

HOT REAL ESTATE TAX INCENTIVE ALMOST GONE!!!

Submitted by the State Department of Taxation

TIME IS RUNNING OUT! One of the hottest tax incentives affecting real property in years seems to have gone undetected by the real estate community, and opportunities for claiming it are coming to an end!

Whether you are a real estate professional trying to sell a fixer-upper, an apartment/condo manager, a rental property manager, or an owner of any residential real property yourself, you should know about the **RESIDENTIAL CONSTRUCTION AND REMODELING TAX CREDIT . . . and you need to know NOW!**

The residential construction and remodeling tax credit is an income tax credit for taxpayers who incur construction, alteration, or modification costs for a house, apartment, or other residential unit. The credit is 4% of the qualifying construction and remodeling costs, up to a maximum of \$250,000 in qualifying costs per residential unit. Any credit that exceeds the taxpayer's tax liability may be carried over to subsequent years until it is used up.

APARTMENT/CONDO MANAGERS! You know that income tax returns filed for associations of apartment owners (AOAOs) generally do not have any income tax that can be offset by this credit, but that's not a problem! An AOAO can pass the qualifying costs to the individual apartment owners, using any reasonable allocation method, even if the AOAO did not impose a special assessment specifically for those costs. In this way, the owners can claim the credit on their own income tax return!

Furthermore, since each individual apartment unit is a separate residential unit, the owners of a 100-unit apartment building, for example, may collectively claim a maximum of \$25 million in qualified costs (\$250,000 per unit) for a maximum credit of \$1,000,000!

NO TIME TO WAIT! A couple of important deadlines are rapidly approaching.

FIRST, taxpayers must claim this credit within twelve months of the close of the tax year in which the costs were incurred. That means that calendar year taxpayers who incurred qualifying costs in 2001 must claim the credit no later than December 31, 2002. For apartment and condo owners, it is critical that the AOAO inform them of their share of any qualifying costs incurred in 2001 ASAP so that they can file their claim before the end of the year!

SECOND, the deadline for incurring eligible costs is June 30, 2003. If you are planning construction or remodeling projects, plan accordingly.

WHAT QUALIFIES? Qualifying "construction and remodeling costs" are costs incurred for plans, design, construction, and equipment that is permanently affixed to a residential unit and that are related to the new construction, alteration, or modification of a residential unit.

For example, adding an extension to a house qualifies, but building a fence around the yard does not (not part of the residential unit itself). A built-in window seat or a central air conditioning system may qualify, but most furniture and appliances (e.g., tables, bookshelves, refrigerators, stoves, etc.) do not (not permanently affixed).

Qualifying costs do NOT include costs incurred for maintenance (i.e., costs to repair, preserve, or keep a facility in an existing state or condition).

For example, retiling an entire floor will qualify, but merely replacing a few broken tiles will not. Painting the exterior of a house qualifies, but painting the interior does not. Replacing or reconditioning an apartment elevator qualifies, but replacing a few parts does not.

Some non-qualifying costs may qualify if incurred as part of a general plan of renovation.

For example, painting a bathroom interior or replacing a broken light fixture in a bathroom may not qualify (considered maintenance), but painting or replacing a broken light fixture in the course of a general plan to renovate the entire bathroom (replace the toilet, replace/retiling/reglaze a shower or tub, change the cabinetry, retiling the floor, etc.) will qualify.

HOW DO YOU CLAIM THE CREDIT? Complete Form N-332 to compute the credit. AOAOs use Part II of the form to allocate the qualifying costs to the individual owners, and provide the owners with a copy of the form so that they can claim the credit on their tax return.

Once the credit is computed on Form N-332, the allowable amount is entered on the appropriate schedule or line for the tax return being filed. If a 2001 income tax return has already been filed, complete an amended income tax return to claim the credit for costs incurred in 2001 and file it before the deadline (December 31, 2002, for calendar year taxpayers).

NEED MORE INFORMATION? See Tax Information Release No. 2002-3. Tax Information Release No. 2002-3 and Form N-332 are available at any district tax office, by calling 587-7572 (toll-free at 1-800-222-7572), and on our website at www.state.hi.us/tax. If you have additional questions, call our Taxpayer Services Branch at 587-4242 (toll-free at 1-800-222-3229), or e-mail them at Taxpayer_Services@tax.state.hi.us.