TAXPAYER SERVICE DIVISION

FYI – For Your Information

Vacant Commercial Building Rehabilitation Credit For Enterprise Zones

The owner or tenant of a building in an enterprise zone that is at least 20 years old and that has been completely vacant for at least two years can claim a tax credit of 25 percent of the cost of rehabilitating such building for commercial use. The credit is limited to $50,000 per building. [§39-30-105.6, C.R.S.]

This tax credit is intended to encourage building owners and tenants in Enterprise Zones to put these buildings back into use. A taxpayer must submit the DR 0076 certification from the Enterprise Zone administrator and documentation of the qualified expenditure. However, any taxpayer who claims the Historic Preservation Credit or is allowed a credit for costs incurred in the rehabilitation of property through the provisions of section 38 of the Internal Revenue Code of 1986, as amended, shall <u>not</u> be allowed to claim the tax credit for rehabilitation of vacant buildings in an Enterprise Zone. (The taxpayer is allowed to claim the enterprise zone investment tax credit for such rehabilitation.)

If the amount of the credit exceeds the amount of income taxes owed by the taxpayer, the remaining credit which is not claimed in a tax year may be carried forward up to five years. The credit must be applied to the earliest income tax year possible.

QUALIFIED REHABILITATION EXPENDITURES

"Qualified expenditures" are expenditures associated with any exterior improvements, structural improvements, mechanical improvements, or electrical improvements necessary to rehabilitate a building for commercial use.

Qualified expenditures include but shall not be limited to: expenditures associated with demolition, carpentry, sheetrock, plaster, painting, ceilings, fixtures, doors, windows, sprinkler systems installed for fire protection purposes, roofing and flashing, exterior repair, cleaning, tuckpointing, and cleanup.

Qualified expenditures **do not include:** expenditures commonly referred to as soft costs, which include but are not limited to costs associated with appraisals; architectural, engineering, and interior design fees; legal, accounting, and realtor fees; loan fees; sales and marketing; closing; building permit, use and inspection fees; bids; insurance; project signs and phones; temporary power; bid bonds; copying; and rent loss during construction. Qualified expenditures also do not include: costs associated with acquisition; interior furnishings; new additions except as may be required to comply with building and safety codes; total demolition followed by new construction; excavation; grading; paving; landscaping; and repairs to outbuildings. [§39-20-105.6 (4), C.R.S.].

Colorado Department of Revenue
Taxpayer Service Division
1375 Sherman St.
Denver, Colorado 80261

Forms and other services:
(303) 238-FAST (3278)
Assistance:
(303) 238-SERV (7378)

www.taxcolorado.com

CALCULATING THE CREDIT

For example, Mr. Harrison owns an apartment building which has been vacant for three years. The building is 22 years old. During 2007, Mr. Harrison invests $450,000 in repairing ceilings, fixtures, doors, windows and the roof. Of that amount, Harrison spent $50,000 on engineering. Since engineering costs do not qualify for the rehabilitation credit, only $400,000 will be used to calculate the credit.

Total qualified rehabilitation expenditures	$400,000
25 percent of qualified expenditures	$100,000
Credit allowed	$ 50,000

Since the credit for rehabilitation of vacant commercial buildings is limited to $50,000 per building, Mr. Harrison may take a credit of only $50,000.

Mr. Harrison's 2007 income tax liability is $10,000. He may carry forward the remaining $40,000 credit for as much as five years.

BUILDING REQUIREMENTS

"Building" means any structure built for permanent use as a house, factory, etc., which is valued separately for general property tax purposes. A structure that has been subdivided into multiple ownership units, such as office condominiums, is still considered one building unless the subdivision occurred more than twenty years ago. A single business entity consisting of related structures on the same site, such as an old motor court, that is valued as one unit for property tax purposes will be considered one building. The determination of what constitutes a building is integral in determining the applicability of the $50,000 limitation on the credit.

"Commercial Building" means any building that produces income.

In order to qualify for the credit, a building must be completely vacant for two years prior to the commencement of remodeling. Any use during the two-year period will disqualify the building from qualifying for the credit. This includes limited uses such as storage, warehouse, or use of only a small part of the building. It also includes part time uses such as a haunted house or rental for a weekend trade show. Use of the yard outside of a building will not affect the vacant status of the building itself.

COMMON QUESTIONS

How is commercial use defined on a mixed-use project where the ground floor is developed for retail and the upper floor for residential use?

Only the costs directly associated with the commercial portion of the project would qualify for the tax credit.

Is there a minimum length of time that a rehabilitated building must remain in commercial use to qualify for the credit?

There is no time limit that the building must be used commercially. However, if the commercial use is too short, an argument may be made that the building wasn't truly renovated for commercial use and the credit would be disallowed.

FURTHER INFORMATION

FYIs, commonly used forms and additional tax information are available on the Web at *www.taxcolorado.com*

Visit *www.advancecolorado.com/enterprisezone* for additional enterprise zone information.

For additional Colorado tax information visit the "Tax Information Index" which covers a variety of topics including links to forms, publications, regulations, statutes and general questions and answers. The "Tax Information Index" is located at *www.taxcolorado.com*

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having authority to bind the Department, has not formally reviewed and/or approved these FYIs.

DR 0076 (11/09/08)
COLORADO DEPARTMENT OF REVENUE
DENVER CO 80261-0005

Certification of Qualified Nature of Enterprise Zone Rehabilitation Expenditures

For tax years beginning after August 6, 2002, this certification is public record and copies will be available from the enterprise zone administrator.
Check here if this certification is for an earlier tax year and is a confidential tax document: ☐ Tax year beginning date ______________________________ , 20______________

This form certifies the qualified nature of the expenditures you made to rehabilitate for commercial use a building located in a Colorado enterprise zone. At the time the expenditure was made, the building must have been at least 20 years old and completely vacant for at least two years.

To claim the enterprise zone building rehabilitation credit:

- Complete the section designated for you to complete. Submit this form to the appropriate enterprise zone administrator. Enclose a self-addressed stamped envelope.
- Attach a copy of the certified form to your Colorado income tax return. Also attach copies of receipts, bills or any other documentation you may have that will verify the amount of the qualified expenditures.

QUALIFIED EXPENDITURES MEANS expenditures associated with exterior improvements, structural improvements, mechanical improvements, or electrical improvements necessary to put the building into a proper condition for the operation of a commercial enterprise. Qualified expenditures may include expenditures associated with demolition, carpentry, sheetrock, plaster, painting, ceilings, fixtures, doors, windows, sprinkler systems installed for fire protection purposes, roofing and flashing, exterior repair, cleaning, tuckpointing and cleanup.

QUALIFIED EXPENDITURES DOES NOT INCLUDE soft costs such as the cost of appraisals; architectural, engineering, and interior design fees; legal, accounting, and realtor fees; loan fees; sales and marketing; closing; building permit, use and inspection fees; bids; insurance; project signs and phones; temporary power; bid bonds; copying; and rent loss during construction. QUALIFIED EXPENDITURES DOES NOT INCLUDE costs associated with acquisition; interior furnishings; new additions, except as may be required to comply with building and safety codes; excavation; grading; paving; landscaping; and repairs to outbuildings.

TO BE COMPLETED BY TAXPAYER, OWNER, OR AUTHORIZED COMPANY OFFICIAL

Enterprise Zone — See Reverse			
Taxpayer/Company Name		Telephone Number ( )	
Address (street, city, ZIP)		For tax year ending ______________, 20 __________	
Address of Building for which Expenditures were Made (street, city, ZIP)			
Year Building was Constructed	Date of Last Occupancy	Current Year Qualifying Expenditures $	Rehabilitation Tax Credit Claimed

I declare that all of the above information is true and correct to the best of my knowledge and belief.

Signature of Owner/Authorized Official	Title	Date

CERTIFICATION BY ZONE ADMINISTRATOR

I, the duly authorized administrator of the designated Enterprise Zone, hereby certify to the Colorado Department of Revenue that the expenditure amount stated was of a nature that qualified for the enterprise zone building rehabilitation for commercial use credit.

Signature of Zone Administrator	Date

FOR MORE INFORMATION ABOUT ENTERPRISE ZONES CONTACT THE AGENCIES LISTED BELOW:

Colorado Department of Revenue, Denver, CO 80261–0005 Phone: 303-238-SERV(7378). *www.TaxColorado.com* Refer to FYI Income 24.

Colorado Office of Economic Development. 1625 Broadway, Suite 2700, Denver, CO 80202 Phone: 303-892-3840. *www.advancecolorado.com*