2014 Schedule H Instructions
Investment Tax Credit and Carryovers

Corporations claiming an Investment Tax Credit and corporations taking a credit carryforward from a prior year must file Schedule H.

Part 1. Calculation of Current-Year Investment Tax Credit Generated

Lines 1a through 1d

Only R&D corporations should complete these lines. All others leave blank. R&D corporations are eligible for the credit only if two thirds of their Massachusetts receipts are derived from the provision of research and development services or from royalties or fees from licensing patents know-how or other technology developed from research and development. See Regulation 830 CMR 64H.6.4 for further information.

Lines 2a through 2h

Enter the total cost basis of all qualified depreciable property placed in service during the tax year by Schedule A category. Qualifying property must be tangible property, including buildings but excluding motor vehicles and other property taxable under Ch. 60A, used by the corporation in Massachusetts, situated in the Commonwealth on the last day of the taxable year and depreciable under Section 167 of the IRC with a useful life of four years or more. A corporation may not claim the credit for property it leases to others as a lessor.

Line 4

If any of the property included in lines 2a through 2h is eligible for a U.S. Tax Credit, the total amount of the U.S. credit taken with respect to the qualifying property must be entered here and applied as a reduction to the basis in calculating the Massachusetts credit.

Line 6

Enter the tentative tax credit. This is 3% of the cost after any basis reduction.

Line 7

If qualifying property is placed in service and disposed of or otherwise ceases to be in qualified service before the end of the same tax year, the amount of credits available is reduced. Multiply the credit otherwise available (cost as reduced by U.S. tax credits times 3%) by a fraction, the numerator of which is the number of months remaining in the useful life of the asset when it is disposed of or otherwise ceases to qualify and denominator of which is the total number of months in the assets' useful life. For example, an item that is depreciated over a seven-year period for U.S. tax purposes has a useful life of 84 months.

Line 8

Subtract the amount of the credit reduction in line 7 from the tentative credit in line 6.

Part 2. Recapture of Unused Credit

If property is disposed of or ceases to be in qualified use prior to the end of its useful life, the difference between the credit taken and the credit allowed for actual use must be added back in the excise calculation in the year the property is disposed of. Recapture tax is not due if the credit with respect to the property disposed of was never used to offset excise, whether or not the credits are still available for use.

Recapture does not apply if the property has been in qualified use for more than 12 years. For each item disposed of or otherwise ceasing to qualify prior to the end of its useful life, calculate the reduction in the amount of the original credit. This is the credit originally allowed times a fraction, the numerator of which is the number of months remaining in the useful life of the asset when it is disposed of and the denominator of which is the number of months in the asset's useful life, as determined for U.S. tax depreciation purposes.

Next determine whether or not the credits allowed but not earned have been used to reduce excise.

The potential recapture tax for each asset is then offset, on a dollar for dollar basis, by credits of the same type generated in the same tax period that have never been used to reduce excise. Include both credits carried over from the prior year and credits which expired unused.

Example
Manufacturing Corporation begins business in year 1 and generates $30,000 in ITC. In year 2, Manufacturing Corporation generates $10,000 in ITC. It generates no credits in years 3 or 4. All property is acquired in the first month of the year and has a useful life of 10 years.

In each year, Manufacturing's excise before credits is $7,000 and it uses $3,500 of ITC (a total of $14,000 in credits used) all of which is from the earliest available credit (the year 1 amount). Under the provisions of M.G.L. Ch. 63, sec. 32C, a further $3,500 in ITC becomes available for carryforward to any future period in each of the 4 tax years (a total of $14,000, all of which is also from the earliest available credit, which is the year 1 amount). At the end of year 4, the remainder of the year 1 credit ($30,000 less $14,000 used less $14,000 converted equals $2,000) expires unused.

At the beginning of January in year 5, Manufacturing sells all of its assets, triggering recapture.

The potential recapture on the year 1 assets is $30,000 times 72 divided by 120 equals $18,000. This is partially offset by the $2,000 of the expired credits. A further $14,000 is offset by reducing the unlimited carryforward generated in year 1 that is still available and unused. There is a net recapture tax of $2,000 related to the year 1 assets.

The potential recapture on the year 2 assets is $10,000 times 84 divided by 120 equals $7,000. This is offset by reducing the carryover available from year 2 by the same amount. There is no recapture tax related to the year 2 assets. Manufacturing still has $3,000 of year 2 credits available for use. They will expire at the end of the current year.

Completing the Schedule

Line 1
Enter $25,000 (the total potential ITC recapture from all years).
Line 2a
Enter $2,000 (the amount of credits expired unused).
Line 2b
Enter $7,000 (the amount of the reduction of year 2 credits).
Line 2e
Enter $14,000 (the amount of the reduction in the unlimited carryover).
Line 3
Enter $2,000 (the total recapture tax added to excise this year).

Part 3. Calculation of Available Credits

Lines 1 through 5
Enter in column a the amount of credit available for use in the current year. Credits available which are subject to the 3-year carryover limitation are entered on the line appropriate for the tax year in which the credit was generated. Credits no longer subject to the 3-year time limit are shown on line 5. If carryover credits were offset against potential recaptures in Part 2, the amount actually available should reflect the reduction by those offsets.

Enter in, column b, the amount of credits originating in each tax year being used in the current year. M.G.L. Ch. 63, sec. 32C limits the amount of these credits that may be used in any year by prohibiting a taxpayer from taking credits that will reduce the tax below 50% of the excise due before credits. If the taxpayer has available and will be taking other credits that are also subject to the section 32C limitation (e.g. the Brownfields Credit under sec 38Q) the maximum amount of investment tax credit allowed is reduced by the amount of such other credits taken. Taxpayers may chose which credits to use but the total of all such credits subject to the section 32C limitation may not exceed 50% of the excise before credits. Credits may also not reduce a corporation's tax below the $456 minimum excise.

Enter in column c, the amount of credits originating in each tax year converted to unlimited carryover status. Credits that could have been used except for the 50% limitation in M.G.L. Ch. 63, sec 32C may be used in any subsequent year, without regard to the normal 3 year time limit provided in Ch.63, sec. 31A. The taxpayer may choose which credits to treat as converted to unlimited status, but the total of all such credits designated for unlimited carryover may not exceed 50% of the current year excise before credits.

Enter in lines 2 through 4, column d the amount of credits originating in each tax year and still subject to the 3-year time limit which are carried over to future years. Note that any credits on line 1(a) not used or converted expire at the end of the current year.

Part 4. Reconciliation of Massachusetts Tangible Property

Corporations claiming an ITC in Part 1 or claiming an ITC carryforward in Part 3, whether or not used in the current year, must complete Part 4 based on the book value of their capital assets located in Massachusetts.