years (from line 11d) | 21 | | | | |
| 22 Total credits. Add lines 12 through 21 | 22 | | | | |

| Year 3 | a. Credits available | b. Credits used | c. Credits unused | d. Unlimited carryovers | e. Three-year carryovers |
|--|----------------------------|-----------------------|-------------------------|-------------------------------|--------------------------------|
| 23 Economic Opportunity Area Credit | 23 | | | | |
| 24 Vanpool Credit | 24 | | | | |
| 25 Low-Income Housing Credit | 25 | | | | |
| 26 Brownfields Credit | 26 | | | | |
| 27 Historic Rehabilitation Credit | 27 | | | | |
| 28 Investment Tax Credit carryover which, if unused, will lapse this year (from line 18e) | 28 | | | | |
| 29 Investment Tax Credit carryover which, if unused, will lapse in one year (from line 19e) | 29 | | | | |
| 30 Investment Tax Credit carryover which, if unused, will lapse in two years (from line 20e) | 30 | | | | |
| 31 Current year Investment Tax Credit | 31 | | | | |
| 32 Unlimited credit carryover from prior years (from line 22d) | 32 | | | | |
| 33 Total credits. Add lines 23 through 32 | 33 | | | | |

| | a. Credits available | b. Credits used | c. Credits unused | d. Unlimited carryovers | e. Three-year carryovers |
|---|----------------------------|-----------------------|-------------------------|-------------------------------|--------------------------------|
| Year 4 | | | | | |
| 34 Economic Opportunity Area Credit | 34 | | | | |
| 35 Vanpool Credit | 35 | | | | |
| 36 Low-Income Housing Credit | 36 | | | | |
| 37 Brownfields Credit | 37 | | | | |
| 38 Historic Rehabilitation Credit | 38 | | | | |
| 39 Investment Tax Credit carryover which, if unused, will lapse this year (from line 29e) | 39 | | | | |
| 40 Investment Tax Credit carryover which, if unused, will lapse in one year (from line 30e) | 40 | | | | |
| 41 Investment Tax Credit carryover which, if unused, will lapse in two years (from line 31e) | 41 | | | | |
| 42 Current year Investment Tax Credit | 42 | | | | |
| 43 Unlimited credit carryover from prior years (from line 33d) | 43 | | | | |
| 44 Total credits. Add lines 34 through 43 | 44 | | | | |

Part 2

| | | |
|---|----------|--|
| 1 Beginning balance of unlimited carryovers in Year 1 (from Part 1, line 10a) | 1 | |
| 2 Unlimited carryovers converted from Year 1 Investment Tax Credits. Add Part I, lines 9d, 19d, 29d and 39d | 2 | |
| 3 Unlimited carryovers actually used during the period of Year 2 through Year 4. Add Part I, lines 21b, 32b and 43b. | 3 | |
| 4 Unlimited carryovers actually used during the period of Year 5 through the year of recapture (i.e., any credits used during this period that were unlimited carryover credits) | 4 | |
| 5 Total of unlimited carryovers actually used, reduced by unlimited carryovers not related to the recapture property. Subtract line 1 from the total of lines 3 and 4. Not less than "0" | 5 | |
| 6 Unlimited carryovers actually used that relate to the recapture property (from line 5). Not more than line 2 | 6 | |

Part 3

| | | |
|--|----------|--|
| 1 Total current year Investment Tax Credit in Year 1 (from Part 1, line 9a) | 1 | |
| 2 Current year Investment Tax Credit in Year 1 which relates to the recapture property (from Schedule H, Part 2, line 1) | 2 | |
| 3 Percentage of Investment Tax Credits in Year 1 which relates to the recapture property. Divide line 2 by line 1 | 3 | |
| 4 Credits used. Add Part 1, lines 9b, 19b, 29b and 39b and Part 2, line 6. | 4 | |
| 5 Credits used related to recapture property. Multiply line 3 by line 4 | 5 | |
| 6 Credits not used related to recapture property. Subtract line 5 from line 2. Enter this amount here and in line 9 of Schedule H-2 | 6 | |

Part 4

| | | |
|---|----------|--|
| 1 Credits that have lapsed. Subtract Part 1, line 39d from Part I, line 39c. | 1 | |
| 2 Credits used (from Part 3, line 4) | 2 | |
| 3 Total current year Investment Tax Credit in Year 1 (from Part 1, line 9a) | 3 | |
| 4 Credits available in current year carryovers related to recapture property. Subtract lines 1 and 2 from line 3 and multiply the total by the percentage in Part 3, line 3. | 4 | |
| 5 Credits used to reduce recapture tax. Subtract Schedule H-2, line 10 from Schedule H-2, line 8. | 5 | |
| 6 Amount of credits to reduce current carryovers (from line 5, but not more than line 4) | 6 | |
| 7 If recapture has occurred in Year 2, reduce Part 1, line 19e by the amount in line 6. If recapture has occurred in Year 3, reduce Part 1, line 29e by the amount in line 6. Enter here the new 19e or 29e carryover balance, but not less than "0" | 7 | |
| 8 Any excess of line 6 should reduce any current unlimited carryover. Enter new unlimited carryover balance. | 8 | |
| 9 If recapture has occurred in Year 4 or later, reduce current unlimited carryover by amount in line 6. Enter new unlimited carryover balance | 9 | |

Schedule H-2 Worksheet Instructions

A taxpayer who has taken an Investment Tax Credit on property which has ceased to be in qualified use before the end of its useful life must pay a recapture tax on that portion of unused credit. To calculate the recapture tax, the taxpayer must complete and file Schedule H-2, Credit Recapture. Under Massachusetts law, an offset of the recapture tax is allowed for credits that have lapsed or are currently in carry over balances. The Recapture Offset Worksheet substantiates that any offset taken against the recapture tax is a result of credits which directly relate to the recapture property.

The Recapture Offset Worksheet's sole function is to calculate what portion, if any, of the recapture property's original Investment Tax Credit has never been used to offset the corporate excise in any tax year. This portion of the original Investment Tax Credit is allowed as an offset since it will have yielded no tax benefit and therefore should not incur a recapture tax. The worksheet provides a method of "tracking" exactly how many credits which relate to the recapture property have been used, lapsed or are currently in carryover balances. In addition, if an offset of the recapture tax is due to unused credits in current carryover balances, the carryover balances must be reduced by that offset amount in order to prevent future use of these credits.

To complete the Schedule H-2 Recapture Offset Worksheet, follow the instructions below.

Part 1. Use Part 1 to calculate how much of the recapture property's original credit was actually used during the first four tax years of its qualified use. Starting with the tax year the recapture property was placed in service, Part 1 tracks the credits related to the recapture property through the first four years. The detailed tracking of credits in Part 1 is necessary to determine what portions of 3-year carryovers have been used, converted to unlimited status or have lapsed.

Column a. Year 1 was the tax year the recapture property was placed in service. For lines 1 through 10 in col. a, enter the beginning balances for each respective credit category. Enter in line 11, col. a the total Investment Tax Credits from property placed in service in year 1, including credits from the recapture property.

Column b. To complete col. b, the taxpayer must know how many credits were allowed for use in that year. For tax years beginning on or after January 1, 1983, only 50% of the corporate excise (before credits) may be offset by credits. In addition, credits cannot reduce the excise below the minimum tax. When the corporate excise is equal to, or greater than, twice the minimum tax, credits allowed for use in that year are 50% of the excise. When the corporate excise is

less than twice the minimum tax, credits allowed for use in that year are equal to the excise minus the minimum tax. Starting with the Economic Opportunity Area Credits and working downward through col. a, transfer credits available for use into col. b until the total col. b credits equal the amount of credits allowable for use in that year or all available credits are used, whichever occurs first.

Columns c and d. To complete col. d, the taxpayer must know how many credits could not be use in that tax year because of the rule that only 50% of the excise may be offset by credits. This rule applies to tax years beginning on or after January 1, 1983. The amount of credits eligible for conversion to unlimited carryover status is equal to 50% of the excise. (For example, when a corporation has a corporate excise before credits of \$1,000, only \$500 of credits can be used in that tax year. Therefore, \$500 is the maximum amount of credits eligible for conversion to unlimited carryover status.)

Working downward from col. c, transfer unused credits to col. d. Convert the unused credits to unlimited status until all unused credits are transferred or the total col. d credits equal the amount of the credits eligible for conversion to unlimited carryover status, whichever occurs first. **Note:** lines 10c, 21c, 32c and 43c automatically transfer to col. d since they are unlimited credit carryovers from prior years.

Column e. Subtract col. d from col. c and enter the result in col. e, except for shaded areas.

Part 2. This section calculates what portion, if any, of unlimited carryovers already used is attributable to the recapture property.

Taxpayers must look to their own records to determine how many unlimited carryovers were actually used to offset tax during the period of Year 5 through the year of recapture.

Part 3. Part 3 determines what portion of the recapture property's original Investment Tax Credit was never used to offset tax.

Part 4. If the recapture tax is reduced by credits that were never used, then an adjustment may be necessary to the taxpayer's current carryover balances.

If the reduction of the tentative recapture tax is due to unused credits in current carryover balances, the carryover balances must be reduced by the "reduction amount." Taxpayers will not be allowed to use credit carryovers to reduce the recapture tax and to offset tax in future years.