NEW MARKETS TAX CREDIT

AUDIT & TAX RETURN PREPARATION GUIDE

(For the year ended 12/31/2012)

Prepared and presented by:

MASSACHUSETTS HOUSING INVESTMENT CORPORATION
70 Federal Street
Boston, MA 02110
(617) 850-1000

&

Alexander Aronson Finning & Co.
21 East Main Street
Westborough, MA 01581
(508) 366-9100

MHIC NEW MARKETS TAX CREDIT FUNDS

AUDIT AND TAX RETURN PREPARATION GUIDE

FOR THE YEAR ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

TAB 1

MASSACHUSETTS HOUSING INVESTMENT CORPORATION

NEW MARKETS TAX CREDIT
TAX RETURN & AUDIT PREPARATION GUIDE

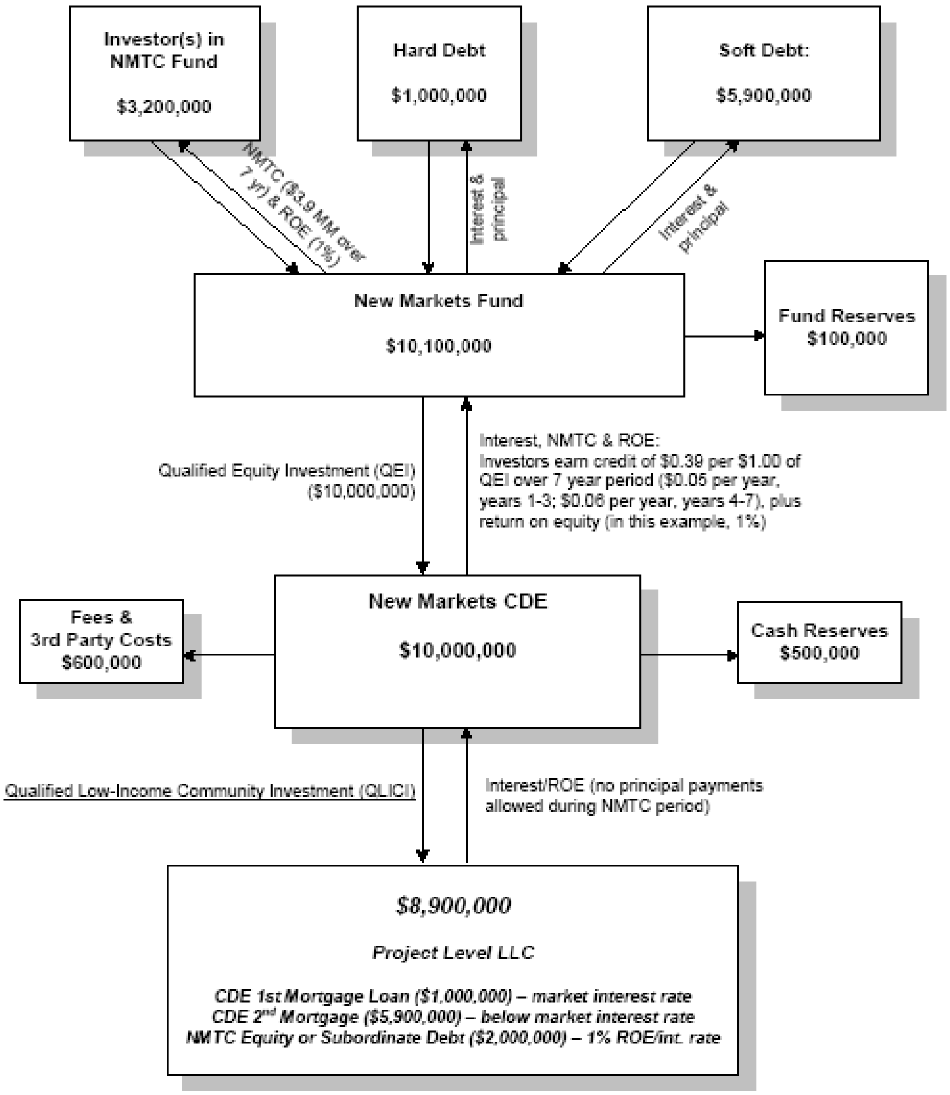
Introduction

In 2000, Congress authorized the New Markets Tax Credit (NMTC) program to facilitate the access of capital for economic development in lower-income communities. The NMTC program was designed to follow on the success of the Low-Income Housing Tax Credit (LIHTC) program. The program is administered by the Treasury's Community Development Financial Institution (CDFI) Fund and tax regulations can be found in Treasury Regulations section 45D.

The NMTC itself is a 39% federal tax credit for investors claimed over a 7-year credit period in increments of 5% over the first three years of the credit period and 6% over the remaining 4 years. The NMTC is claimed based on the amount of qualified equity investments (QEI) made to a qualified community development entity (CDE). CDEs are for-profit entities organized to serve or provide capital to low-income communities and are certified by the CDFI Fund. CDEs must use the proceeds of QEIs to make and maintain qualified low-income community investments (QLICI) in qualified active low-income community businesses (QALICB). The Massachusetts Housing Investment Corporation (MHIC) has created NMTC investment funds and qualified CDEs in what is known as a leveraged structure to channel investor capital into qualifying investments. Sample illustrations of the structures of qualifying investments follow this introduction. Under the MHIC NMTC fund structure, QLICIs are generally made in the form of equity or loan investments made to project level limited partnerships or limited liability companies which represent QALICBs in the NMTC equation.

Many accounting and tax complexities exist at both the fund and CDE levels of the MHIC NMTC structure, but the purpose of this manual is to provide guidance to the management and independent accountant of the project level partnerships and limited liability companies which report upward to CDE and fund levels. **In this manual, the project level entities are interchangeably referred to as limited partnerships or limited liability companies. There are no significant differences in the reporting requirements of limited partnerships and limited liability companies.** Those familiar with the audit and tax requirements of MHIC's LIHTC funds should find these reporting requirements similar and in some ways, simpler from a tax perspective. However, the structure of individual project investments, in some cases, may involve complex multi-entity structures as well as multiple ownership transfers during pre-development, construction and occupancy phases. These aspects have generally been derived to facilitate the delivery of certain tax benefits to investors, comply with tax laws and/or other regulations related to the industry in which the project is to be used. **Project sponsors and practitioners should take great care to understand the entities for which they are responsible for accounting and tax reporting.**

NMTC Transaction



Qualified Active Low-Income Community Business (QALICB)

Example – for informational purposes only. Structure of financing varies by project.

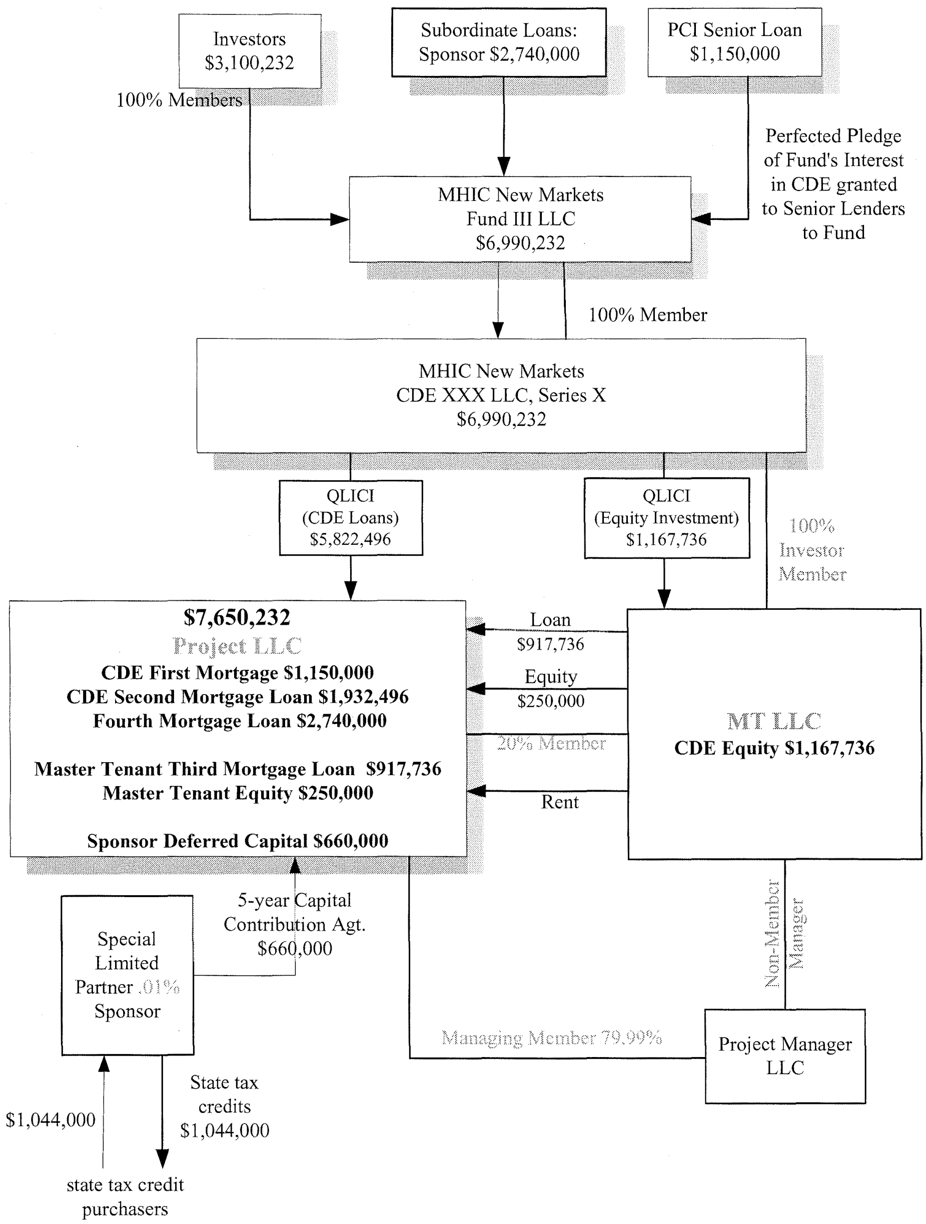
NMTC Transaction

The sample MHIC NMTC transaction represented on the preceding page shows a basic loan and equity investment structure in which the New Markets CDE has made both an equity investment and two mortgage loans in the Project Level LLC. Transactions without an equity investment are structured similarly and are referred to as “loan only” projects in this manual.

The structure is referred to as a leveraged structure because the project’s debt is structured at the New Markets Fund level and is used to maximize the NMTC available to Investors in the NMTC Fund. Note that the event triggering recognition of the tax credit is not the investment of the New Markets CDE in the Project Level LLC, but rather the $10,000,000 QEI made by the New Markets Fund into the New Markets CDE. The QEI will enable $3.9 million of tax credits to flow to the Investors in the NMTC Fund over the seven-year credit period. In some NMTC transactions, federal Historic Rehabilitation Tax Credits claimed at the Project Level LLC will also flow to the Investors.

Note that the principal amounts of the first and second mortgages made by the New Markets CDE to the Project Level LLC correspond to the principal amounts or Hard Debt and Soft Debt at the New Markets Fund level. The character and terms of debt at the New Markets Fund level are generally similar to the terms on which the New Markets CDE lends to the Project Level LLC effectively resulting in a “flow through” of these debt obligations to the project level. While requisitioning funds of NMTC projects, sponsor developers and accountants should be careful to monitor and reconcile the specific obligations being drawn down. MHIC’s business office is available to assist sponsors in the reconciliation of loan balances.

MHIC New Markets Fund III LLC
MT NMTC Structure



Master Tenant Structures

In some transactions, the operating tier project may be structured with multiple entities including a building owner, master tenant (or building lessee) and possibly other entities. In most cases, MHIC's asset management department has produced an organization chart of each project structure. For more complex structures, such as master tenant structures, these organization charts may be helpful in to understanding the relationships between entities and the related accounting and tax reporting requirements.

Federal Historic Rehabilitation Tax Credits

A master tenant structure may be necessary to facilitate the intended distribution of federal Historic Rehabilitation Tax Credits (HRTC) to investors where a portion or all of the project is to be occupied by one or more tax-exempt entities (See Section V of the Tax Preparation tab for more information concerning the HRTC and tax-exempt use as well as special tax considerations for master tenant arrangements) or for other reasons specific to the project. Typically, the master tenant enters a long-term lease from the building owner entity and then sublets the property to other subtenants (including tax-exempt sublessees). Tax regulations allow the master tenant (or lessor) to be treated as purchasing the building for purposes of claiming the HRTC.

In the example on the preceding page, the upper tier structure remains much the same as in the first sample NMTC transaction illustration. However, the CDE's investment (including loans) to the project is made in part to the Owner, LLC and in part to the Master Tenant, LLC. The investment to the Owner, LLC may be loan, equity or both. The investment to the Master Tenant is typically made in the form of an equity contribution in an amount sufficient to absorb the capital account adjustment required in connection with claiming the HRTC. In the provided illustration, the proceeds of the CDE's investment in the Master Tenant, LLC are, in turn, advanced to the Owner, LLC as part of the loan and equity financing of the project. Again, careful records must be kept by sponsor accountants to ensure the projects books reflect the appropriate flow of funds. The sponsor should establish separate general ledgers for the Owner, LLC and the Master Tenant, LLC.

Tax Status of Master Tenant

Note that the Master Tenant, LLC in this example is owned 100% by the CDE qualifying it to be treated as a disregarded entity for tax purposes. Please refer to the special reporting instructions on the following page and in the tax section of this manual if your project's master tenant is structured as a disregarded entity for tax purposes. Master tenants with more than one member are treated as partnerships for tax purposes.

Master Tenant Structures (continued)

State Historic Rehabilitation Tax Credits

Projects which have qualified for the federal HRTC may also have applied for newly authorized Massachusetts credits (See section VI within the tax section of this manual). In MHIC NMTC transactions, these state credits are generally not delivered to the Fund's NMTC investors, but are generally sold to outside parties to yield additional project equity. Note that these proceeds are the only source of financing not delivered through the NMTC Fund structure in the accompanying illustration.

Other Entities

This master tenant structure illustrated also include a Special Limited Partner (to invest the proceeds from the sale of Massachusetts HRTC) and a Project Manager, LLC. Some transactions may contain additional entities. These entities are not within the scope of MHIC's NMTC annual audit and tax reporting process, but the sponsor should establish an understanding of who is responsible for tax reporting for these entities and should also ensure that intercompany transaction are appropriately reconciled with the books of the Owner, LLC and Master Tenant, LLC.

MHIC NMTC FUNDS

SUMMARY OF OPERATING TIER REPORTING REQUIREMENTS

The following grid summarizes the reporting requirements for the operating tier project partnerships for the 2012 reporting year. Projects are considered to be placed in operations if they had rental operations for one month during 2012 (i.e., were placed in service by December 1, 2012 or earlier). If you have any questions concerning the filing requirements for your project entities, please contact MHIC as soon as possible.

	Projects in Construction				Projects Placed In Operations			
Project / Entity:	Audited Financial Statements	Independence Letter	Back-up Requirements	Tax Returns	Audited Financial Statements	Independence Letter	Back-up Requirements	Tax Returns
Equity Project	N	N	N	Y(B)	Y	Y	Y	Y
Loan-Only Projects	N	N	N	N	Y	N	N	N
Master Tenant:								
Building Owner	N	N	N	Y(B)	Y(A)	Y	Y	Y
Master Tenant	N	N	N	Y(B) (C)	Y(A)	Y	Y	Y(C)

Footnotes:

A. Master tenant structures which have been placed in service may be required to report on a combined or consolidated basis. Please see the notes in the financial reporting requirements section concerning format consolidation for combining or consolidating formats.

B. Depending upon the activities conducted within the project entity, a project under construction may or may not have a filing requirement under federal or Massachusetts regulations. If your project does not have a federal or Massachusetts filing requirement for 2012, please notify MHIC and the upper tier accountant in writing. Master tenants or other projects which are claiming HRTC and have placed in service at any time during 2012 must file tax returns.

C. Master Tenants which are owned 100% by an MHIC CDE and considered a disregarded entity must prepare pro-forma federal and Massachusetts tax returns for information only purposes to assist the upper tier accountant with the filing requirements for the MHIC CDE. These returns should not be filed with the IRS or Massachusetts Department of Revenue.

Cost Certification for HRTC Projects:

Projects claiming either federal or Massachusetts historic rehabilitation tax credits must also prepare cost certifications for the year that the project will place in service. Please consult with your MHIC asset manager regarding any questions concerning cost certification requirements. If your project will claim the HRTC for the 2012 tax year, please provide a draft copy of the cost certification to MHIC by March 1, 2013.

The Charts on the following 2 pages reflect due dates that are required per each projects loan agreements.

NMTC PROJECT AUDIT & TAX REQUIREMENTS

NMTC FUND I

Projects	Asset Manager	Project Year End	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
			1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Coffin Lofts	SDB	12/31/12	X		X			03/01/13	03/01/13	03/15/13	03/15/13
Hibernian Arts Center LLC	EMC	12/31/12	X		X			03/01/13	03/01/13	03/15/13	03/15/13
Lawton Corner	SDB	12/31/12	X		X			03/01/13	03/01/13	03/15/13	03/15/13
Pace Border 6/30	HAT	12/31/12	X		X			03/01/13	03/01/13	03/15/13	03/15/13
Warren Palmer	RRR	12/31/12	X				X	03/01/12	03/01/12	03/15/12	03/15/12

NMTC FUND II

Projects	Asset Manager	Project Year End	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
			1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Brewery Main Block	EMC	12/31/12	X				X	03/01/13	03/01/13	03/15/13	03/15/13
Chinatown Community Ed	EMC	12/31/12	X				X	N/A	N/A	03/31/13	03/15/13
Holyoke Health Center	EMC	12/31/12	X				X	03/01/13	03/01/13	03/15/13	03/15/13
Colonial Theatre	GGS	12/31/12	X				X	03/01/13	03/01/13	03/15/13	03/15/13
Community Hope - (Project Hope)	MJS	12/31/12	X				X	03/01/13	03/01/13	03/15/13	03/15/13
Nat. Kitchen/Custom Blends-loan	MJS	12/31/12	X				X	N/A	N/A	05/15/13	03/31/13
Our House of Design	MJS	12/31/12	X				X	03/01/13	03/01/13	03/15/13	03/15/13
Project Place - Loan only	MJS	12/31/12		X			X	N/A	N/A	04/30/13	04/30/13
Central Sq. Theater- Loan Only 6/	MJS	6/30/12		X			X	N/A	N/A	12/15/13	10/31/13
Cmty. Srvgs-Mrbry Terrace LLC 6	RRR	6/30/12		X			X	N/A	N/A	11/15/12	09/28/12
Zumix Firehouse, Inc-Loan only	RRR	6/30/12		X			X	N/A	N/A	07/15/12	06/29/12
Atlantic Works	SDB	12/31/12	X				X	03/01/13	03/01/13	03/15/13	03/15/13
Nokode Holdings LLC	SDB	12/31/12	X			X		03/01/13	03/01/13	03/15/13	03/01/13

NMTC FUND III

Projects	Asset Manager	Project Year End	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
			1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
2201 Washington Street	RRR	12/31/12	X				X	N/A	N/A	05/15/12	4/30/2012
470 Main Street -historic 2009	SDB	12/31/12	X			X		03/01/13	03/01/13	03/15/13	03/15/13
Boston Healthcare	EMC	12/31/12	X			X		03/01/13	03/01/13	03/15/13	03/15/13
Dudley Village North	GGS	12/31/12	X				X	03/01/13	03/01/13	03/15/13	03/15/13
Egleston Power Station	KRW	12/31/12	X		X			N/A	N/A	03/31/13	03/31/13
Fenway Health Center 6/30	MJS	6/30/12		X			X	N/A	N/A	12/15/13	07/31/13
Gerrish /Chelsea NHS	EMC	12/31/12	X				X	N/A	N/A	05/15/13	04/30/13
Girls, Inc 6/30	MJS	6/30/12		X			X	N/A	N/A	12/15/13	10/31/13
Hanover Theater / WCPA LLC	SDB	12/31/12	X			X		03/01/13	03/01/13	03/15/13	03/15/13
Leonard Florence Center (LO)	EMC	12/31/12	X				X	N/A	04/30/13	N/A	04/30/13
MAHA (Loan only 3-31)	KRW	3/31/13		X			X	N/A	N/A	04/30/13	07/31/13
North Street Cinema	EMC	12/31/00	X		X		X	N/A	N/A	05/15/13	03/31/13

NMTC FUND IV

Projects	Asset Manager	Project Year End	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
			1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Spike Segundo, LLC	GGS	12/31/12	X			X		03/01/13	03/01/13	03/15/13	03/15/13
Apex (Loan only - 5/1/11)	GGS	3/31/13	X					06/01/13	06/01/13	06/01/13	06/01/13
Carpenter's Union Building	HAT	9/30/13						N/A	01/28/13	N/A	01/28/13
Hyde Park YMCA	HAT	12/31/13						N/A	N/A	03/31/13	03/15/13
Arts Block, LLC	GGS	12/31/12	X			X		03/01/13	03/01/13	03/15/13	03/15/13
Pushkin, LLC	GGS	12/31/12	X			X		03/01/13	03/01/13	03/15/13	03/15/13
Eustis Firehouse LLC	RRR	12/31/12	X		X			03/01/12	03/01/12	03/15/12	03/15/12

USB CEI Investment Fund II, LLC

Projects	Asset Manager	Project Year End	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
			1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Boston Conservatory	HAT	6/30/13		X			X	N/A	N/A	10/15/13	09/28/13

USB MHIC 5 Investment Fund II, LLC

Projects	Asset Manager	Project Year End	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
			1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Chelsea Jewish Green House, Inc	EMC	12/31/12		X			X	N/A	N/A	N/A	04/30/13

USBCDE Investment Fund XXXIII, LLC

Projects	Asset Manager	Project Year End	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
			1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Baystate	RRR	9/30/12		X			X	N/A	N/A	12/15/12	02/27/12

MHIC 481 CORP, NMTC INVESTMENT FUND LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Morgan Memorial Goodwill, Inc.	RRR	6/30/12		X			X	09/15/12	N/A	11/27/12	11/27/12
Wakeman Boys & Girls Club 8/31	HAT	8/31/12		X			X	N/A	N/A	12/29/12	12/29/12

SANEL BLOCK INVESTMENT FUND LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Sanel Block Redevelopment	SDB	12/31/12					X	N/A	03/01/13	N/A	03/15/13

Commonwealth Yogurt Investment Fund, LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Commonwealth Yogurt loan only	MJS	12/31/12	X				X	N/A	N/A	03/31/13	02/28/13

ISPN Investment Fund, LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
ISPN	SDB	12/31/12	X			X		2/1/13	2/1/13	02/15/13	03/01/13

GENERATIONS Investment Fund, LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Generations Wilmantic, LLC	EMC	6/30/12	X					N/A	8/17/12	N/A	09/30/12

5CC Investment Fund, LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Fraunhofer Center	SDB	12/31/12	X			X		3/15/13	3/15/13	04/01/13	04/30/13

Boston Hostel Investment Fund, LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Boston Hostelling, Inc	HAT	3/31/13		X	X			N/A	07/15/13	07/29/13	07/29/13

BCATF Investment Fund, LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Boston Carpenters Training Cente	HAT	6/30/13		X			X	N/A	N/A	09/28/13	08/29/13

WICOR America Inc.

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
WeidmanNCIC Board Co.	HAT	12/31/12	X				X	N/A	N/A	03/31/13	03/31/13

Lowell Investment Fund, LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
LCHC QALICB LLC	EMC	12/31/12	X			X		N/A	02/15/13	03/31/13	03/01/13

CHASE NMTC Codman Investment Fund, LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Codman Square Health Center LL	GGS	12/31/12	X				X	3/1/2013	N/A	03/15/13	N/A

MHIC 481 Corp. MNTC Investment Fund II LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
Caring Health	HAT	6/30/13		X			X	9/18/13	N/A	09/28/13	10/28/13
110 Canal/Freudenberg	EMC	12/31/12	X		X			N/A	02/16/13	03/31/13	03/01/13

Holyoke Library Investment Fund LLC

Projects	Asset	Project	QALICB Tax Form		Master Tenant Tax Form			Draft Due Dates		Final Due Dates	
	Manager	Year End	1065	990	1065	Proforma 1065	N/A	Return	Audit	Return	Audit
HPL Realty Corp.	EMC	6/30/12		X				NA	08/16/13	09/30/13	09/30/13

<u>Suggested Audit and Tax Preparation Schedule</u>

December 1	**Audit and Tax Engagement Letter Signed**
December 15	**Audit preliminary work completed and Loan and equity balances reconciled with MHIC Finance Department**
January 15	**Begin Audit Fieldwork**
January 31	**Audit Fieldwork Completed**
February 15	**Review Draft Audit and Tax Returns with Management**
March 1	**Deadline for Submission of Drafts to MHIC**
March 15	**Deadline for Submission of Finals to MHIC (Please wait for "Go Final" letter)**

<u>Drafts of audits and tax returns submitted for March 1, 2013 deadline should be prepared as if ready to be issued final. Incomplete drafts will be considered late.</u>

Asset Management Department Contact List

Name	Title	Email	Phone
Richard G. Becker	Director of Asset Management	becker@mhic.com	(617) 850-1007
Scott Backman	Senior Asset Management Officer	backman@mhic.com	(617) 850-1054
Melissa J. Sheeler	Senior Asset Management Officer	sheeler@mhic.com	(617) 850-1060
Ellen M. Caracciolo	Senior Asset Management Officer	caracciolo@mhic.com	(617) 850-1058
Rudolph R. Russell	Asset Management Officer	russell@mhic.com	(617) 850-1023
Henry A. Terrones	Asset Management Officer	terrones@mhic.com	(617) 850-1050
Gayle G. Simmons	Asset Management Officer	simmons@mhic.com	(617) 850-1003
Kimberly Williams	Assoc. Asset Management Officer	williams@mhic.com	(617) 850-1041

Finance Department Contact List

William Thompson	Director of Finance	thompson@mhic.com	617-850-1034
Charles Edwards	Controller	edwards@mhic.com	617-850-1047
Spencer Thornley	Associate Finance Officer	thornley@mhic.com	617-850-1063

New Market Tax Credit (NMTC) Developments by Fund

Fund I	
Upper Tier Accountant	Alexander Aronson Finning
Tax ID Number	20-0269913
CDE Series 1	
Tax ID Number	20-0104108
Project Name	Asset Manager
Hibernian Hall	Ellen Caracciolo
Pace Border	Henry Terrones
Warren Palmer	Rudy Russell
CDE Series 2	
Tax ID Number	20-0105476
Project Name	Asset Manager
Coffin Lofts	Scott Backman
Lawtons Corner	Scott Backman
CDE II Series 1	
Tax ID Number	20-1138664
Project Name	Asset Manager
Hibernian Hall	Ellen Caracciolo
Warren Palmer	Rudy Russell

Fund II	
Upper Tier Accountant	Alexander Aronson Finning
Tax ID Number	20-1139172
CDE Series II Series 2	
Tax ID Number	20-1138784
Project Name	Asset Manager
Atlantic Works	Scott Backman
Brewery Main Block	Ellen Caracciolo
Project Hope	Melissa Sheeler
Central Square Theater	Melissa Sheeler
Colonial Theatre	Gayle Simmons
Natural Kitchens	Melissa Sheeler
Nuestra Casa	Melissa Sheeler
CDE Series II Series 3	
Tax ID Number	20-1138830
Project Name	Asset Manager
Holyoke Health Center	Ellen Caracciolo
CDE Series II Series 4	
Tax ID Number	20-1138891
Project Name	Asset Manager
Marbury Terrace	Rudy Russell
Chinatown Community Education Center	Ellen Caracciolo
Project Place	Melissa Sheeler
CDE Series II Series 5	
Tax ID Number	20-1139103
Project Name	Asset Manager
Zumix	Rudy Russell
Nobis Engineering	Scott Backman

Fund III	
Upper Tier Accountant	Alexander Aronson Finning
Tax ID Number	20-3992692
CDE III S1	
Tax ID Number	20-3777086
Project Name	Asset Manager
Boston Health Care for the Homeless	Ellen Caracciolo
CDE III S2	
Tax ID Number	20-3777093
Project Name	Asset Manager
Egleston Power Station	Henry Terrones
CDE III S3	
Tax ID Number	20-3777099
Project Name	Asset Manager
Madison Washington II	Rudy Russell
GIL Girls Inc Business Trust	Melissa Sheeler
CDE III S4	
Tax ID Number	20-3777106
Project Name	Asset Manager
1803 Dorchester Ave	Henry Terrones
CDE III S5	
Tax ID Number	20-3777115
Project Name	Asset Manager
North St. Cinema (Cinema Center)	Ellen Caracciolo
Zumix	Rudy Russell
CDE IV S1	
Tax ID Number	20-5668863
Project Name	Asset Manager
Dudley Village North	Gayle Simmons
Gerrish Retail Partners	Ellen Caracciolo
CDE IV S2	
Tax ID Number	20-5668941
Project Name	Asset Manager
Fenway Community Health Center	Melissa Sheeler
CDE IV S3	
Tax ID Number	20-5669080
Project Name	Asset Manager
Greenhouse (Leonard Florence)	Ellen Caracciolo
CDE IV S4	
Tax ID Number	20-5669125
Project Name	Asset Manager
470 Main St	Scott Backman
Worcester Center for the Performing Arts	Scott Backman

Fund IV	
Upper Tier Accountant	Alexander Aronson Finning
Tax ID Number	26-3687149
NE CDE 1 Series 2 LLC	
Tax ID Number	26-3688193
Project Name	Asset Manager
Eustis Street Firehouse	Rudolph Russell
Spike Segundo LLC	Gayle Simmons
Apex Resource Technologies	Gayle Simmons
Arts/Pushkin	Gayle Simmons
Hyde Park YMCA	Henry Terrones
One-Off Funds	
MHIC NE CDE 1 Sub 1 LLC	
Tax ID Number	26-4310571
Project Name	Asset Manager
Baystate Medical Center	Rudy Russell
MHIC NE CDE 1 Sub 2 LLC	
Tax ID Number	26-4311070
Project Name	Asset Manager
The Boston Conservatory	Henry Terrones
MHIC NE CDE 1 Sub 4 LLC	
Tax ID Number	26-4311621
Project Name	Asset Manager
RI Institute for Non Violence	Scott Backman
MHIC NE CDE 1 Sub 5 LLC	
Tax ID Number	26-4311796
Project Name	Asset Manager
Chelsea Jewish Greenhouse Expansion	Ellen Caracciolo
MHIC NE CDE 1 Sub 6 LLC	
Tax ID Number	26-4311921
Project Name	Asset Manager
470 Main St Additional	Scott Backman
MHIC NE CDE I Sub 3 LLC	
Tax ID Number	26-4311293
Project Name	Asset Manager
Commonwealth Yogurt	Melissa Sheeler
MHIC NE CDE II Sub 2 LLC	
Tax ID Number	27-1325417
Project Name	Asset Manager
Generations Willimantic	Ellen Caracciolo
MHIC NE CDE II Sub 4 LLC	
Tax ID Number	27-1325802
Project Name	Asset Manager
Goodwill Headquarters	Rudolph Russell
MHIC NE CDE II Sub 5 LLC	
Tax ID Number	27-1325955
Project Name	Asset Manager
Wakeman Boys & Girls Club	Henry Terrones

MHIC NE CDE II Sub 6 LLC	
Tax ID Number	27-1326174
Project Name	Asset Manager
Lowell Community Health Center	Ellen Caracciolo
MHIC NE CDE II Sub 7 LLC	
Tax ID Number	27-1326353
Project Name	Asset Manager
Weidmann	Henry Terrones
MHIC NE CDE II Sub 3 LLC	
Tax ID Number	27-1325661
Project Name	Asset Manager
Hostelling International Boston	Ellen Caracciolo
MHIC NE CDE II Sub 9 LLC	
Tax ID Number	27-1326549
Project Name	Asset Manager
Holyoke Public Library	Ellen Caracciolo
MHIC NE CDE II Sub 11 LLC	
Tax ID Number	45-1474206
Project Name	Asset Manager
Codman Sq. Health Center	Gayle Simmons
MHIC NE CDE I Sub 9 LLC	
Tax ID Number	27-0337806
Project Name	Asset Manager
Fraunhofer	Scott Backman
MHIC NE CDE II Sub 14 LLC	
Tax ID Number	45-1477413
Project Name	Asset Manager
110 Canal Street/Freudenberg	Ellen Caracciolo
MHIC NE CDE II Sub 10 LLC	
Tax ID Number	45-1472457
Project Name	Asset Manager
Union Crossing Commercial	Scott Backman
MHIC NE CDE II Sub 12 LLC	
Tax ID Number	45-1474887
Project Name	Asset Manager
Caring Health Center	Henry Terrones
MHIC NE CDE II Sub 8 LLC	
Tax ID Number	45-1474887
Project Name	Asset Manager
225 Center Street	27-1326415

TAB 2

Audited 2012 Financial Statements
Submission Deadlines:

<u>Draft Copy</u> **<u>Friday, March 1, 2013</u>**

<u>Final Copy</u> **<u>Friday, March 15, 2013</u>** **<u>Or</u>** **<u>Within eight (8) calendar days of the date MHIC issues a "Go final" letter.</u>**

Remit Audit information as follows:

AUDITS ***DRAFT and FINAL audits must be uploaded to the MHIC portal.*** ***Accounting firms will register in advance and will receive instructions for using the portal.*** ***Hard copy documents are no longer accepted.***

MHIC Secure Portal Website: https://www.mhic.com

Each audit firm must register for access to the portal. Please send the name and email address of your main contact person for tax and audit submissions to Gayle Simmons at MHIC. We will then send you an invitation to register for the tax & audit portal.

If you have any questions regarding the portal please email Gayle Simmons at simmons@mhic.com or call at (617) 850-1003

<u>Final audits must include a signed original Independence letter that are dated on or after the date of the final auditor's report and must be submitted with the final reporting package</u> (see format in Tab 2, exhibit A). Final audits should be sent to the MHIC portal. MHIC will forward the audits to the appropriate upper tier auditor.

MHIC Document Portal Instructions
Tax and Audit Module
2012

MHIC has developed a secure internet portal for the 2012 Audit and Tax season, set up to receive all of your draft and final tax returns, audits and work papers. We have designed it to meet the Mass. Privacy Law as well as the security concerns of our customers and partners. We are also looking for more efficiency as we process and review all of the documents. We hope that all of you will be able to upload your documents directly to the MHIC portal with no additional security or encryption on your part, as the results of our polling indicated would be possible.

Instructions: This document contains directions for how to navigate and use the Tax and Audit Module of the MHIC Secure Document Portal. The Secure Document Portal is located at https://www.mhic.com.

- **Step 1: Register for access to the Document Portal**.

Registration for the Portal is by Invite Only. Users will receive an email from webserver@mhic.com with a Unique Registration Invitation ID and directions to the registration page in the Portal which is located at https://www.mhic.com/account/register.aspx.

- Upon navigating to the Registration Page, users will enter the Invitation ID and then click 'Begin Registration'. The Registration ID can be 'copy-and-paste' into the form.

- After clicking 'Begin Registration', users will enter their Login information into the form that appears.
After filling in all the fields, users then click 'Create User'. The Registration will be completed and the user will be given access to the Document Portal.

- Users can now click 'Continue' button to begin using the Portal, or navigate to https://www.mhic.com and log in using their entered Account information to use the Portal.

- **Step 2**: **Using the Document Portal**.

- After logging into the Document Portal users will see the Document Portal Home Page. The Home Page will list the different Modules users have access to as well as status information about the Document Portal.

- Users can now click 'Tax and Audit Module' to access the Tax and Audit Module of the Document Portal.

On the left side of the page, users will see a list of functionality they have access to:

> **Group Administrator**: Users that have Administrative access to invite other users to the Document Portal.
> **Lower-Tier Group**: Users that have access to Upload and View Lower-Tier Documents.
> **Upper-Tier Group**: Users that have access to Upload and View Upper-Tier Documents, and view Lower-Tier Documents.
> **User Profile**: Access to Users' individual Account Information.

- **Group Administrator:** Manages the Users in your group or company. Each audit firm will identify a Group Administrator who will invite the other Users in their firm who need to upload documents to the MHIC portal.

- **Please provide the name and contact information of your firm's administrator to Gayle Simmons at MHIC, including phone and email address. (simmons@mhic.com)**

- To invite other Users into the Document Portal, enter the user's email address, chose a Role and click **'Invite User'. The Portal will send that user an invitation from** webserver@mhic.com **with directions on** how to register for the Portal. Users can be given either 'Member' or 'Administrator' Role.

Administrators can also switch users between 'Member' and 'Administrator' Roles. Click 'Promote' or 'Demote' next to the user and their role will be changed to 'Member' or 'Administrator' accordingly.
Only Administrators can invite new users, or change status of current users in the Portal.

Lower-Tier Group: Upload and View Documents
The page is divided into three sections. The upper 'Lower-Tier Documents' area displays the Projects and documents the users are allowed to work with. The lower 'New Document' area uploads documents to the Portal. The 'Document Versions' area appears when a document in selected in the 'Lower-Tier Documents' area.

Uploading Documents: To add a document, users scroll down to the 'New Document' area and select what Project and Document Type they are uploading for. They then pick either Draft or Final. The Document Portal recognizes one 'Final' for each Document Type, so old 'Finals' are changed into 'Old Finals' whenever a 'Final' is uploaded. A comment for each document can then be entered. The user then clicks 'Browse' to locate the document they want to upload and then clicks 'Upload Document' to upload the document. The Portal accepts pdf documents up to 10mb. As the documents are being uploaded, a progress bar is displayed, and a status field lets the users know what the Portal is doing. The Document Portal will send an email to the Asset Manager and Upper-Tier Accountant for that Project with confirmation that the document was uploaded.

Downloading documents: Once documents are uploaded, users can click on the documents in the 'Lower-Tier Documents' section to see the corresponding documents that are stored on the Portal. Once a document is selected, the 'Document Versions' area appears and displays a list of the document's versions. Users can click on individual versions to download a copy of that document. To download a document, right click on the name of document then select Copy from the drop down menu. Then paste the copy of the document wherever you want to save it on your own computer system.

Upper-Tier Group: Upload and View Documents
The page is divided into three sections. The upper 'Upper-Tier Documents' area displays the Projects and documents the users are allowed to work with. The lower 'New Document' area uploads documents to the Portal. The 'Document Versions' area appears when a document in selected in the 'Upper -Tier Documents' area.

To add a document, users scroll down to the 'New Document' area and select what Fund and Document Type they are uploading for. They then pick either Draft or Final. The Document Portal recognizes **one 'Final' for each Document Type, so old 'Finals' are changed into 'Old Finals' whenever a 'Final' is** uploaded. A comment for each document can then be entered. The user then clicks 'Browse' to locate the document they want to upload and then clicks 'Upload Document' to upload the document. The Portal accepts pdf documents up to 10mb. As the documents are being uploaded, a progress bar is displayed, and a status field lets the users know what the Portal is doing.

Once documents are uploaded, users can click on the documents in the 'Upper -Tier Documents' section to see the corresponding documents that are stored on the Portal. Once a document is selected, the 'Document Versions' area appears and displays a list of the document's versions. Users can click on individual versions to download a copy of that document.

The Document Portal will send an email to the MHIC Finance department for that Fund with confirmation that the document was uploaded.

User Profile: Manage Individual User Account
Users use this page to change their password. Users enter their old Password, and then their new Password and the system will update their registered password.

If user's password is forgotten, the user can request a new password from the system. They enter their email address instead of log in, and the system will email them a new password. They can then change their password in the User Profile section after log in.

If you have questions or issues please contact Ellen Caracciolo at caracciolo@mhic.com or 617-850-1058 or Gayle Simmons at simmons@mhic.com or 617-850-1003.

HELPFUL ACRONYMS

ADA	Americans with Disabilities Act
AFR	Applicable Federal Rate
AUL	Activity & Use Limitation (form 1075)
BOY	Beginning of Year
CDE	Community Development Entity
CDFI	Community Development Financial Institution
CEDAC	Community Economic Development Assistance Corp.
CHDO	Community Housing Development Organization
CY	Current Year
DHCD	Department of Housing & Community Development
EOCD	Executive Office of Community Development
EOY	End of Year
FASB	Financial Accounting Standards Board
FMR	Fair Market Rent
FNMA	Federal National Mortgage Association (FANNIE MAE)
FREDDIE MAC	Federal Home Loan Mortgage Corp.
GAAP	Generally Accepted Accounting Principles
HFA	Housing Finance Agency
HRTC	Housing Rehabilitation Tax Credit
HSF	Housing Stabilization Fund
HUD	Department of Housing and Urban Development
IRC	Internal Revenue Code
LIHTC	Low Income Housing Tax Credit
LISC	Local Initiative Support Corp.
LLC	Limited Liability Company
LURA	Land Use Restriction Agreement
MDFA	Mass. Development Finance Agency
MEFA	Mass. Health & Educational Facilities Agency
MHFA	MassHousing (formerly Mass. Housing Finance Agency)
MHP	Massachusetts Housing Partnership
MRVP	Massachusetts Rental Voucher Program
MSA/PMSA	Metropolitan Statistical Area/Primary Metropolitan Statistical Area
NMTC	New Markets Tax Credit
PJ	Participating Jurisdiction
PY	Prior Year
QBTS	Qualified Basis Tracking Sheet
QCT	Qualified Census Tract
QALICB	Qualified Active Low-Income Community Business
QEI	Qualified Equity Investment
QLICI	Qualified Low-Income Community Investment
QRB	Qualified Rehabilitation Building
QRE	Qualified Rehabilitation Expenditures
RA	Reasonable Accommodations
RFP	Request for Proposal
SAS	Statement on Auditing Standards
SSI	Supplemental Security Income
TR	Treasury Regulations

UPPER TIER ACCOUNTANTS	
Thomas A. Washburn Alexander Aronson Finning & Co., PC 21 East Main Street Westborough, MA 01581 Phone number: (508) 366-9100 x3024 Fax number: (508) 366-9789 twashburn@aafcpa.com	Sorie M. Kaba Alexander Aronson Finning & Co., PC 21 East Main Street Westborough, MA 01581 Phone number: (508) 366-9100 x3071 Fax number: (508) 366-9789 skaba@aafcpa.com

Balance Sheet Information
See preferred Balance Sheet Statement format. (Attached)
Note: ***When prior year numbers are available, accountant must present in comparative format.***

Income and Expense Statement
See preferred Income and Expense Statement format. (Attached)
Note: ***When prior year numbers are available, accountant must present in comparative format.***

Statement of Cash Flows (see example)

Notes to Audited Financial Statements
Provide a separate reconciliation of financial statement income to taxable income if it is not already included in the notes to the financial statements. (See example)

The selection of depreciation lives has a significant impact on the operating results at the lower tier level and the Fund level. Your depreciation schedules should reflect those found in the financial forecast projections of each respective Partnership Agreement.

Include terms of all outstanding debt principal, year end balance, total accrued interest and expense interest amounts and list in priority. Note reserve amounts separately including where held and the type of reserve account. Please contact MHIC's business office if you have questions.

Note any and all related party transactions and include general project information such as: parties involved, relationship of parties, services rendered or nature of transactions, balances involved and amounts outstanding as of balance sheet date

Statement of Partners' Equity
Identify the MHIC NMTC CDE partnership equity separately

Independence Letter
See sample letter attached.

Audit Management Letter
Please provide MHIC with audit management letter comments.

Illustrative Financial Statements

Please note: The following illustrative financial statements depict an operating tier project entity structured as a limited partnership. Some operating tier entities are structured as limited liability companies (LLCs). The reporting requirements for an LLC are substantially similar to those of limited partnerships aside from terminology differences. The format of these financials is in a typical real estate company format with detailed supplemental schedules to facilitate a review of project operations by MHIC's asset managers and the upper tier accountants.

Master Tenant Structures and ASC Topic 810 (Consolidation Topic) (formerly FASB 167, Amendment to FIN 46R)

Project accountants should carefully consider the project structure and the guidance of Consolidation 810 to determine whether the financial statements of the building owner and master tenant must be consolidated. If consolidation is deemed appropriate in the circumstances, please prepare the financial statements in a consolidating format that presents the separate financials of each entity before consolidation and uses an elimination column to eliminate intercompany transactions. If consolidation is not deemed appropriate, separate audited financial statements for each entity must be submitted to MHIC.

EITF 04-5

The FASB Emerging Issues Task Force has issued its statement EITF 04-5: Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights. This statement is effective for December 31, 2006 financial statements and provides guidance as to when a general partner of a limited partnership must consolidate the partnership in its financial statements. In applying this guidance, project accountants may determine that the operating tier partnership must be consolidated with the sponsor or an entity formed by the sponsor as the general partner of the partnership. However, EITF 04-5 does not change the generally accepted reporting practice that a subsidiary may produce unconsolidated financial statements separate from those of its parent. Project financial statements submitted to MHIC should be prepared on an unconsolidated (stand alone) basis. Please do not submit project financial statements to MHIC that have been consolidated with a general partner or project sponsor without including supplemental statements showing the activities of the project. Audit opinions accompanying unconsolidated subsidiary project financials should contain an appropriate 'emphasis of a matter' paragraph disclosing the nature or the project's consolidation with the sponsor.

SAMPLE
Independent Auditors' Report

To the Partners of
ABC Limited Partnership

We have audited the accompanying balance sheet of **ABC Limited Partnership** (the Partnership) as of December 31, 200X, and the related statement of operations, changes in partners' equity (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit. [**Add if financial statements for the prior period were audited by another auditor**: **The financial statements of ABC Limited Partnership as of December 31, 200X, were audited by other auditors whose report dated January 31, 200Y, expressed an unqualified opinion on those financial statements.**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **ABC Limited Partnership** as of December 31, 200Y, the results of its operations, changes in partners' equity (deficit) and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Hometown, Massachusetts
January 31, 200Y

ABC LIMITED PARTNERSHIP
(A Massachusetts Limited Partnership)

Balance Sheets

As of December 31, 200X and 200X-1

		200X		200X-1
Current Assets				
Cash and cash equivalents	$		$	
Tenant accounts receivable				
Other accounts receivable				
Other prepaid expenses				
Total current assets		-		-
Tenant Security Deposits				
Tenant security deposits				
Restricted Deposits and Funded Reserves				
Replacement reserve				
Real estate tax and insurance escrow				
Operating deficit reserve				
Other reserves				
Total restricted deposits and funded reserves		-		-
Fixed Assets				
Land				
Building				
Furnishings				
Total fixed assets		-		-
Less: accumulated depreciation				
Total net fixed assets		-		-
Other Assets				
Mortgage costs, net of accumulated amortization of $XXXX				
Other intangibles, net accumulated amortization $XX				
Total other assets		-		-
Total long-term assets		-		-
Total Assets	$	-	$	-

ABC LIMITED PARTNERSHIP

(A Massachusetts Limited Partnership)

Balance Sheets – Continued

As of December 31, 200X and 200X-1

Current Liabilities	200X	200X-1
Current maturities of long-term debt	$	$
Accounts payable		
Accrued management fees		
Accrued interest payable		
Accrued real estate taxes		
Miscellaneous accrued expenses		
Ground lease payable		
Prepaid rent		
Total current liabilities	-	-
Tenant Security Deposits		
Tenant security deposits – liability		
Long-Term Liabilities		
Mortgage payable, net of current maturities		
Due to general partner		
Due to related parties		
Development fee payable		
Asset management fee		
Incentive management fee		
Total long-term liabilities	-	-
Other Liabilities	-	-
Total liabilities	-	-
Partners' Equity		
Partners' equity		
Total Liabilities and Partners' Equity	$ -	$ -

ABC LIMITED PARTNERSHIP
(A Massachusetts Limited Partnership)

Statements of Operations

For the Years Ended December 31, 200X and 200X-1

Gross Income	200X	200X-1
Rental income		
Commercial	$	$
Less vacancies		
	-	-
Apartments		
Less vacancies		
	-	-
Parking and other revenue		
Total rental income	-	-
Financial revenue		
Interest income		
Other revenue	-	-
Total financial revenue	-	-
Total gross income	-	-
Rental Operating Expenses		
Administrative	-	-
Management fee expense	-	-
Utilities	-	-
Operating and maintenance	-	-
Taxes and insurance	-	-
Interest on mortgage payable		
Other interest		
Depreciation and amortization		
Total rental operating expenses	-	-
Net Operating (Loss) Income	-	-
Entity Expenses		
Investor service fee		
Incentive management fee		
Supervisory management fee		
Asset management fee		
Partnership management fee		
Total entity expenses	-	-
Net (Loss) Income	$ -	$ -

ABC LIMITED PARTNERSHIP

(A Massachusetts Limited Partnership)

Statements of Changes in Partners' Equity

For the Years Ended December 31, 200X and 200X-1

	Managing General Partner	Special Limited Partner	Investor Limited Partner	Total
Partners' equity, December 31, 2005	$ -	$ -	$ -	$ -
Capital contributions	-	-	-	-
Net income	-	-	-	-
Partners' equity, December 31, 2006	-	-	-	-
Capital contributions				
Net income	-	-	-	-
Partners' equity, December 31, 2007	$ -	$ -	$ -	$ -
Profit & loss percentages	0.01%	0.00%	99.99%	100%

Note: All limited partners must be identified and disclosed

ABC LIMITED PARTNERSHIP
(A Massachusetts Limited Partnership)

Statements of Cash Flows

For the Years Ended December 31, 200X and 200X-1

Cash Flows from Operating Activities	200X	200X-1
Net (Loss) Income	$ -	$ -
Adjustments to reconcile net loss to net cash provided		
by operating activities:		
Depreciation		-
Amortization of financing fees charged as interest expense		
Interest on restricted deposits		
Decrease (increase) in assets		
Tenant accounts receivable		
Accounts receivable – other		
Prepaid property insurance		
Other prepaid expenses		
Real estate tax and insurance escrow		
Tenant security deposits – asset		
Increase (decrease) in liabilities		
Accounts payable		
Government overage payable		
Accrued management fees		
Accrued interest payable		
Accrued real estate taxes		
Miscellaneous accrued expenses		
Prepaid rent		
Tenant security deposits – liability		
Net Cash (Used in) Provided by Operating Activities	-	-
Cash Flows from Investing Activities		
Purchase of fixed assets		
Proceeds from sale of fixed assets		
Deposits into replacement reserve		
Withdrawals from replacement reserve		
Deposits into operating reserve		
Withdrawals from operating reserve		
Net Cash (Used in) Provided by Investing Activities	-	-

ABC LIMITED PARTNERSHIP

(A Massachusetts Limited Partnership)

Statements of Cash Flows-Continued

For the Years Ended December 31, 200X and 200X-1

Cash Flows from Financing Activities

Proceeds from loans from general partners		
Mortgage proceeds		
Loan proceeds from related parties		
Loan repayments to related parties		
Principal payments on mortgage		
Capital contributions		
Partners' distributions		
Net Cash (Used in) Provided by Financing Activities	-	-
Net (Decrease) Increase in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents – Beginning	-	
Cash and Cash equivalents – Ending	$ -	$ -
Supplement Disclosure of Cash Flow Information		
Cash paid during the year for interest	$	$

Note: Cash balances must NOT include tenant security deposits or other restricted cash accounts

ABC LIMITED PARTNERSHIP
(A Massachusetts Limited Partnership)

Notes to Financial Statements
December 31, 200X and 200X - 1

(1) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by ABC Limited Partnership (the Partnership) in the preparation of the financial statements:

(a) Nature of Operations

ABC Limited Partnership is a Massachusetts limited partnership formed to acquire, rehabilitate, own, maintain and operate XXX square feet of commercial real estate (the Project) located in CITY, Massachusetts.

(b) Organization

The Partnership consists of one managing partner, with a .01% share, NAME and one investor partner, with a 99.99% share, NAME except as otherwise specified in the partnership agreement, all items of income, expense, gain, loss, tax credits, tax preferences and cash are allocated to the partners based on those percentages.

(c) Rental Income

The Partnership receives rental income from Project tenants which is recognized as the rents are earned. Rental payments received in advance are deferred. All leases between the Partnership and its tenants are operating leases. The Partnership derives substantially all of its revenues from its rental activity in CITY, Massachusetts.

(c) Financial Statement Presentation

Certain amounts in the 200X - 1 financial statements have been reclassified to conform to the 200X presentation.

(d) Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

(e) Capitalization and Depreciation

Land, building, furniture, fixtures and improvements are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Organizational costs are expensed as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the Statements of Operations.

The Partnership computes depreciation using the straight-line method over the following estimated lives:

Building and improvements	XX years

(1) Summary of Significant Accounting Policies - continued

(f) Amortization

Mortgage costs are amortized over the term of the mortgage loan using the effective interest method.

(g) Advertising Costs

The Partnership expenses advertising costs when they are incurred. Advertising expense amounted to $XXXX and $XXXX for the years ended December 31, 200X and 200X - 1, respectively. (OR - Advertising expense was immaterial for the years ended December 31, 200X and 200X - 1)

(h) Income Taxes

The Partnership adopted the *Accounting for Uncertainty in Income Taxes* standard which requires the Company to report uncertain tax positions, related interest and penalties, and to adjust its unrecognized tax benefits and accrued interest and penalties accordingly. As of December 31, 200X, the Partnership determined that there were no material unrecognized tax benefits to report.

No income tax provision has been included in the accompanying financial statements as the income, loss and credits of the Company is reported by the partners on their respective income tax returns. However, the Company is subject to audit by tax authorities. The Partnership believes that it has appropriate support for the positions taken on its tax returns. The Partnership files income tax returns in the United States Federal and Massachusetts state jurisdictions. These returns are generally subject to examination by tax authorities for the last three years.

(i) Cash and Cash Equivalents

The Partnership considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Partnership maintains its cash balances in banks located in STATES as required, according to their regulatory agreement. Cash and deposit balances maintained with BANK amounted to $XXXX and $XXXX at December 31, 200X and 200X - 1, respectively. The Partnership did not maintain cash balances in excess of FDIC insured limits in any other financial institution during the years ended December 31, 200X and 200X - 1.

Cash and deposit balances exceeding FDIC insured limits were maintained with Bank. Deposits with Bank amounted to $XXXXX and $XXXX at December 31, 200X and 200X - 1, respectively.

(j) Accounting Estimates

These financial statements were generated in accordance with accounting principles generally accepted in the United States of America, which requires that management make and use estimates in the preparation of certain amounts and disclosures. Actual results could differ from those estimates.

(k) Accounts Receivable

The Partnership carries its accounts receivable from tenants at an amount equal to uncollected but earned revenue less an allowance for doubtful accounts. On a periodic basis, the Partnership evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. As of December 31, 200X and 200X - 1, management has determined that any allowance would be immaterial.

(1) Summary of Significant Accounting Policies - continued

(l) Accounts Receivable - continued

The Partnership does not have a policy to accrue interest on trade receivables. Accounts are written off as uncollectible upon move-out or eviction of the tenant. The Partnership derives substantially all of its accounts receivables from its rental activity in CITY, Massachusetts. The Partnership has a policy to collect security deposits of up to one month's rent from tenants. The security deposits can be used to pay for damages caused by the tenant or used against unpaid receivables.

(m) Fair Value

The Partnership follows the accounting standards pertaining to *Fair Value Measurements* for qualifying assets and liabilities. The standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and expand disclosures about fair value measurements. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value framework under the standards are as follows:

Level I: Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level II: Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level III: Inputs that are unobservable.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

(n) Subsequent Events

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to disclose the date through which subsequent events have been evaluated for possible recognition or disclosure in the accompanying financial statements. Subsequent events are transactions or events that occur after the statement of financial position date, but before the financial statements are issued or available to be issued. The accompanying financial statements include the evaluation of subsequent events that have occurred through ____________, which is the date the financial statements were available to be issued.

(2) Partners' Capital Contributions

In accordance with the partnership agreement, the investor limited partner has agreed to make capital contributions of $XXXXX, payable in XXX installments. As of December 31, 200X, the investor limited partner has made XXX installments totaling $XXXX. The partnership has two general partners, NAME and NAME. As of December 31, 200X and 200X - 1, each general partner have made capital contributions of $XXXX.

(3) Restricted Deposits and Funded Reserves

(a) Mortgage Escrow Deposits - Taxes and Insurance

The Partnership has a tax and insurance escrow account which is required by the mortgage agreement. The Partnership is required to make periodic payments to the escrow account and make all payments for taxes and insurance payments with disbursements from this account. Funds are held by BANK. During 200X and 200X - 1, the Partnership made deposits of $XXXX and $XXXX, respectively, and withdrawals of $XXXX and $XXXX, respectively. The account earned $XX and $XX of interest income during 200X and 200X - 1, respectively. During 200X and 200X - 1, the account paid bank fees of $XX and $XX, respectively. As of December 31, 200X and 200X - 1, the balance was $XXXX and $XXXX, respectively.

(b) Replacement Reserve

The Partnership is required to maintain a reserve for significant repairs and replacements. The reserve funds are held by Financial Institution. During 200X and 200X - 1, the Partnership made deposits of $XXXX and $XXXX, respectively, and withdrawals of $XXXX and $XXXX, respectively. The account earned $XX and $XX of interest income during 200X and 200X - 1, respectively. During 200X and 200X - 1, the account paid bank fees of $XX and $XX, respectively. As of December 31, 200X and 200X - 1, the balance was $XXXX and $XXXX, respectively. Deposits were made in accordance with the Partnership Agreement (OR state shortfall amount).

(c) Operating Reserve

In accordance with the Financial Institution/Operating Agreement, the Partnership is required to maintain a reserve for operating short falls. The reserve funds are held by Financial Institution and can only be drawn as provided in the Operating Agreement. During 200X and 200X - 1, the Partnership made deposits of $XXXX and $XXXX, respectively, and withdrawals of $XXXX and $XXXX, respectively. The account earned $XX and $XX of interest income during 200X and 200X - 1, respectively. During 200X and 200X - 1, the account paid bank fees of $XX and $XX, respectively. As of December 31, 200X and 200X - 1, the balance was $XXXX and $XXXX, respectively. Operating reserve balance satisfies the minimum balance required by the Partnership Agreement (OR state shortfall amount).

(4) Long-term Debt

(a) First Mortgage

The first AGENCY/Financial Institution mortgage note is payable in monthly installments of $XXX with an effective interest of X.X% and a stated interest rate of X.X%. Final payment is due July 2042. The apartment complex is pledged as collateral for the mortgage. For the years ended December 31, 200X and 200X - 1, interest expense totaled $XXXX and $XXXX, respectively. The accrued interest balance at December 31, 200X and 200X - 1 amounted to $XXXX and $XXXX, respectively. The principal balance at December 31, 200X and 200X - 1 amounted to $XXXX and $XXXX, respectively.

(4) Long-term Debt (continued)

(b) Second Mortgage

The second AGENCY mortgage note is payable in monthly installments of $XXX with an effective interest of X.X% and a stated interest rate of X.X%. Final payment is due July 2042. The apartment complex is pledged as collateral for the mortgage. For the years ended December 31, 200X and 200X - 1, interest expense totaled $XXXX and $XXXX, respectively. The accrued interest balance at December 31, 200X and 200X - 1 amounted to $XXXX and $XXXX, respectively. The principal balance at December 31, 200X and 200X - 1 amounted to $XXXX and $XXXX, respectively.

(c) Development and Acquisition Fees

The Partnership has a Development Agreement with an affiliate of the General Partner for services performed during the rehabilitation of the Project. The development and acquisition fee of $XXXX is included in the basis of the building at December 31, 200X and 200X - 1. Development and acquisition fees are payable as follows; $XXXX is paid from capital contributions while $XXXX is deferred and paid in accordance with the Partnership Agreement. For the years ended December 31, 200X and 200X - 1, interest expense totaled $XXXX and $XXXX, respectively. The accrued interest balance at December 31, 200X and 200X - 1 amounted to $XXXX and $XXXX, respectively. As of December 31, 200X and 200X - 1, the amount of development and acquisition fees to be paid was $XXXX and $XXXX, respectively.

The following are the minimum required principal payments on the mortgages:

Year Ended	
200X	$ XXXXX
200X +1	XXXXX
200X +2	XXXXX
200X+3	XXXXX
201X+4	XXXXX

(5) Transactions with Affiliates and Related Parties

(a) Asset Management Fee

An asset management fee of $XXXX was incurred in the years ended December 31, 200X and 200X - 1 to a company whose ownership is common to the limited partner for services to be rendered in reporting to the investor limited partners. The investment limited partner holds a 99.98% interest in the Partnership. Asset management fees of $XXXX were outstanding as of December 31, 200X and 200X - 1. Please note whether fee is allowed to accrue or is payable only to the extent of cash flow.

(b) Supervisory Management Fee

The Partnership shall pay to the General Partner, yearly, a non-cumulative, supervisory management fee from available cash flow as determined by the Partnership Agreement. The Partnership incurred no supervisory management fees during the years ended December 31, 200X or 200X - 1.

(c) Investor Service Fee

The Partnership shall pay to NAME, an affiliate of the investor limited partner, yearly, a fee for services rendered in reporting to the investor limited partner. Investor service fees of $XXXX and $XXXX were incurred for the years ended December 31, 200X or 200X - 1, respectively.

(d) Partnership Management Fee

The Partnership shall pay a non-cumulative, partnership management fee of $XXXX per year payable to the General Partner from available cash flow. The Partnership incurred no partnership management fees during the years ended December 31, 200X or 200X - 1.

(e) Due From Affiliate

Due from affiliate represents non-interest bearing advances from the general partner for acquisition expenses. Advances due from the affiliate amounted to $XXXX and $XXXX at December 31, 200X - 1 and 200X-2, respectively.

(6) Taxable Income (Loss)

A reconciliation of financial statement net loss to taxable loss of the Partnership for the years ended December 31, 200X and 200X - 1, are as follows:

	200X	200X - 1
Financial statement net loss	$ (47,895)	$ (56,275)
Adjustments:		
Excess of depreciation and amortization for income tax purposes over financial reporting purposes	(51,431)	(52,460)
Organizational fees	-	19,223
Taxable loss as shown on tax return	$ (99,326)	$ (89,512)

(7) Company's Profits and Losses

Per the partnership agreement, to the extent of cash flows, the following are priorities:

(a)

(b)

Distributable cash flow is defined in the partnership agreement as the sum of all cash receipts less cash disbursements for operating activities and replacement reserve funding, including the annual investor service fee.

Distributable cash flow is payable annually, .XX% to the general partner and XX.XX% to the limited partner.

Gain, if any, from a sale or exchange or other disposition of the property owned by the Partnership is allocable as follows:

(a) To all partners pro rata in proportion to and to the extent of their respective positive capital account balances.

(b) The remainder of such gain, if any, XX% to the limited partner and XX% to the general partner.

Loss, if any, from a sale or exchange or other disposition of the property is allocated .XX% to the general partner and XX.XX% to the limited partner.

During 200X, $XXXX was distributed to the partners.

(8) Ground Lease

ABC owns the land upon which the Project is located. The Partnership (Tenant) has entered into a long term operating lease with ABC (Landlord) that terminates on December 31, 20XX. The base rent is $XXX,XXX. The Partnership has made base rental payments of $XXX for the years ended December 31, 200X and 200X-1.

(9) Obligations of the General Partner

The partnership agreement sets forth various obligations of the general partner as follows:

(a) Operating Deficits

The general partner will make additional capital contributions to fund operating deficits in excess of funds available in the operating reserve prior to the development obligation date, as defined in the partnership agreement. Subsequent to the development obligation date, any advances from the general partner to meet Project expenses are treated as Project expense loans and will bear no interest. Project expense loans will not exceed $XXX. As of December 31, 2007 and 2006, no advances were made.

(b) Development Guaranty

The general partner guarantees to the Partnership and the investor limited partner the completion of the construction of the Project and guarantee of payment.

(10) Current Vulnerability Due to Certain Concentrations

The Partnership's sole asset is the XXX unit building located in CITY, Massachusetts. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, AGENCY/AGENCIES. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by or passed through the AGENCY/AGENCIES. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

ABC LIMITED PARTNERSHIP
(A Massachusetts Limited Partnership)
Schedule of Other Revenues and Expenses
As of December 31, 200X and 200X-1

	200X	200X-1
Other Revenue		
Laundry and vending	$ -	$ -
NSF and late charges		
Damages and cleaning fees		
Other		
Total Other Revenue	**$ -**	**$ -**
Expenses		
Administrative Expenses		
Advertising	$ -	$ -
Other renting expenses		
Office salaries		
Office supplies		
Management fee		
Manager and superintendent salaries		
Legal expenses		
Auditing expenses		
Bookkeeping fees/accounting services		
Telephone and answering services		
Bad debts		
Miscellaneous		
Total Administrative Expenses	**$ -**	**$ -**
Operating and Maintenance		
Janitor and cleaning payroll, contracts and supplies	$ -	$ -
Superintendents salary		
Garbage and trash removal		
Security payroll, contracts and supplies		
Grounds contract		
Repairs payroll, contract and supplies		
Laundry expense		
Total Operating and Maintenance	**$ -**	**$ -**
Taxes and Insurance		
Real estate taxes	$ -	$ -
Payroll taxes		
Property and liability insurance		
Workman's' compensation insurance		
Health insurance and other employee benefits		
Taxes - other		
Total Taxes and Insurance	**$ -**	**$ -**
Utilities Expense		
Electricity	$ -	$ -
Water		
Gas		
Sewer		
Total Utilities Expense	**$ -**	**$ -**

COMMON FINANCIAL STATEMENT REPORTING/ACCOUNTING ISSUES

- Material tenants accounts receivable – These should be scrutinized carefully to determine issues of collectibility and allowance for doubtful accounts
- Accounting for rent guarantees and additional rental income
- Escrow/Reserve activity detail not reconciled to third party statements
- Land included with building – Often, the acquisition cost of land is not stated separately in a purchase of property. All reasonable efforts should be made to determine the fair value allocation between land and building for depreciation purposes. Working papers should document the basis of the allocation methodology used
- Tax basis asset lives used for GAAP basis depreciation
- Allocation of profit/loss
- Disclosure of put and call options
- Proper breakout of development costs into various fixed assets categories
- Comparison of actual financial results to financial forecast
- Construction payables included with accounts payable – be sure that the amount of any construction payables are either separately stated or disclosed in the notes to the financial statements
- Accruals - real estate taxes, utilities, management fee, etc. not properly recorded – the financials of the operating tier partnerships should be maintained on a full accrual basis
- Entity fees – calculation of incentive fees, asset management fees, investor service fees, etc. not performed and/or recorded. The partnership's agreements may allow for the payment or accrual of sponsor/developer fees based on operating cash flow or other factors. Such fees should be disclosed in the financial statements and auditor working papers should include tests of calculations of applicable fees
- Inclusion of entity expenses with operating expenses – legal, organization, and other expenses associated with the development's legal structure should be separated from the operating costs of the partnership
- Development Fee/interest – non-accrual – interest calculations should be made current through the balance sheet date. Deferral and adjustment of development fee for cost overruns.
- Debt not reconciled to third party statements – for many operating partnerships, primary and secondary financings are structure through the MHIC NMTC Fund. The principal balance of all mortgages should be reconciled with records maintained by MHIC. This can be done prior to the year-end closing in most cases. In some cases, MHIC may make advances on loans into escrows carried in the partnership's name – please consider this when reconciling loan balances
- Soft Debt – non- accrual of interest – in many cases, secondary financings do not require current debt service, but interest continues to accrue. Please be sure all interest accruals are current through the balance sheet date. As above, interest accruals should be reconciled to records maintained by MHIC
- Failure to record non-cash activity
- Disclosure of guarantees and/or other related party transactions

MHIC NMTC FUNDS

Audit/Tax Preparation Documents

Your auditor/tax preparer will provide you with a complete list of items to prepare in connection with their work. Following are several items they are likely to request. If possible, obtain a complete copy of your projects closing binder for your CPA.

- **Entity/Transaction Organization Chart**
- **Schedule of accumulated sources of funds drawn to date**
- **Copies of requisitions**
- **Contractor invoices (as requested by auditor)**
- **Development Fee agreements and schedule of payments**
- **Construction and Architect contracts/ change orders**
- **Purchase and Sale**
- **Purchase Settlement Sheet**
- **Wire Notices**
- **Partnership Agreement or LLC Operating Agreement**
- **Financial forecast model**
- **Sources and Uses Development Budget**
- **Tax Opinion**
- **Financing agreements – commitment letter, mortgages, loan agreements, promissory notes**
- **Leases**
- **Trial balance and general ledger**

TAB 3

EXHIBIT A

Sample Auditor Independence Letter
(Place on Firm Letterhead)

Date

Thomas A. Washburn, C.P.A. Alexander Aronson Finning & Co., PC 21 East Main Street Westborough, MA 01581

Gentlemen:

We have audited the financial statements of *(INVESTMENT LIMITED PARTNERSHIP NAME)* as of December 31, 20XX and for the year then ended. In connection with our audit, we make the following representations to you:

1. We are independent with respect to *(LIMITED PARTNERSHIP FUND NAME)* and *(INVESTMENT LIMITED PARTNERSHIP NAME)* under the requirements of the American Institute of Certified Public Accountants.

2. We are aware that you intend to place reliance on our audit of the financial statements of *(INVESTMENT LIMITED PARTNERSHIP NAME)* as of December 31, 200X and for the year then ended.

3. We are familiar with generally accepted accounting principles and with the generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants and have conducted our audit and reported in accordance with these standards.

4. We are in compliance with requirements established by the American Institute of Certified Public Accountants for peer review and have provided you with a copy of our last peer review report.

5. We have provided to you in a separate correspondence any other matters that have an effect on or should be disclosed in the financial statements of *(LIMITED PARTNERSHIP FUND NAME)*. These matters include but are not limited to audit scope limitations, related party transactions, illegal acts, going concern issues and noncompliance with various agreements.

Sincerely,

(Signature)
Firm Name

EXHIBIT B

Back-up Tax and Audit Workpaper Requirements

Project accountant audit workpapers and other information must be prepared for review by the upper tier auditor. Additional information is also required by the upper tier auditors for their review of the project's draft tax returns.

Audit workpapers and other items **required** to be submitted to the upper tier accountant for review of the preliminary draft audited financial statements.

a. Working trial balance and financial statement grouping sheets.
b. Bank reconciliations and related statements and confirmations.
   If no confirmations, please document how tested.
c. Detail accounts receivable aging schedule including all A/R in excess of 90 days.
d. Mortgage escrows and replacement reserves. If no confirmations, please document how tested.
e. Fixed assets and fixed asset additions and related depreciation calculations (including calculations for asset impairment, if applicable).
f. Deferred costs and related amortization.
g. Mortgage and loans payable along with related interest and confirmations.
   If no confirmations, please document how tested.
h. Partners equity showing changes in limited partner and general partner equity.
i. Revenue and expense analytical review.
j. Management representation letter.
k. Legal letter from attorneys, if applicable.
l. Auditor independence letter (See Exhibit A).
m. Memorandum summarizing consideration of ASC Topic (Consolidation Topic 810) consolidation of master tenant (if applicable)

Tax preparer workpapers and other items must be completed for review with the preliminary draft federal and state tax returns.

a. Book to tax conversions. (See Exhibit C)
b. Fixed asset and depreciation schedule for MACRS and Alternative Minimum Tax (AMT) depreciation methods.
c. Classification of loans - Recourse/Non-recourse.
d. Details of any special tax allocations (profit - loss - credits - liabilities).
e. Calculation of any Historic Rehabilitation Tax Credits claimed
f. Minimum gain analysis 704(b) identifying each non-recourse debt.

EXHIBIT C

NAME: XYZ Limited Partners
DATE:

BOOK TO TAX RECONCILIATION

			Partners' Equity (Deficit)	Net Income (Loss)
Per Financials			2,000,000	(1,600,000)
Prepaid Rent	BOY	(22,000)		
Prepaid Rent	EOY	25,000	25,000	3,000
Allowance for Bad Debts	BOY	0		
Allowance for Bad Debts	EOY	15,000	15,000	15,000
Accumulated Depreciation - PY	Book	175,000		
Accumulated Depreciation - PY	Tax	(155,000)	20,000	
Depreciation - CY	Book	1,300,000		
Depreciation - CY	Tax	(1,100,000)	200,000	200,000
Contributions Receivable				
Amortization - CY	Book	100,000		
Amortization - CY	Tax	(115,000)	(15,000)	(15,000)
Accumulated Amortization - PY	Book	12,000		
Accumulated Amortization - PY	Tax	(2,000)	10,000	
Write off Construction Period interest & taxes related to the building basis				
Syndication Costs Classified as an Asset for tax purposes			0	
Other GAAP/Tax Differences				
Accrued Int. Adj.	BOY	0		
Accrued Int. Adj.	EOY	0	0	0
Tax Basis Totals			2,255,000	(1,397,000)

TAX CAPITAL BOY	300,000	Sec 754 depreciation	
CY CONTRIBUTIONS(DISTRIBUTIONS)	3,352,000	Guarantee payment	
NET INCOME(LOSS)	(1,397,000)		
TAX CAPITAL EOY	2,255,000	BALANCE M-1	(1,397,000)

TAB 4

2012 Tax Return
Submission Deadlines:

<u>Draft Copy *</u>
<u>Friday March 1, 2013</u>

<u>Final Copy</u>
<u>Friday March 15, 2013</u>
<u>Or</u>
<u>Within eight (8) calendar days of the date MHIC issues a "Go final" letter.</u>

Remit the Tax information as follows:

Tax Returns
DRAFT and FINAL tax returns must be uploaded to the MHIC portal.
Accounting firms will register in advance and will receive instructions for using the portal.
Hard copy documents are no longer accepted.

MHIC Secure Portal Website: https://www.mhic.com

Each audit firm must register for access to the MHIC portal. Please send the name and email address of your main contact person for tax and audit submissions to Gayle Simmons at MHIC. We will then send you an invitation to register for the tax & audit portal.

If you have any questions regarding the portal please email Gayle Simmons at simmons@mhic.com or call at (617) 850-1003.

* Incomplete drafts do not constitute a timely delivery

Final tax returns must be submitted electronically to the MHIC portal in two separate files. Please submit the final federal and state tax returns together in a single file. MHIC must also receive in a single file, a copy of both federal and state E File forms (Form 8453-P for Federal & Form 8453P for State) signed by the General Partner or Limited Liability Member.

MHIC NEW MARKETS TAX CREDIT FUNDS

TAX RETURN PREPARATION GUIDE FOR OPERATING PARTNERSHIPS AND LLC'S

Table of contents

INTRODUCTION

The Massachusetts Housing Investment Corporation ("MHIC") is distributing this partnership tax return preparation guide to assist accounting firms that prepare tax returns for operating partnerships which are part of one of the MHIC New Markets Tax Credit Funds.

Many of the Operating Tier projects are organized as limited liability companies (LLCs). For tax purposes, an operating LLC is treated as a Partnership and must file IRS Form 1065 and Massachusetts Form 3. **Do not file the Partnership tax returns with the IRS and Massachusetts Department of Revenue until you receive authorization from Massachusetts Housing Investment Corporation.**

Please note that New Markets Tax Credits are claimed directly at the NMTC Fund level based upon qualifying equity investments made to community development entities (CDE's) established by MHIC. There are no special tax reporting or compliance issues required at the operating partnership level related to the NMTC.

Please contact MHIC with any questions concerning this manual or tax return preparation.

Schedules and Forms Required in Connection with Preparation of IRS Form 1065 and Schedules K-1:

- **Schedule M-3 – Net Income (Loss) Reconciliation for Certain Partnerships -** This form is required for partnerships meeting certain conditions, but may also be filed on a voluntary basis with the IRS. If your project is not otherwise required to prepare this schedule, please prepare it as a "voluntary filer" by checking Box E and submit it with your tax returns

- **Form 8825 – Rental Real Estate Income and Expense of a Partnership or an S-Corporation –** Must be prepared to capture the operating revenue and expenses of the project development. Other revenues and expenses not directly related to the operation of the project should be captured on Part I of Form 1065 or as separately stated items on Schedule K

- **Form 3468 – Investment Credit** – Must be filed by those building owners or master tenants who are claiming qualified rehabilitation expenditures in connection with the federal Historic Rehabilitation Tax Credit

Partnership Elections and Tax Return Preparation Reminders:

In addition, the following are reminders for preparing a complete and accurate partnership tax return:

1. The accrual method of accounting should be used for all Partnerships
2. Syndication expenses may not be amortized under current law.
3. Legal and other fees in relation to the acquisition or disposition of any capital assets should not be deducted as a current period expense, but rather capitalized over the life of the underlying asset, such as the building.
4. Fees paid for mortgages and other debt should be capitalized over the term of the loan, not over the term of the underlying asset.

Special Requirements for Master Tenants Treated as Disregarded Entities:

As noted in Tab 1, master tenants of some projects may be owned 100% by an MHIC NMTC CDE qualifying them to be treated as disregarded entities for tax purposes. For master tenants in these circumstances, MHIC requires project sponsors to arrange for the preparation of IRS Form 1065 and Massachusetts Form 3 as well as the work paper back-up requirements for submission to MHIC in accordance with the established due dates. These tax filings will be used on pro-forma basis by the upper tier accountant preparing the CDE tax filings and **should not** be filed by the sponsor with the IRS and Massachusetts Department of Revenue.

Master tenants with other than 100% ownership by a single CDE member should follow the normal tax filing and reporting process.

I. PARTNERSHIP TAX RETURN AND ACCOUNTING ISSUES

1.01 Capital Contributions

The investment limited partners' capital contributions should be recorded in the year paid. Do not record unpaid capital contributions as a receivable for tax purposes.

1.02 Tax Treatment of Development and Syndication Related Fees

Most partnerships syndicated after 1986 have development fees and interest associated with those fees.

For tax purposes these fees are treated as follows:

(a) Development Fee and Related Note

The principal portion of the development fee and related note is added to the building basis and depreciated.

(b) Development Fee Interest

Interest on the development fee note is deducted as it is accrued if the developer is an unrelated party. If the developer is a related party, the interest deduction is based on the developer's method of accounting. If the developer is on the cash method of accounting, then interest is deducted when paid. If the developer is on the accrual method of accounting, interest is deducted as it is accrued.

(c) Syndication Fees

Fees paid to a syndicator for raising equity are not tax deductible. The fees reduce the Partners' capital account on Schedule K-1, line J and should be listed as a reduction on Form 1065, Schedule M-2, and line 7.

1.03 Depreciation

(a) Real Property

Completely fill out Form 4562 or attach a detailed schedule. Commercial projects must use 39 years straight-line depreciation. The mid-month convention applies to real property. One half month of depreciation is allowed for the month the property is placed in service. For example, if a project with a depreciable base of $1,000,000 is placed in service May 1, the first year's depreciation would be $1,000,000/39 x 7.5/12 = $14,957. If the same project was placed in service May 30, the result would be the same. Mixed use properties including a residential component will need to allocate capital costs between the commercial and residential components. Residential components must use 27.5 years straight line depreciation.

(b) Personal Property

Personal property for projects placed in service after December 31, 1986 has a five year recovery period and 200% declining balance method of depreciation. Generally, personal property follows a mid-year convention. One half year of depreciation is allowed on property placed in service any time during the year. However, if more than 40% of the personal property is placed in service in the last quarter of the year, it is necessary to use the mid-quarter convention. Property is then depreciated based on which quarter that it was placed in service. Personal property includes appliances, shades, blinds and carpeting.

II. OTHER CONSIDERATIONS

2.01 Admission of the Investment Limited Partner

The admission of the Investment Limited Partner into the Operating Partnership does not necessarily cause a termination of the partnership under Treasury regulation 1.708-1. As a result of the admission, the Operating Partnership should continue in full effect and no section 754 election would be required.

2.02 Allocation of Nonrecourse and Recourse Liabilities

There are two types of debt: recourse and nonrecourse.

Nonrecourse loans are generally allocated to all partners (general and limited) based on their profit-sharing ratios. Examples of nonrecourse loans include mortgages on the property, acquisition notes and purchase money notes and all accrued interest on these notes and loans for which no one is personally liable. Qualified nonrecourse financing generally includes financing that is secured by real property and that is loaned or guaranteed by a Federal, state or local government or that is borrowed from a "qualified" person. Qualified persons include any person actively and regularly engaged in the business of lending money, such as a bank or savings and loan association.

The "Nonrecourse" line on the K-1 should include the Partner's share of all nonrecourse debt on real property. The "Qualified Nonrecourse Financing" line should include the Partner's share of qualified nonrecourse financing. Debt included as qualified nonrecourse should not also be included on the nonrecourse line.

Recourse liabilities, which represent all other liabilities, are allocated solely to the general partners based on their loss-sharing ratios unless the liabilities are recourse to the limited partner. The improper allocation of recourse and nonrecourse debt on the K-1's will cause a misstatement of tax basis to a specific partner, which may result in loss limitations. The "Other" line on the K-1 should include the Partner's share of recourse liabilities.

2.03 Allocation of Profits and Losses in Month of Admission

Partnership profits and losses should be allocated to the Investment Partnership beginning in the month that the Investment Partnership is admitted to the Operating Partnership. The Operating Partnership Agreement provides for allocation of a full month of profits and losses in the month of admission under the assumption that the Investment Partnership will be admitted on the fifteenth day or earlier of the month. For example, if the Investment Partnership is admitted on October 12, it will be allocated profits and losses as of October 1. If the Investment Partnership is admitted after the 15th of the month, MHIC should be contacted.

2.04 Tax Shelter Registration Number

Rules in effect prior to October 23 2004, required tax shelters to be registered with the IRS on or before the day any interest in the shelter is first offered for sale. Tax shelters are investments from which a person could reasonably infer, from the representations made or to be made, that the tax benefits of investing in the shelter exceed the amount of the investment by a ratio of two to one.

After 10-23-04, the tax shelter registration became moot when IRC Section 6111 was changed to require disclosure of reportable transactions rather than the registration of tax shelters.

Technically, however, any pre-10-23-04 shelter should still disclose its tax shelter ID.

SCHEDULE M-3 (Form 1065)

Department of the Treasury
Internal Revenue Service

Net Income (Loss) Reconciliation for Certain Partnerships

▶ Attach to Form 1065 or Form 1065-B.
▶ See separate instructions.

OMB No. 1545-0099

2011

Name of partnership | **Employer identification number**

This Schedule M-3 is being filed because (check all that apply):

A ☐ The amount of the partnership's total assets at the end of the tax year is equal to $10 million or more.

B ☐ The amount of the partnership's adjusted total assets for the tax year is equal to $10 million or more. If box B is checked, enter the amount of adjusted total assets for the tax year ____________ .

C ☐ The amount of total receipts for the tax year is equal to $35 million or more. If box C is checked, enter the total receipts for the tax year ____________ .

D ☐ An entity that is a reportable entity partner with respect to the partnership owns or is deemed to own an interest of 50 percent or more in the partnership's capital, profit, or loss, on any day during the tax year of the partnership.

Name of Reportable Entity Partner	Identifying Number	Maximum Percentage Owned or Deemed Owned

E ☐ Voluntary Filer.

Part I Financial Information and Net Income (Loss) Reconciliation

1a Did the partnership file SEC Form 10-K for its income statement period ending with or within this tax year?
☐ **Yes.** Skip lines 1b and 1c and complete lines 2 through 11 with respect to that SEC Form 10-K.
☐ **No.** Go to line 1b. See instructions if multiple non-tax-basis income statements are prepared.

b Did the partnership prepare a certified audited non-tax-basis income statement for that period?
☐ **Yes.** Skip line 1c and complete lines 2 through 11 with respect to that income statement.
☐ **No.** Go to line 1c.

c Did the partnership prepare a non-tax-basis income statement for that period?
☐ **Yes.** Complete lines 2 through 11 with respect to that income statement.
☐ **No.** Skip lines 2 through 3b and enter the partnership's net income (loss) per its books and records on line 4a.

2 Enter the income statement period: Beginning ____/____/____ Ending ____/____/____

3a Has the partnership's income statement been restated for the income statement period on line 2?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☐ **No.**

b Has the partnership's income statement been restated for any of the five income statement periods preceding the period on line 2?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☐ **No.**

4a	Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1	4a	
b	Indicate accounting standard used for line 4a (see instructions): 1 ☐ GAAP 2 ☐ IFRS 3 ☐ 704(b) 4 ☐ Tax-basis 5 ☐ Other: (Specify) ▶ ____________		
5a	Net income from nonincludible foreign entities (attach schedule)	5a	( )
b	Net loss from nonincludible foreign entities (attach schedule and enter as a positive amount) . . .	5b	
6a	Net income from nonincludible U.S. entities (attach schedule)	6a	( )
b	Net loss from nonincludible U.S. entities (attach schedule and enter as a positive amount)	6b	
7a	Net income (loss) of other foreign disregarded entities (attach schedule)	7a	
b	Net income (loss) of other U.S. disregarded entities (attach schedule)	7b	
8	Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach schedule)	8	
9	Adjustment to reconcile income statement period to tax year (attach schedule)	9	
10	Other adjustments to reconcile to amount on line 11 (attach schedule)	10	
11	**Net income (loss) per income statement of the partnership.** Combine lines 4a through 10 . . .	11	

Note. Part I, line 11, must equal the amount on Part II, line 26, column (a).

12 Enter the total amount (not just the partnership's share) of the assets and liabilities of all entities included or removed on the following lines:

		Total Assets	Total Liabilities
a	Included on Part I, line 4		
b	Removed on Part I, line 5		
c	Removed on Part I, line 6		
d	Included on Part I, line 7		

Name of partnership | **Employer identification number**

Part II **Reconciliation of Net Income (Loss) per Income Statement of Partnership with Income (Loss) per Return**

	Income (Loss) Items	**(a)** Income (Loss) per Income Statement	**(b)** Temporary Difference	**(c)** Permanent Difference	**(d)** Income (Loss) per Tax Return
	(Attach schedules for lines 1 through 9)				
1	Income (loss) from equity method foreign corporations				
2	Gross foreign dividends not previously taxed				
3	Subpart F, QEF, and similar income inclusions				
4	Gross foreign distributions previously taxed				
5	Income (loss) from equity method U.S. corporations				
6	U.S. dividends				
7	Income (loss) from U.S. partnerships				
8	Income (loss) from foreign partnerships				
9	Income (loss) from other pass-through entities				
10	Items relating to reportable transactions (attach details)				
11	Interest income (attach Form 8916-A)				
12	Total accrual to cash adjustment				
13	Hedging transactions				
14	Mark-to-market income (loss)				
15	Cost of goods sold (attach Form 8916-A)	( )			( )
16	Sale versus lease (for sellers and/or lessors)				
17	Section 481(a) adjustments				
18	Unearned/deferred revenue				
19	Income recognition from long-term contracts				
20	Original issue discount and other imputed interest				
21a	Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities				
b	Gross capital gains from Schedule D, excluding amounts from pass-through entities				
c	Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
d	Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
e	Abandonment losses				
f	Worthless stock losses (attach details)				
g	Other gain/loss on disposition of assets other than inventory				
22	Other income (loss) items with differences (attach schedule)				
23	**Total income (loss) items.** Combine lines 1 through 22				
24	**Total expense/deduction items.** (from Part III, line 31) (see instructions)				
25	Other items with no differences				
26	**Reconciliation totals.** Combine lines 23 through 25				

Note. Line 26, column (a), must equal the amount on Part I, line 11, and column (d) must equal Form 1065, Analysis of Net Income (Loss), line 1.

Name of partnership | Employer identification number

Part III **Reconciliation of Net Income (Loss) per Income Statement of Partnership With Income (Loss) per Return—Expense/Deduction Items**

	Expense/Deduction Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1	State and local current income tax expense				
2	State and local deferred income tax expense				
3	Foreign current income tax expense (other than foreign withholding taxes)				
4	Foreign deferred income tax expense				
5	Equity-based compensation				
6	Meals and entertainment				
7	Fines and penalties				
8	Judgments, damages, awards, and similar costs				
9	Guaranteed payments				
10	Pension and profit-sharing				
11	Other post-retirement benefits				
12	Deferred compensation				
13	Charitable contribution of cash and tangible property				
14	Charitable contribution of intangible property				
15	Organizational expenses as per Regulations section 1.709-2(a)				
16	Syndication expenses as per Regulations section 1.709-2(b)				
17	Current year acquisition/reorganization investment banking fees				
18	Current year acquisition/reorganization legal and accounting fees				
19	Amortization/impairment of goodwill				
20	Amortization of acquisition, reorganization, and start-up costs				
21	Other amortization or impairment write-offs				
22	Section 198 environmental remediation costs				
23a	Depletion—Oil & Gas				
b	Depletion—Other than Oil & Gas				
24	Intangible drilling & development costs				
25	Depreciation				
26	Bad debt expense				
27	Interest expense (attach Form 8916-A)				
28	Purchase versus lease (for purchasers and/or lessees)				
29	Research and development costs				
30	Other expense/deduction items with differences (attach schedule)				
31	**Total expense/deduction items.** Combine lines 1 through 30. Enter here and on Part II, line 24, reporting positive amounts as negative and negative amounts as positive				

Form **8825** (Rev. December 2010) Department of the Treasury Internal Revenue Service

Rental Real Estate Income and Expenses of a Partnership or an S Corporation

▶ See instructions on back.
▶ Attach to Form 1065, Form 1065-B, or Form 1120S.

OMB No. 1545-1186

Name	Employer identification number

1 Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions. See page 2 to list additional properties.

	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1-8; see page 2 for list	Fair Rental Days	Personal Use Days
A				
B				
C				
D				

			Properties			
			A	B	C	D
	Rental Real Estate Income					
2	Gross rents	2				
	Rental Real Estate Expenses					
3	Advertising	3				
4	Auto and travel	4				
5	Cleaning and maintenance	5				
6	Commissions	6				
7	Insurance	7				
8	Legal and other professional fees	8				
9	Interest	9				
10	Repairs	10				
11	Taxes	11				
12	Utilities	12				
13	Wages and salaries	13				
14	Depreciation (see instructions)	14				
15	Other (list) ▶	15				
16	Total expenses for each property. Add lines 3 through 15	16				
17	Income or (Loss) from each property. Subtract line 16 from line 2	17				

18a	Total gross rents. Add gross rents from line 2, columns A through H	18a	
b	Total expenses. Add total expenses from line 16, columns A through H	18b	( )
19	Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities	19	
20a	Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1)	20a	
b	Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed:		
	(1) Name **(2)** Employer identification number		
21	Net rental estate income (loss). Combine lines 18a through 20a. Enter the result here and on: • **Form 1065 or 1120S:** Schedule K, line 2, or • **Form 1065-B:** Part I, line 4	21	

For Paperwork Reduction Act Notice, see back of form. Cat. No. 10136Z Form **8825** (12-2010)

1	Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions.			
	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1-8; see below for list	Fair Rental Days	Personal Use Days
E				
F				
G				
H				

			Properties			
	Rental Real Estate Income		E	F	G	H
2	Gross rents	2				
	Rental Real Estate Expenses					
3	Advertising	3				
4	Auto and travel	4				
5	Cleaning and maintenance	5				
6	Commissions	6				
7	Insurance	7				
8	Legal and other professional fees	8				
9	Interest	9				
10	Repairs	10				
11	Taxes	11				
12	Utilities	12				
13	Wages and salaries	13				
14	Depreciation (see instructions)	14				
15	Other (list) ▶	15				
16	Total expenses for each property. Add lines 3 through 15	16				
17	Income or (Loss) from each property. Subtract line 16 from line 2	17				

Allowable Codes for Type of Property

1–Single Family Residence
2–Multi-Family Residence
3–Vacation or Short-Term Rental
4–Commercial
5–Land
6–Royalties
7–Self-Rental
8–Other (include description with the code on Form 8825 or on a separate statement)

Instructions

Section references are to the Internal Revenue Code.

What's New

Allowable Codes for Type of Property has been added to specify the type of property being reported.

Purpose of form. Partnerships and S corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including net income (loss) from rental real estate activities that flow through from partnerships, estates, or trusts.

Before completing this form, be sure to read:

• *Passive Activity Limitations* in the instructions for Form 1065 or Form 1120S, or *Passive Loss Limitation Activities* in the instructions for Form 1065-B, especially for the definition of "rental activity."

• *Extraterritorial Income Exclusion* in the instructions for Form 1065, 1065-B, or 1120S.

Specific Instructions. Form 8825 provides space for up to eight properties. If there are more than eight properties, attach additional Forms 8825.

The number of columns to be used for reporting income and expenses on this form may differ from the number of rental real estate activities the partnership or S corporation has for purposes of the passive activity limitations. For example, a partnership owns two apartment buildings, each located in a different city. For purposes of the passive activity limitations, the partnership grouped both buildings into a single activity. Although the partnership has only one rental real estate activity for purposes of the passive activity limitations, it must report the income and deductions for each building in separate columns.

However, if the partnership or S corporation has more than one rental real estate activity for purposes of the passive activity limitations, attach a statement to Schedule K that reports the net income (loss) for each separate activity. Also, attach a statement to each Schedule K-1 that reports each partner's or shareholder's share of the net income (loss) by separate activity (except for limited partners in an electing large partnership). See *Passive Activity Reporting Requirements* in the instructions for Form 1065, Form1065 B, or Form 1120S for additional information that must be provided for each activity.

Complete lines 1 through 17 for each property. But complete lines 18a through 21 on only one Form 8825. The figures on lines 18a and 18b should be the combined totals for all forms.

Do not report on Form 8825 any:

•Income or deductions from a trade or business activity or a rental activity other than rental real estate. These items are reported elsewhere.

• Portfolio income or deductions.

• Section 179 expense deduction.

• Other items that must be reported separately to the partners or shareholders.

• Commercial revitalization deductions.

Line 1. For each property, give the street address, city or town, and zip code. If the property is located outside the United States, give the postal code and country. Specify the type of property by entering one of the following codes in the "Type" column.

Codes

1–Single Family Residence

2–Multi-Family Residence

3–Vacation or Short-Term Rental

4–Commercial

5–Land

6–Royalties

7–Self-Rental

8–Other (include description with the code on Form 8825 or on a separate statement)

For each property, enter the number of days rented at fair rental value and days with personal use. For details, see section 280A.

Line 14. The partnership or S corporation may claim a depreciation deduction each year for rental property (except for land, which is not depreciable). If the partnership or S corporation placed property in service during the current tax year or claimed depreciation on any vehicle or other listed property, complete and attach Form 4562, Depreciation and Amortization. See Form 4562 and its instructions to figure the depreciation deduction.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: Recordkeeping, 6 hr., 27 min.; Learning about the law or the form, 34 min.; Preparing the form, 1 hr., 37 min.; Copying, assembling, and sending the form to the IRS, 16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

III. 704 (b) MINIMUM GAIN TEST

Minimum gain is the excess of nonrecourse liabilities which are secured by the partnership property over the adjusted tax basis of the property. The adjusted basis includes land, net depreciable property, and replacement or operating reserves secured by mortgages. If a loss allocation to the limited partner would cause its capital account to be further negative than its share of minimum gain, a reallocation of losses may be necessary. Recourse liabilities are those obligations for which a partner or member bears the risk of loss. If the General Partner or LLC managing member has made any guarantees on any nonrecourse mortgages and there is minimum gain, a loss reallocation may be necessary. ***CONTACT MHIC IF THIS SITUATION OCCURS.***

The Internal Revenue Service has issued final regulations for Section 704(b), Determination of Distributive Share and temporary regulations of Section 752, Treatment of Certain Liabilities have been issued. The rules prescribed under Section 704(b) limit the losses allocated to limited partners to their capital contribution plus their share of minimum gain.

The concept of minimum gain is a qualified income offset which satisfies the need for partnership allocations to have "substantial economic effect":

NORMAL ALLOCATIONS

- Allocations must have **substantial economic effect** (IRC §704(b)). Stated another way is that tax allocation must be a manner consistent with the actual economics of the partnership.
- The capital account of a limited partner/LLC member in a Real Estate partnership can go no further negative than his/her/its share of partnership **minimum gain** will bring them back to zero.
- Minimum gain is the excess of nonrecourse liabilities secured by partnership property over the adjusted basis of the collateral property.

PREEMPTIVE REALLOCATIONS

The change in minimum gain from beginning to end in a tax year is the nonrecourse deduction of a partnership. Complementarily, the difference between the net loss for the year and the nonrecourse deduction is the recourse deduction.

Under the safe harbor economic effect rules, a partner can not be allocated a recourse deduction that would result in the partner's capital account becoming negative, if that partner does not have an obligation to restore its negative capital account.

In certain highly capitalized real estate partnerships, initially there is no minimum gain because the basis of assets far exceeds the nonrecourse liabilities. There will be no minimum gain until depreciation on the assets decreases the basis on the asset and/or deferred interest on soft debt adds to the nonrecourse liabilities in amount sufficient to have nonrecourse liabilities exceed the basis of assets.

Until that time, there are definitionally no nonrecourse deductions. All partnership losses are, therefore, recourse deductions.

The danger comes when the recourse deductions allocated to the investor "burn through" the investor's capital account faster than the gap between assets and nonrecourse liabilities closes. The situation may result in a necessary reallocation of profits and losses.

The following exercise should be completed in order to highlight a potential 704(b) issue.

OPERATING PARTNERSHIP
Section 704(b) ALLOCATION TEST

PARTNERSHIP NAME ______________________

PARTNER (ILP) NAME ______________________

Prepared by Date ______________________ Date __________

NOTE: 704b TEST IS NOT NECESSARY IF NET ILP ALLOCATION IS A GAIN

			20X1		20X2
1.	ILP% PROFIT SHARE	(Schd. K-1)			
2.	NONRECOURSE DEBT	(Schd. L)			
3.	ACCRUED INTEREST ON NR DEBT	(Schd. L)			
4.	BUILDING & OTHER DEPR. ASSETS	(Schd. L)			
5.	ACCUMULATED DEPRECIATION	(Schd. L)			
6.	LAND	(Schd. L)			
7.	REPLACEMENT RESERVES			****	
8.	ILP BEGINNING CAPITAL	(Schd. K-1)			
9.	ILP RENTAL LOSS AND OTHER DEDUCTIONS	(Schd. K-1)			
10.	ILP INTEREST AND OTHER INCOME AMOUNTS	(Schd. K-1)			

TEST 1 (CUMULATIVE TEST) **704b ISSUE = ILP Minimum Gain < Zero**

If a 704b issue occurs a loss reallocation may be required {See Test 2 below}

TOTAL MINIMUM GAIN	-	-	-	(Lines 2+3+5) - (Lines 4+6+7)
ILP MINIMUM GAIN	-	-	-	(Total Minimum Gain * ILP %)
ILP MINIMUM GAIN + CAPITAL	-	-	-	(ILP Minimum Gain) + (Lines 8+9+10)

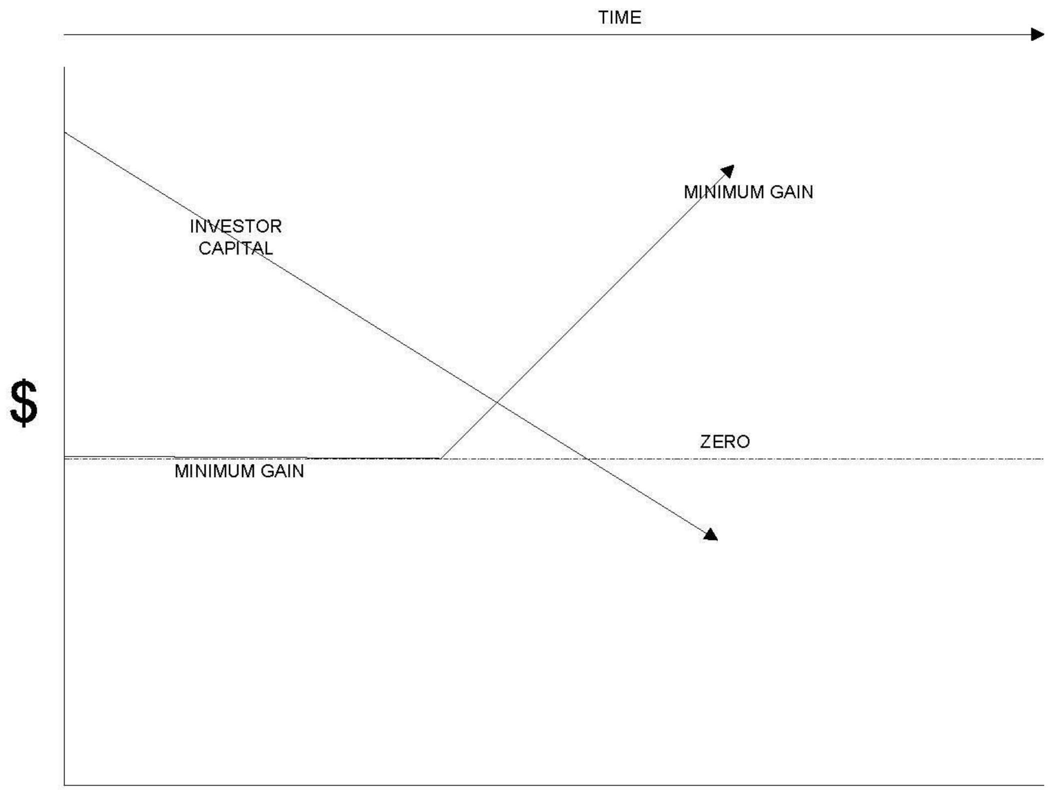
TEST 2 (CURRENT YEAR TEST) **704b ISSUE = (NR Deduction + 2012 Net Loss) < Zero**

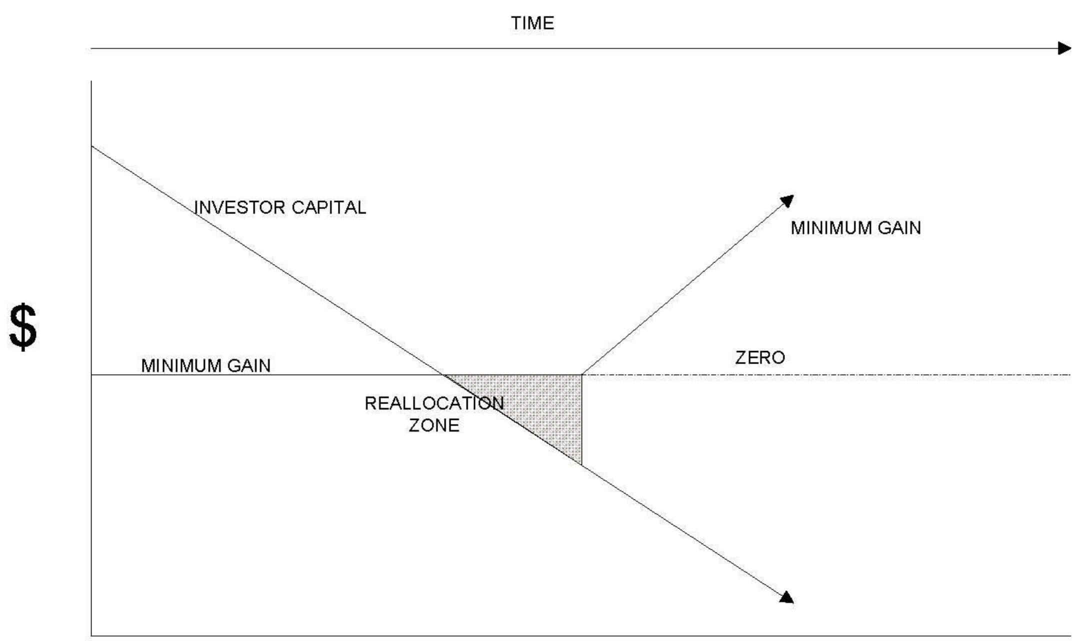
NON-RECOURSE DEDUCTION ALLOWED -	-	('12 Total Min. Gain) - ('11 Total Min. Gain)
2007 RENTAL LOSS AND OTHER DEDUCTIONS -	-	(Line 9)

If the Non-Recourse Deduction Allowed is greater than zero, there is no 704b issue.

IF THERE ARE INSUFFICIENT NON-RECOURSE DEDUCTIONS TO SUPPORT ALLOCATED LOSS - CONSIDER "PREEMPTIVE" REALLOCATION

MANAGE THE BURN





IV. EACH PARTNERSHIP SHOULD MAKE THE FOLLOWING ELECTIONS:

Initial Year Elections:

New Rules on Business Start-Up Expenses
Part Deductible and Part Must be Amortized

Election for Start-up and Organization Costs

You may elect to deduct up to $10,000 in start-up/Organization Costs in the first year. The ability to deduct these costs phases out where total organization costs exceed $60,000 and no current deduction is allowed where organization costs are $60,000 or more. All Costs in excess of the $10,000 limit can be amortized over 180 months beginning with the month your new business begins operations. Prior to October 22, 2004, all start-up costs were amortized over 60 months with no first-year deduction.

Election to Ratably Accrue Real Property Taxes:

Pursuant to IRC Section 461(c), the Partnership Hereby Elects to Accrue Real Property Taxes.

Description of Trade, Business, or Investment Activity to Which Election Applies: Rental Real Estate

Method of Accounting Used for Above: Accrual

Property Tax Year to Which the Taxes Relate: Year Occurring Within Current Tax Year.

Computation of Deduction: Ratable Deduction of Estimated Tax Based on Last Assessment.

Election under Regulation 1.752-5(b):

The Partnership Elects, under Regulation 1.752-5(b), to Treat its Existing Liabilities According to the Provisions of Regulations 1.752-2 through 1.752-4.

See also the special elections for Master Tenant Structures

TAX ELECTIONS

Local Limited Partnership Name
EIN: ________________________
For the Tax Year Ended 12/31/1X
Form 1065

Section 709(b) Election

The above mentioned taxpayer hereby elects to amortize its organizational expenditures ratably over a period of One Hundred and Eighty (180) months as provided by Section 709(b) of the Internal Revenue Code of 1986 as amended.

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

Local Limited Partnership Name
EIN: ________________________
For the Tax Year Ended 12/31/1X
Form 1065

Statement Pursuant to IRC Section 195 (b)

Pursuant to Internal Revenue Code Section 195(b), the tax payer hereby elects to treat all start-up expenditures incurred as deferred expenses which shall be allowed as a deduction ratably over a period of One Hundred and Eighty (180) months.

Local Limited Partnership Name
EIN: ________________________
For the Tax Year Ended 12/31/1X
Form 1065

Year End Election of the Taxpayer

The taxpayer hereby elects pursuant to Internal Revenue code Section 706 to use December 31st as the taxable year end. This is a majority interest year end.

Local Limited Partnership Name
EIN: ________________________
For the Tax Year Ended 12/31/1X
Form 1065

Election to adopt Recurring Item Exception to Economic Performance Requirements

The Taxpayer, pursuant to Internal Revenue Code Section 461, 461(h)(3)(A), and related Regulations and announcements, hereby elects to adopt the Recurring Item Exception with respect to all types of liability items and expenses incurred in its trade(s) or business(es).

The Taxpayer has liability and expenses which are recurring in nature, and are treated by the taxpayer on a consistent basis from year to year. If its accrual in the year before economic performance results in a more proper matching against income, than if it were accrued in the year of economic performance.

For Master Tenant Structures

By Owner:

Election to Treat Lessee as Purchaser of Property Under IRC Section 50D

The Taxpayer, pursuant to IRC Section 50D and IRS Regulations 1.48-4 elects to treat the tenant (Master Tenant, LLC, EIN#----------) of the property located at _____________ as the purchaser of the property, which includes new Section 38 property eligible for the historic rehabilitation credit. The tenant's address is ____________________. The tenant took control of the property when it was placed in service on ________________. The property leased by the tenant includes:

Building	$______________	39-year life
Building Rehabilitation Costs	$______________	39-year life
Site Improvements	$______________	39-year life
Furniture and Fixtures	$______________	39-year life

By Master Tenant:

Election to Treat Lessee as Purchaser of Property Under IRC Section 50D

The Owner, LLC (EIN #_________), pursuant to IRC Section 50D and IRS Regulations 1.48-4 has elected to treat the Master Tenant, LLC which leases the property located at _____________ as the purchaser of the property, which includes new Section 38 property eligible for the historic rehabilitation credit. The Owner, LLC's address is ____________________. The Master Tenant, LLC took control of the property when it was placed in service on ________________. The property leased by the tenant includes:

Building	$______________	39-year life
Building Rehabilitation Costs	$______________	39-year life
Site Improvements	$______________	39-year life
Furniture and Fixtures	$______________	39-year life

V. HISTORIC REHABILITATION TAX CREDITS

Many of the projects invested in by the MHIC NMTC Funds are also eligible to claim federal Historic Rehabilitation Tax Credit (HRTC). Operating partnerships claiming the HRTC pass those credits on to their respective MHIC Fund which in turn passes them on to fund investors. The HRTC is essentially a federal subsidy to finance the rehabilitation of qualifying historic structures. The HRTC is an investment tax credit which is included as a general business credit under IRC section 38. The HRTC is authorized under IRC section 47 and additional guidance can be found in Treasury Regulations sections 1.47, 1.48, and 1.50. The following outline is intended as general guidance only and the regulations should be consulted for more specific guidance.

5.01 Calculating the Credit. The HRTC is calculated by multiplying the applicable credit percentage by the amount of qualified rehabilitation expenditures (QRE) of a qualified rehabilitation building (QRB). The HRTC is calculated on IRS Form 3468 and aggregated with other general business credits on Form 3800. Historic tax credits are generally taken in the year in which the certificate (or temporary certificate) of occupancy is obtained for the building.

5.02 Types of Credit. There are two types of HRTC: 1) a 20% credit for certified historic structures (the 20% credit) and; 2) a 10% credit for other qualified rehabilitated buildings other than certified historic structures. A certified historic structure is a building located in the National Park Service's National Register (www.nps.gov) or is a qualified building located in a registered historic district and is certified by the Secretary of the Interior as being of "historic significance to the district". Buildings other than certified historic structures must have been originally placed in service before 1936.

5.03 Substantial Rehabilitation. To qualify for the HRTC, the rehabilitation must be "substantial" which means that QRE must amount to more than the greater of $5,000 or the adjusted basis of the building before the rehabilitation. These expenditures must be incurred over the course of a 24-month measuring period chosen by the taxpayer which must end no later than the last day of the tax year that the building is placed in service. Special rules apply for "phased" rehabilitations of projects which are generally larger in scope. Such phased rehabilitations qualify for the use of an alternate 60-month measuring period.

5.04 Qualified Rehabilitation Expenditures. QRE generally includes all capitalizable depreciable costs allowed under IRC section 168 for commercial and residential rental property that were incurred in connection with a substantial rehabilitation. The 24-month measurement period described in 5.03 is for determining the project's qualification as substantial rehabilitation only. Once that requirement is determined to be met, for purposes of calculating and claiming the HRTC, QRE includes all expenditures made from the first day of the tax year in which the 24-month period began to the last day of the tax year in which the 24-month ends. This effectively means that QRE may be aggregated over a period of three years unless a 24-month measuring period is chosen that ends with the last day of a tax year. QRE includes only rehabilitation costs and does not include acquisition costs, land. personal property, site work, and costs to build new buildings. The basis of qualified historic rehabilitation expenditures should be put on line 12b of Schedule K, and partners' Schedule K-1s.

5.05 Tax Exempt Use Property. Special rules apply for the exclusion of expenditures that otherwise would qualify as QRE that are associated with tax exempt use property. Tax exempt use property is property leased to a tax-exempt entity where the lease is greater than 20 years, the lease contains an option for the tax-exempt entity to purchase, or where the property is financed under a tax-exempt obligation. These requirements also extend to leases to partnerships or similar entities which have tax exempt partners.

Real property that is owned by partnerships having tax exempt entities (or subsidiaries of tax exempt entities) as partners and/or leased to a tax exempt entity in a disqualified lease is treated as tax exempt use. Any such tax exempt property may not be eligible for Historic Tax Credit and must be depreciated using the straight line method over the longer of 40 years or 125% of the lease term. However, section 168(h)(6)(F)(ii) provides that a tax-exempt controlled entity can elect not to be treated as such. Please refer to the partnership's tax opinion to see if this election must be made. If such election must be made, it must be done in the year that the project is Placed in Service.

5.06 Placed in Service. The date at which the building is ready for use. This term is not specifically defined in the IRC, however generally reasonable interpretations are inferred such as certificate of occupancy, etc.

5.07 Basis Reduction. The depreciable basis of the building as well as the partners' tax capital accounts must be reduced by the amount of any HRTC claimed. The historic credit should be put on Form 1065, Schedule M-2, line 7 and box J(d) of the partners' Schedule K-1s.

5.08 Recapture Rules. The HRTC must be totally or partially recaptured if within five years of the placed in service date the building is sold to new owners, or the use of the property is changed such that it is not consistent with the definition of investment credit property (i.e., personal use, etc), or it is taken out of service. Recapture is reduced by 20% on each anniversary of the original placed in service date such that no recapture is possible after five years. Recapture events, if any, are reported in the year of recapture on IRS Form 4255. The recaptured amount increases the basis of the building and the partners' capital accounts.

V. HISTORIC REHABILITATION TAX CREDITS (Continued)

Other Practical Considerations:

- For the 20% credit, the National Park Service must certify the historic building rehabilitation both in the planning and final stages of rehabilitation.

- Though the QREs are generally made and claimed by the building owner, in some circumstances, expenditures incurred by others may also be claimed. For example, an IRS private letter ruling allowed for expenditures incurred by a not-for-profit organization before the not-for-profit contributed the building to a partnership which ultimately claimed the credit

- Developer fees are includible as QRE only to the extent that such services relate to rehabilitation. If the developer will provide substantial additional services (such as acquisition, relocation, rent-up, etc.), the developer agreement should be structured to specify the fees associated with rehabilitation

- Costs of enlargements of buildings do not qualify as QRE. Reasonable allocations of costs may be required to capture only rehabilitation costs as QRE. Wherever possible, the owner should ask vendors to supply allocation of costs associated with rehabilitations where enlargements of the existing building are involved

Special Consideration for Master Tenant Structures:

The HRTC associated with the rehabilitated property may also be claimed by a long-term lessor of the property in accordance with the provision of IRS Code Section 48. These so-called master tenant structures are commonly used where the rehabilitated property will be occupied by a tax-exempt entity which would otherwise preclude the property from claiming the HRTC. Key considerations include:

- The rehabilitated property must meet the requirements of IRS Code Section 38 in order to be treated as newly purchased original use property by the master tenant (also known as the building lessee)

- The term of the lease must exceed 80% of the recovery period of the leased property (31.2 years for commercial property)

- The basis and capital account reduction noted in section 5.07 does not apply to a building owner (lessor) which has passed the HRTC to a lessee. However the master tenant must reduce its tax capital for the amount of HRTC taken.

- The master tenant must also include in its annual taxable income, a prorated portion of the HRTC it received from the building owner. This imputed income is calculated by dividing the HRTC by the tax depreciable life of the property (generally 39 years) in the hands of the owner and essentially offsets the excess depreciation taken by the building owner which was not required to reduce the tax basis of the property. If, at the time the building is disposed or the lease otherwise terminates, the excess remaining imputed income not previously recognized must be recognized by the master tenant in the year of the disposition or termination

- Special rules apply for “short-term leases” which are less than 80% of the property’s recovery period in the hands of the building owner.

- Special elections must be made by both the building owner and the master tenant to facilitate the transfer of HRTC

VI. MASSACHUSETTS HISTORIC REHABILITATION TAX CREDITS

Background and Project Approval

Effective January, 2006, the Commonwealth of Massachusetts annually authorizes historic rehabilitation tax credits for the rehabilitation of historic places located in Massachusetts. The allocation and administration of the credits, as well as determination of qualifying structures, is overseen by the Massachusetts Historical Commission (MHC). Selection and certification of qualifying projects through MHC generally occurs through an application process and approval in three phases: initial certification, second certification and final certification. Initial certification means that MHC has certified that the project meets the definition of a qualified historic structure. A second certification is issued to chosen projects prior to construction by MHC certifying that, if completed as proposed, the project will meet the standards required for final certification. A second certification may also be issued during or after construction. Final certification is issued by MHC when it is satisfied that construction is complete and that costs are consistent with the work completed.

Tax Aspects

Tax and other technical requirements related to qualifying properties, credit-worthy expenditures, and credit calculations generally follow the guidance for Federal HRTC projects as established by the U. S. Department of the Interior and the IRS with some notable exceptions summarized below. Please also see the summarized IRS guidance in Section V of this manual. Additional information concerning these credits, including applications and tax regulations can be found at www.sec.state.ma.us/mhc/mhctax/taxidx.htm.

Following is a discussion of areas where Massachusetts regulations differ from the Federal regulations as well as information concerning claiming of the credit:

6.01 **Substantial Rehabilitation** – For Massachusetts credits, a project qualifies as a substantial rehabilitation when the qualified rehabilitation expenditures incurred during the 24-month period selected by the project owner exceed 25% of the project owner's basis in the project at the start of the 24-month period. See Section 5.03 for a discussion of the Federal rules for substantial rehabilitation.

6.02 **Calculation of the Credit** – Unlike the Federal credits, the Massachusetts credits are allocated in fixed dollar amounts to chosen projects by MHC, similar to the allocation of Low Income Housing Tax Credits. The fixed allocation of credits is translated into a percentage of the project's expected QRE. This percentage may not exceed 20%. Credit certificates are issued by MHC to completed projects on or after final certification of the project

VI. MASSACHUSETTS HISTORIC REHABILITATION TAX CREDITS

(Continued)

6.03 **Transfers of the Credit** – Credits may be freely transferred by the initial awardee to other tranferees once the chosen project has become a completed project. The credit transferee is **not** required to take an ownership interest in the project or the entity that owns the project. Transfer of the credit must be documented by proposed contract and filed with the Department of Revenue in advance of the transfer. The executed contract must also be filed with DOR within 30 days of the completed transfer.

6.04 **Claiming the Credit** – Credits may be claimed against Massachusetts income or excise tax beginning with the tax year a chosen project becomes a completed project. The credits are non-refundable and may be carried forward a maximum of 5 years following the initial year in which the credit may be claimed. The credit is not subject to a 50% limitation, but may not reduce excise taxes below the statutory minimum excise limitation, currently $456.

6.05 **Allocation of Credits** – Credits issued or transferred to a partnership or limited liability company reporting as a partnership may be allocated among partners/members in any manner agreed to and documented by the partners/members. The allocation need not follow any pattern of economic risk shared by the partners or allocation of other benefits within the partnership.

6.06 **Credit Recapture** – Recapture of the credit is triggered if the project owner disposes of its interest in the project within 5 years from the date of project completion. Recapture applies only to taxpayers with an ownership interest in the project at project completion. Recapture **does not** apply to transferees. Recapture is computed by multiplying the credit awarded by a fraction of the remaining number of months in the 5-year holding period divided by 60. Prorated recapture is also calculated where a project owner disposes of only a portion of its ownership interest. Where the entire credit has been claimed in a preceding year, credit recapture is taken account by increasing the tax liability of the year of recapture by the recapture amount.

VI. MASSACHUSETTS HISTORIC REHABILITATION TAX CREDITS
(Continued)

Other Practical Considerations:

- Because of the free transferability of the credit and the lack of ownership requirements, the entity ultimately claiming the credit may or may not have an interest in the entity owning the project. Where the credits have been purchased by an outside transferee, the project owner likely has no tax reporting requirement on its annual filed Massachusetts Form 3. See also section 6.03.

- For projects where the credit will be distributed through a partnership, be sure to allocate them according to special allocations agreed to by the partners. Credits should be recorded on line 5g of the receiving partner's Form SK-1.

- There is no requirement to adjust the depreciable basis of property or any partner capital account for the value of credits claimed.

Form **3468**

Department of the Treasury
Internal Revenue Service (99)

Investment Credit

► See separate instructions.
► Attach to your tax return.

OMB No. 1545-0155

2011

Attachment Sequence No. 174

Name(s) shown on return | Identifying number

Part I Information Regarding the Election To Treat the Lessee as the Purchaser of Investment Credit Property

If you are claiming the investment credit as a lessee based on a section 48(d) (as in effect on November 4, 1990) election, provide the following information. If you acquired more than one property as a lessee, attach a statement showing the information below.

1 Name of lessor

2 Address of lessor

3 Description of property

4 Amount for which you were treated as having acquired the property . . . . ► $

Part II Qualifying Advanced Coal Project Credit, Qualifying Gasification Project Credit, Qualifying Advanced Energy Project Credit, and Qualifying Therapeutic Discovery Project Credit

5	Qualifying advanced coal project credit (see instructions):			
a	Qualified investment in integrated gasification combined cycle property placed in service during the tax year for projects described in section 48A(d)(3)(B)(i) . . . . $ × 20% (.20)	**5a**		
b	Qualified investment in advanced coal-based generation technology property placed in service during the tax year for projects described in section 48A(d)(3)(B)(ii) . . . . . $ × 15% (.15)	**5b**		
c	Qualified investment in advanced coal-based generation technology property placed in service during the tax year for projects described in section 48A(d)(3)(B)(iii) . . . . . $ × 30% (.30)	**5c**		
d	Total. Add lines 5a, 5b, and 5c		**5d**	
6	Qualifying gasification project credit (see instructions):			
a	Qualified investment in qualified gasification property placed in service during the tax year for which credits were allocated or reallocated after October 3, 2008, and that includes equipment that separates and sequesters at least 75% of the project's carbon dioxide emissions . . . . $ × 30% (.30)	**6a**		
b	Qualified investment in property other than in **a** above placed in service during the tax year . . . . . . $ × 20% (.20)	**6b**		
c	Total. Add lines 6a and 6b		**6c**	
7	Qualifying advanced energy project credit (see instructions): Qualified investment in advanced energy project property placed in service during the tax year . . . . $ × 30% (.30)		**7**	
8	Qualifying therapeutic discovery project credit (see instructions): Qualified investment in a qualifying therapeutic discovery project $ × 50% (.50)		**8**	
9	Enter the applicable unused investment credit from cooperatives (see instructions)		**9**	
10	Add lines 5d, 6c, 7, 8, and 9. Report this amount on Form 3800, line 1a		**10**	

Part III Rehabilitation Credit and Energy Credit

11	Rehabilitation credit (see instructions for requirements that must be met):		
a	Check this box if you are electing under section 47(d)(5) to take your qualified rehabilitation expenditures into account for the tax year in which paid (or, for self-rehabilitated property, when capitalized). See instructions. **Note.** This election applies to the current tax year and to all later tax years. You may not revoke this election without IRS consent . . . . ► ☐		
b	Enter the dates on which the 24- or 60-month measuring period begins ______ and ends ______		
c	Enter the adjusted basis of the building as of the beginning date above (or the first day of your holding period, if later) . . . . $		
d	Enter the amount of the qualified rehabilitation expenditures incurred, or treated as incurred, during the period on line 11b above . . . . . $		
	Enter the amount of qualified rehabilitation expenditures and multiply by the percentage shown:		
e	Pre-1936 buildings located in the Gulf Opportunity Zone . $ × 13% (.13)	**11e**	
f	Pre-1936 buildings affected by a Midwestern disaster . . $ × 13% (.13)	**11f**	
g	Other pre-1936 buildings . . . . $ × 10% (.10)	**11g**	
h	Certified historic structures located in the Gulf Opportunity Zone $ × 26% (.26)	**11h**	

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 12276E Form **3468** (2011)

Part III **Rehabilitation Credit and Energy Credit** (continued)

i	Certified historic structures affected by a Midwestern disaster $ ________ × 26% (.26)	11i		
j	Other certified historic structures . . . . $ ________ × 20% (.20)	11j		
	For properties identified on lines 11h, 11i, or 11j, complete lines 11k and 11l.			
k	Enter the assigned NPS project number or the pass-through entity's employer identification number (see instructions) . . . . ________			
l	Enter the date that the NPS approved the Request for Certification of Completed Work (see instructions) . . . . ________			
m	Rehabilitation credit from an electing large partnership (Schedule K-1 (Form 1065-B), box 9) . .	11m		
12	Energy credit:			
a	Basis of property using geothermal energy or solar energy (acquired before January 1, 2006, and the basis attributable to construction, reconstruction, or erection by the taxpayer before January 1, 2006) placed in service during the tax year (see instructions) . . . . $ ________ × 10% (.10)	12a		
b	Basis of property using solar illumination or solar energy placed in service during the tax year that was acquired after December 31, 2005, and the basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2005 (see instructions) . . . . $ ________ × 30% (.30)	12b		
	Qualified fuel cell property (see instructions):			
c	Basis of property placed in service during the tax year that was acquired after December 31, 2005, and before October 4, 2008, and the basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2005, and before October 4, 2008 . . . . $ ________ × 30% (.30)	12c		
d	Applicable kilowatt capacity of property on line 12c (see instructions) ▶ ________ × $1,000	12d		
e	Enter the lesser of line 12c or line 12d	12e		
f	Basis of property placed in service during the tax year that was acquired after October 3, 2008, and the basis attributable to construction, reconstruction, or erection by the taxpayer after October 3, 2008 . . . . $ ________ × 30% (.30)	12f		
g	Applicable kilowatt capacity of property on line 12f (see instructions) ▶ ________ × $3,000	12g		
h	Enter the lesser of line 12f or line 12g	12h		
	Qualified microturbine property (see instructions):			
i	Basis of property placed in service during the tax year that was acquired after December 31, 2005, and the basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2005 . . . . $ ________ × 10% (.10)	12i		
j	Kilowatt capacity of property on line 12i . . . . ▶ ________ × $200	12j		
k	Enter the lesser of line 12i or line 12j	12k		

Part III **Rehabilitation Credit and Energy Credit** (continued)

	Combined heat and power system property (see instructions): **Caution.** You cannot claim this credit if the electrical capacity of the property is more than 50 megawatts or 67,000 horsepower.		
l	Basis of property placed in service during the tax year that was acquired after October 3, 2008, and the basis attributable to construction, reconstruction, or erection by the taxpayer after October 3, 2008 . . . . $ ________ × 10% (.10)	**12l**	
m	If the electrical capacity of the property is measured in: • Megawatts, divide 15 by the megawatt capacity. Enter 1.0 if the capacity is 15 megawatts or less. • Horsepower, divide 20,000 by the horsepower. Enter 1.0 if the capacity is 20,000 horsepower or less	**12m**	.
n	Multiply line 12l by line 12m	**12n**	
	Qualified small wind energy property (see instructions):		
o	Basis of property placed in service during the tax year that was acquired after October 3, 2008, and before January 1, 2009, and the basis attributable to the construction, reconstruction, or erection by the taxpayer after October 3, 2008, and before January 1, 2009 . . . . $ ________ × 30% (.30)	**12o**	
p	Enter the smaller of line 12o or $4,000	**12p**	
q	Basis of property placed in service during the tax year that was acquired after December 31, 2008, and the basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2008 . . . . $ ________ × 30% (.30)	**12q**	
	Geothermal heat pump systems (see instructions):		
r	Basis of property placed in service during the tax year that was acquired after October 3, 2008, and the basis attributable to construction, reconstruction, or erection by the taxpayer after October 3, 2008 . . . . $ ________ × 10% (.10)	**12r**	
	Qualified investment credit facility property (see instructions):		
s	Basis of property placed in service during the tax year . . . $ ________ × 30% (.30)	**12s**	
13	Enter the applicable unused investment credit from cooperatives (see instructions)	**13**	
14	Add lines 11e through 11j, 11m, 12a, 12b, 12e, 12h, 12k, 12n, 12p, 12q, 12r, 12s, and 13. Report this amount on Form 3800, line 4a	**14**	

Form **3468** (2011)

2011 Instructions for Form 3468

Department of the Treasury
Internal Revenue Service

Investment Credit

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

The carryforwards, carrybacks, and passive activity limitations for this credit are no longer reported on this form; instead, they must be reported on Form 3800, General Business Credit.

The increased rehabilitation credit rates for the Midwestern and Gulf Opportunity Zone are scheduled to expire for rehabilitation expenses paid or incurred after 2011. Do not report these expenses unless the increased rates are extended. See www.irs.gov/form3468 for the latest information about this credit.

General Instructions

Purpose of Form

Use Form 3468 to claim the investment credit. The investment credit consists of the rehabilitation, energy, qualifying advanced coal project, qualifying gasification project, qualifying advanced energy project, and qualifying therapeutic discovery project credits. If you file electronically, you must send in a paper Form 8453, U.S. Individual Income Tax Transmittal for an IRS e-file Return, if attachments are required to Form 3468.

Investment Credit Property

Investment credit property is any depreciable or amortizable property that qualifies for the rehabilitation credit, energy credit, qualifying advanced coal project credit, qualifying gasification project credit, qualifying advanced energy project, or qualifying therapeutic discovery project credit.

You cannot claim a credit for property that is:

- Used mainly outside the United States (except for property described in section 168(g)(4));
- Used by a governmental unit or foreign person or entity (except for a qualified rehabilitated building leased to that unit, person, or entity; and property used under a lease with a term of less than 6 months);
- Used by a tax-exempt organization (other than a section 521 farmers' cooperative) unless the property is used mainly in an unrelated trade or business or is a qualified rehabilitated building leased by the organization;
- Used for lodging or in the furnishing of lodging (see section 50(b)(2) for exceptions); or
- Certain MACRS business property to the extent it has been expensed under section 179 of the Internal Revenue Code.

Qualified Progress Expenditures

Qualified progress expenditures are those expenditures made before the property is placed in service and for which the taxpayer has made an election to treat the expenditures as progress expenditures. Qualified progress expenditure property is any property that is being constructed by or for the taxpayer and which (a) has a normal construction period of two years or more, and (b) it is reasonable to believe that the property will be new investment credit property in the hands of the taxpayer when it is placed in service. The placed in service requirement does not apply to qualified progress expenditures.

Qualified progress expenditures for:

- Self-constructed property means the amount that is properly chargeable (during the tax year) to capital account with respect to that property; or
- Non-self-constructed property means the lesser of: (a) the amount paid (during the tax year) to another person for the construction of the property, or (b) the amount that represents the proportion of the overall cost to the taxpayer of the construction by the other person which is properly attributable to that portion of the construction which is completed during the tax year.

For more information on qualified progress expenditures, see section 46(d) (as in effect on November 4, 1990). For details on qualified progress expenditures for the rehabilitation credit, see section 47(d).

At-Risk Limit for Individuals and Closely Held Corporations

The cost or basis of property for investment credit purposes may be limited if you borrowed against the property and are protected against loss, or if you borrowed money from a person who is related or who has an interest (other than as a creditor) in the business activity. The cost or basis must be reduced by the amount of the nonqualified nonrecourse financing related to the property as of the close of the tax year in which the property is placed in service. If, at the close of a tax year following the year property was placed in service, the nonqualified nonrecourse financing for any property has increased or decreased, then the credit base for the property changes accordingly. The changes may result in an increased credit or a recapture of the credit in the year of the change. See sections 49 and 465 for details.

Recapture of Credit

You may have to refigure the investment credit and recapture all or a portion of it if:

- You dispose of investment credit property before the end of 5 full years after the property was placed in service (recapture period);
- You change the use of the property before the end of the recapture period so that it no longer qualifies as investment credit property;
- The business use of the property decreases before the end of the recapture period so that it no longer qualifies (in whole or in part) as investment credit property;
- Any building to which section 47(d) applies will no longer be a qualified rehabilitated building when placed in service;
- Any property to which section 48(b) applies will no longer qualify as investment credit property when placed in service;
- Before the end of the recapture period, your proportionate interest is reduced by more than one-third in an S corporation, partnership (other than an electing large partnership), estate, or trust that allocated the cost or basis of property to you for which you claimed a credit;
- You return leased property (on which you claimed a credit) to the lessor before the end of the recapture period;
- A net increase in the amount of nonqualified nonrecourse financing occurs for any property to which section 49(a)(1) applied; or
- A grant under section 1603 of the American Recovery and Reinvestment Tax Act of 2009 was made for section 48 property for which a credit was determined before the grant was made.

Sep 25, 2011 Cat. No. 12277P

• A grant under section 9023 of the Patient Protection and Affordable Care Act was made for investment for which a credit was determined under section 48D before the grant was made.

Exceptions to recapture. Recapture of the investment credit does not apply to any of the following.

1. A transfer due to the death of the taxpayer.
2. A transfer between spouses or incident to divorce under section 1041. However, a later disposition by the transferee is subject to recapture to the same extent as if the transferor had disposed of the property at the later date.
3. A transaction to which section 381(a) applies (relating to certain acquisitions of the assets of one corporation by another corporation).
4. A mere change in the form of conducting a trade or business if:

a. The property is retained as investment credit property in that trade or business, and

b. The taxpayer retains a substantial interest in that trade or business.

A mere change in the form of conducting a trade or business includes a corporation that elects to be an S corporation and a corporation whose S election is revoked or terminated.

For more information, see the Instructions for Form 4255.

CAUTION *See section 46(g)(4) (as in effect on November 4, 1990), and related regulations, if you made a withdrawal from a capital construction fund set up under the Merchant Marine Act of 1936 to pay the principal of any debt incurred in connection with a vessel on which you claimed investment credit.*

For details, see Form 4255, Recapture of Investment Credit.

Specific Instructions

CAUTION *Do not attach this form to your tax return if you are (a) an estate or trust whose entire qualified rehabilitation expenditures or bases in energy property are allocated to the beneficiaries, (b) an S corporation, or (c) a partnership (other than an electing large partnership). However, you must complete lines 11k and 11l of this form and attach it if you are the owner of a certified historic structure.*

Shareholders of S Corporations, Partners of Partnerships, and Beneficiaries of Estates and Trusts

If you are a shareholder, partner (other than a partner in an electing large partnership), or beneficiary of the designated pass-through entity, the entity will provide to you the information necessary to complete the following:

• The qualified investment in qualifying advanced coal project property for lines 5a through 5c.
• The qualified investment in qualifying gasification project property for lines 6a and 6b.
• The qualified investment in qualifying advanced energy project property for line 7.
• The qualified investment in qualifying therapeutic discovery projects for line 8.
• The information for lines 11b through 11j and 11m for the rehabilitation credit.
• The basis of energy property for lines 12a, 12b, 12c, 12f, 12i, 12l, 12o, 12q, 12r, and 12s.
• The kilowatt capacity for lines 12d, 12g, and 12j.
• The megawatt capacity or horsepower for line 12m.

Part I. Information Regarding the Election To Treat the Lessee as the Purchaser of Investment Credit Property

If you lease property to someone else, you may elect to treat all or part of your investment in new property as if it were made by the person who is leasing it from you. Once the election is made, the lessee will be entitled to an investment credit for that property for the tax year in which the property is placed in service and the lessor will generally not be entitled to such a credit.

If the leased property is disposed of, or otherwise ceases to be section 38 property, the property will generally be subject to the recapture rules for early dispositions.

For information on making the election, see section 48(d) (as in effect on November 4, 1990) and related regulations. For limitations, see sections 46(e)(3) and 48(d) (as in effect on November 4, 1990).

Line 2

Enter the lessor's full address. Enter the address of the lessor's principal office or place of business. Include the suite, room, or other unit number after the street address. If the post office does not deliver mail to the street address and the lessor has a P.O. box, show the box number instead.

Note. Do not use the address of the registered agent for the state in which the lessor is incorporated. For example, if a business is incorporated in Delaware or Nevada and the lessor's principal place of business is located in Little Rock, AR, you should enter the Little Rock address.

If the lessor receives its mail in care of a third party (such as an accountant or attorney), enter on the street address line "C/O" followed by the third party's name and street address or P.O. box.

Qualifying Advanced Coal Project Credit

A qualifying advanced coal project is a project that:

• Uses advanced coal-based generation technology (as defined in section 48A(f)) to power a new electric generation unit or to refit or repower an existing electric generation unit (including an existing natural gas-fired combined cycle unit),
• Has fuel input which, when completed, will be at least 75 percent coal,
• Has an electric generation unit or units at the site that will generate at least 400 megawatts,
• Has a majority of the output that is reasonably expected to be acquired or utilized,
• Is to be constructed and operated on a long-term basis when the taxpayer provides evidence of ownership or control of a site of sufficient size,
• Will be located in the United States, and
• Includes equipment that separates and sequesters at least 65 percent (70 percent in the case of an application for reallocated credits) of the project's total carbon dioxide emissions for project applications described in section 48A(d)(2)(A)(ii).

Basis. Qualified investment for any tax year is the basis of eligible property placed in service by the taxpayer during the tax year which is part of a qualifying advanced coal project. Eligible property is limited to property which can be depreciated or amortized and which was constructed, reconstructed, or erected and completed by the taxpayer; or which is acquired by the taxpayer if the original use of such property commences with the taxpayer.

Basis reduction for certain financing. If property is financed in whole or in part by subsidized energy financing or by tax-exempt private activity bonds, the amount that you can claim as basis is the basis that would otherwise be allowed multiplied by a fraction that is 1 reduced by a second fraction, the numerator of which is that portion of the basis allocable to such financing or proceeds, and the denominator of which is the basis of the property. For example, if the basis of the property is $100,000 and the portion allocable to such financing or proceeds is $20,000, the fraction of the basis that you may claim the credit on is 4/5 (that is, 1 minus $20,000/$100,000). Subsidized energy financing means financing provided under a federal, state, or local program, a principal purpose of which is to provide subsidized financing for projects designed to conserve or produce energy.

Line 5a

Enter the qualified investment in integrated gasification combined cycle property placed in service during the tax year for projects described in section 48A(d)(3)(B)(i). Eligible property is any property which is part of a qualifying advanced coal project using an integrated gasification combined cycle and is necessary for the gasification of coal, including any coal handling and gas separation equipment.

Integrated gasification combined cycle is an electric generation unit which produces electricity by converting coal to synthesis gas, which in turn is used to fuel a combined-cycle plant to produce electricity from both a combustion turbine (including a combustion turbine/fuel cell hybrid) and a steam turbine.

Line 5b

Enter the qualified investment in advanced coal-based generation technology property placed in service during the tax year for projects described in section 48A(d)(3)(B)(ii). Eligible property is any property which is part of a qualifying advanced coal project (defined earlier) not using an integrated gasification combined cycle.

Line 5c

Enter the qualified investment in advanced coal-based generation technology property placed in service during the tax year for projects described in section 48A(d)(3)(B)(iii). Eligible property is any certified property located in the United States and which is part of a qualifying advanced coal project (defined earlier) which has equipment that separates and sequesters at least 65 percent of the project's total carbon dioxide emissions. This percentage increases to 70 percent if the credits are later reallocated by the IRS.

The credit will be recaptured if a project fails to attain or maintain the carbon dioxide separation and sequestration requirements. For details, see section 48A(i).

Qualifying Gasification Project Credit

A qualifying gasification project is a project that:

- Employs gasification technology (as defined in section 48B(c)(2)),
- Is carried out by an eligible entity (as defined in section 48B(c)(7)), and
- Includes a qualified investment of which an amount not to exceed $650 million is certified under the qualifying gasification program as eligible for credit.

The total amount of credits that may be allocated under the qualifying gasification project program may not exceed $600 million.

For more information on the qualifying gasification project and the qualifying gasification program, see Notice 2009-23, 2009-16 I.R.B. 802.

Basis reduction. If property is financed in whole or in part by subsidized energy financing or by tax-exempt private activity bonds, figure the credit by using the basis of such property reduced under the rules described in *Basis reduction for certain financing*, earlier.

Line 6a

Enter the qualified investment in qualifying gasification project property (defined above) placed in service during the tax year for which credits were allocated or reallocated after October 3, 2008, and that include equipment that separates and sequesters at least 75% of the project's carbon dioxide emissions. Qualified investment is the basis of eligible property placed in service during the tax year that is part of a qualifying gasification project.

For purposes of this credit, eligible property includes any property that is part of a qualifying gasification project and necessary for the gasification technology of such project. The IRS is required to recapture the benefit of any allocated credit if a project fails to attain or maintain these carbon dioxide separation and sequestration requirements. See section 48B(f).

Line 6b

Enter the qualified investment, other than line 6a, in qualifying gasification project property (defined above) placed in service during the tax year.

Qualifying Advanced Energy Project Credit

To be eligible for the qualifying advanced energy project credit, some or all of the qualified investment in the qualifying advanced energy project must be certified by the IRS under section 48C(d). For more information on certification, see Notice 2009-72, 2009-37 I.R.B. 325.

Line 7

Enter the qualified investment in qualifying advanced energy project property placed in service during the tax year, that is part of a qualifying advanced energy project. Qualified investment is the basis of eligible property placed in service during the tax year that is part of a qualifying advanced energy project.

Qualifying advanced energy project means a project that re-equips, expands, or establishes a manufacturing facility for the production of:

- Property designed to be used to produce energy from the sun, wind, geothermal deposits (within the meaning of section 613(e)(2)), or other renewable resources,
- Fuel cells, microturbines, or an energy storage system for use with electric or hybrid-electric motor vehicles,
- Electric grids to support the transmission of intermittent sources of renewable energy, including storage of the energy,
- Property designed to capture and sequester carbon dioxide emissions,
- Property designed to refine or blend renewable fuels or to produce energy conservation technologies (including energy-conserving lighting technologies and smart grid technologies),
- New qualified plug-in electric drive motor vehicles (as defined in section 30D), qualified plug-in electric vehicles (as defined in section 30(d)), or components which are designed specifically for use with those vehicles, including electric motors, generators, and power control units, and
- Other advanced energy property designed to reduce greenhouse gas emissions.

A qualifying advanced energy project does not include any portion of a project for the production of any property that is used in the refining or blending of any transportation fuel (other than renewable fuels).

Eligible property. Eligible property is property that is necessary for the production of property described in section 48C(c)(1)(A)(i), for which depreciation or amortization is available and is tangible personal property or other tangible property (not including a building or its structural components), but only if the property is used as an integral part of the qualifying advanced energy project.

Transitional rule. Enter only the basis:

- Attributable to constructed, reconstruction, or erection by the taxpayer after February 17, 2009,
- Of property acquired and placed in service after February 17, 2009, and
- Only to the extent of the qualified investment (as determined under section 46(c) and (d) as in effect on November 4, 1990) with respect to qualified progress expenditures made after February 17, 2009.

Qualifying Therapeutic Discovery Project Credit

To be eligible for the qualifying therapeutic discovery project credit, some or all of the investment in the qualifying therapeutic discovery project must be certified by the IRS under section 48D. For more information, see Notice 2010-45, 2010-23 I.R.B. 734, available at http://www.irs.gov/irb/2010-23_IRB/ar08.html

Line 8

Enter the qualified investment in qualifying therapeutic discovery projects that have been certified as eligible for the qualifying therapeutic discovery project credit. For details, see section 48D, Notice 2010-45, and the Instructions for Form 8942, Application for Certification of Qualified Investments Eligible for Credits and Grants Under the Qualified Therapeutic Discovery Project Program.

Credit from Cooperatives

Line 9

Patrons, including cooperatives that are patrons in other cooperatives, enter the unused investment credit from the qualifying advanced coal project credit, qualifying gasification project credit, or qualifying advanced energy project credit allocated from cooperatives. If you are a cooperative, see the Instructions for Form 3800, line 1a, for allocating the investment credit to your patrons.

Rehabilitation Credit

You are allowed a credit for qualified rehabilitation expenditures made for any qualified rehabilitated building. You must reduce your basis by the amount of the credit determined for the tax year.

If the adjusted basis of the building is determined in whole or in part by reference to the adjusted basis of a person other than the taxpayer, see Regulations section 1.48-12(b)(2)(viii) for additional information that must be attached.

Qualified Rehabilitated Building

To be a qualified rehabilitated building, your building must meet all five of the following requirements.

1. The building must have been placed in service (see requirement 4) prior to 1936 unless it is a certified historic structure. A certified historic structure is any building (a) listed in the National Register of Historic Places, or (b) located in a registered historic district (as defined in section 47(c)(3)(B)) and certified by the Secretary of the Interior as being of historic significance to the district. Certification requests are made through your State Historic Preservation Officer on National Park Service (NPS) Form 10-168a, Historic Preservation Certification Application. The request for certification should be made prior to physical work beginning on the building.

2. The building must be substantially rehabilitated. A building is considered substantially rehabilitated if your qualified rehabilitation expenditures during a self-selected 24-month period that ends with or within your tax year are more than the greater of $5,000 or your adjusted basis in the building and its structural components. Figure adjusted basis on the first day of the 24-month period or the first day of your holding period, whichever is later. If you are rehabilitating the building in phases under a written architectural plan and specifications that were completed before the rehabilitation began, substitute "60-month period" for "24-month period."

If the building is in one of the designated counties or parishes in the GO Zone, Rita GO Zone, or Wilma GO Zone, the "24-month period" and "60-month period" is extended by 12 months. However, the rehabilitation must have begun, but not been completed, and the building placed in service **prior** to the following dates.

	States	Date
GO Zone	Florida	August 24, 2005
GO Zone	Louisiana, Mississippi, and Alabama	August 29, 2005
Rita GO Zone	Louisiana and Texas	September 23, 2005
Wilma GO Zone	Florida	October 23, 2005

3. Depreciation must be allowable with respect to the building. Depreciation is not allowable if the building is permanently retired from service. If the building is damaged, it is not considered permanently retired from service where the taxpayer repairs and restores the building and returns it to actual service within a reasonable period of time.

For a building damaged in the GO Zone, Rita GO Zone, or Wilma GO Zone, that reasonable period is deemed to be up to 36 months, subject to the following qualifications.

- The building must have been placed in service **prior to the date** as given in the table above.
- The relevant 36-month period for that building **starts on the same date** as given in the table above.
- Beginning no later than August 15, 2006, for GO Zone, Rita GO Zone, or Wilma GO Zone property, the taxpayer must be engaged in the repair or restoration of building, defined as:

a. Ongoing physical repairs,

b. Written contracts in place for the repair or restoration to be completed within the designated 36-month period, or

c. Active negotiation of contracts for the repair or restoration to be completed within the designated 36-month period, but only if the contracts are finalized prior to January 1, 2007.

4. The building must have been placed in service before the beginning of rehabilitation. This requirement is met if the building was placed in service by any person at any time before the rehabilitation began.

5. For a building other than a certified historic structure (a) at least 75% of the external walls must be retained with 50% or more kept in place as external walls, and (b) at least 75% of the existing internal structural framework of the building must be retained in place.

Qualified Rehabilitation Expenditures

To be qualified rehabilitation expenditures, your expenditures must meet all six of the following requirements.

1. The expenditures must be for (a) nonresidential rental property, (b) residential rental property (but only if a certified historic structure—see Regulations section 1.48-1(h)), or (c) real property that has a class life of more than 12 years.

2. The expenditures must be incurred in connection with the rehabilitation of a qualified rehabilitated building.

3. The expenditures must be capitalized and depreciated using the straight line method.

4. The expenditures cannot include the costs of acquiring or enlarging any building.

5. If the expenditures are in connection with the rehabilitation of a certified historic structure or a building in a registered historic district, the rehabilitation must be certified by the Secretary of the Interior as being consistent with the historic character of the property or district in which the property is located. This requirement does not apply to a building in a registered historic district if (a) the building is not a certified historic structure, (b) the Secretary of the Interior certifies that the building is not of historic significance to the district, and (c) if the certification in (b) occurs after the rehabilitation began, the taxpayer certifies in good faith that he or she was not aware of that certification requirement at the time the rehabilitation began.

6. The expenditures cannot include any costs allocable to the part of the property that is (or may reasonably expect to be) tax-exempt use property (as defined in section 168(h) except that "50 percent" shall be substituted for "35 percent" in paragraph (1)(B)(iii)). This exclusion does not apply for line 11d.

Line 11

For credit purposes, the expenditures are generally taken into account for the tax year in which the qualified rehabilitated building is placed in service. However, with certain exceptions, you may elect to take the expenditures into account for the tax year in which they were paid (or, for a self-rehabilitated building, when capitalized) if (a) the normal rehabilitation period for the building is at least 2 years, and (b) it is reasonable to expect that the building will be a qualified rehabilitated building when placed in service. For details, see section 47(d). To make this election, check the box on line 11a. The credit, as a percent of expenditures paid or incurred during the tax year for any qualified rehabilitated building, depends on the type of structure and its location.

Note. The credit is increased for qualified rehabilitated expenditures made on or after the applicable disaster date for qualified rehabilitated buildings or structures damaged or destroyed as a result of the severe storms, tornados, or flooding in the Midwestern disaster area. For details on the affected counties and the applicable disaster dates in the Midwestern disaster area, see Tables 1 and 2 in Publication 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas.

If the structure is . . .	Located	Report on Line . . .
Other than a certified historic structure	In the GO Zone	11e
Other than a certified historic structure	In the Midwestern disaster area	11f
Other than a certified historic structure	Elsewhere than in the GO Zone or Midwestern disaster area	11g
Certified historic structure	In the GO Zone	11h
Certified historic structure	In the Midwestern disaster area	11i
Certified historic structure	Elsewhere than in the GO Zone or Midwestern disaster area	11j

If you are claiming a credit for a certified historic structure on lines 11h, 11i, or 11j, enter the assigned NPS project number on line 11k. If the qualified rehabilitation expenditures are from an S corporation, partnership, estate, or trust, enter on line 11k the employer identification number of the pass-through entity instead of the assigned NPS project number, and skip line 11l and the instructions below.

Enter the date of the final certification of completed work received from the Secretary of the Interior on line 11l. If the final certification has not been received by the time the tax return is filed for a year in which the credit is claimed, attach a copy of the first page of NPS Form 10-168a, Historic Preservation Certification Application (Part 2—Description of Rehabilitation), with an indication that it was received by the Department of the Interior or the State Historic Preservation Officer, together with proof that the building is a certified historic structure (or that such status has been requested). After the final certification of completed work has been received, file Form 3468 with the first income tax return filed after receipt of the certification and enter the assigned NPS project number and the date of the final certification of completed work on the appropriate lines on the form. Also attach an explanation, and indicate the amount of credit claimed in prior years.

If you fail to receive final certification of completed work prior to the date that is 30 months after the date that you filed the tax return on which the credit was claimed, you must submit a written statement to the IRS stating that fact before the last day of the 30th month. You will be asked to consent to an agreement under section 6501(c)(4) extending the period of assessment for any tax relating to the time for which the credit was claimed.

Mail to:
Internal Revenue Service
2970 Market Street 4-E08.141
LIH Unit - Mail Stop E-08.143
Philadelphia, PA 19104

You must retain a copy of the final certification of completed work as long as its contents may be needed for the administration of any provision of the Internal Revenue Code.

If the final certification is denied by the Department of Interior, the credit is disallowed for any tax year in which it was claimed, and you must file an amended return if necessary. See Regulations section 1.48-12(d)(7)(ii) for details.

Energy Credit

To qualify as energy property, property must:

1. Meet the performance and quality standards, if any, that have been prescribed by regulations and are in effect at the time the property is acquired;
2. Be property for which depreciation (or amortization in lieu of depreciation) is allowable; and
3. Be property either:

a. The construction, reconstruction, or erection of which is completed by the taxpayer; or

b. Acquired by the taxpayer if the original use of such property must begin with the taxpayer.

Energy property does not include any property acquired before February 14, 2008, or to the extent of basis attributable to construction, reconstruction, or erection before February 14, 2008, that is public utility property, as defined by section 46(f)(5) (as in effect on November 4, 1990), and related regulations.

You must reduce the basis of energy property by 50% of the energy credit determined.

You must reduce the basis of energy property used for figuring the credit by any amount attributable to qualified rehabilitation expenditures.

Energy property that qualifies for a grant under section 1603 of the American Recovery and Reinvestment Tax Act of 2009 is not eligible for the energy credit for the tax year that the grant is made or any subsequent tax year.

Basis reduction. If energy property (acquired before January 1, 2009, or to the extent of its basis attributable to construction, reconstruction, or erection before January 1, 2009) is financed in whole or in part by subsidized energy financing or by tax-exempt private activity bonds, reduce the basis of such property under the rules described in *Basis reduction for certain financing*, earlier. For property acquired after December 31, 2008, and for basis attributable to construction, reconstruction, or erection after December 31, 2008, there is no basis reduction for property financed by subsidized energy financing or by tax-exempt private activity bonds.

Line 12a

Enter the basis of any property placed in service during the tax year that uses geothermal energy. Geothermal energy property is equipment that uses geothermal energy to produce, distribute, or use energy derived from a geothermal deposit (within the meaning of section 613(e)(2)). For electricity produced by geothermal power, equipment qualifies only up to, but not including, the electrical transmission stage.

Also enter the basis, attributable to periods before January 1, 2006, of property placed in service during the tax year that uses solar energy to:

1. Generate electricity,
2. Heat or cool (or provide hot water for use in) a structure, or
3. Provide solar process heat (but not to heat a swimming pool).

Basis is attributable to periods before January 1, 2006, if the property was acquired before January 1, 2006, or to the extent of basis attributable to construction, reconstruction, or erection by the taxpayer before January 1, 2006.

Line 12b

Enter the basis, attributable to periods after December 31, 2005, of any property using solar energy placed in service during the tax year. There are two types of property.

1. Equipment that uses solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight.
2. Equipment that uses solar energy to:

a. Generate electricity,

b. Heat or cool (or provide hot water for use in) a structure, or

c. Provide solar process heat (but not to heat a swimming pool).

Basis is attributable to periods after December 31, 2005, if the property was acquired after December 31, 2005, or to the extent of basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2005.

Line 12c

Enter the basis, attributable to periods after December 31, 2005, and before October 4, 2008, of any qualified fuel cell property placed in service during the tax year.

Qualified fuel cell property is a fuel cell power plant that generates at least 0.5 kilowatt of electricity using an electrochemical process and has electricity-only generation efficiency greater than 30 percent. See section 48(c)(1) for further details.

Basis is attributable to periods after December 31, 2005, and before October 4, 2008, if the property was acquired after December 31, 2005, and before October 4, 2008, or to the extent of basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2005, and before October 4, 2008.

Line 12d

Enter the applicable number of kilowatts of capacity attributable to the basis on line 12c.

Transitional Rule. The increase in the kilowatt limit from $1,000 to $3,000 per kilowatt applies only to:

- property (other than property for which you have elected to treat expenditures as qualified progress expenditures) the construction, reconstruction, or erection of which is completed by the taxpayer after October 3, 2008, but only to the extent of the basis thereof attributable to the construction, reconstruction, or erection during such period;
- property (other than property for which you have elected to treat expenditures as qualified progress expenditures) acquired and placed in service after October 3, 2008; and
- property for which you have elected to treat expenditures as qualified progress expenditures but only to the extent of the qualified investment with respect to qualified progress expenditures made after October 3, 2008.

Line 12f

Enter the basis, attributable to periods after October 3, 2008, of any qualified fuel cell property placed in service during the tax year.

For a definition of qualified fuel cell property, see *Line 12c* above.

Basis is attributable to periods after October 3, 2008, if the property was acquired after October 3, 2008, or to the extent of basis attributable to construction, reconstruction, or erection by the taxpayer after October 3, 2008.

Line 12g

Enter the applicable number of kilowatts of capacity attributable to the basis on line 12f.

Transitional Rule. For transitional rules, see *Line 12d*.

Line 12i

Enter the basis, attributable to periods after December 31, 2005, of any qualified microturbine property placed in service during the tax year. Qualified microturbine property is a stationary microturbine power plant which generates less than 2,000 kilowatts and has an electricity-only generation efficiency of not less than 26 percent at International Standard Organization conditions. See section 48(c)(2) for further details.

Basis is attributable to periods after December 31, 2005, if the property was acquired after December 31, 2005, or to the extent of basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2005.

Line 12l

Enter the basis, attributable to periods after October 3, 2008, of any qualified combined heat and power system property placed in service during the tax year. Combined heat and power system property is property that uses the same energy source for the simultaneous or sequential generation of electrical power, mechanical shaft power, or both; in combination with the generation of steam or other forms of useful thermal energy (including heating and cooling applications); the energy efficiency percentage of which exceeds 60 percent; and it produces:

- At least 20 percent of its total useful energy in the form of thermal energy that is not used to produce electrical or mechanical power (or a combination thereof), and
- At least 20 percent of its total useful energy in the form of electrical or mechanical power (or a combination thereof).

For details, see section 48(c)(3).

Basis is attributable to periods after October 3, 2008, if the property was acquired after October 3, 2008, or to the extent of basis attributable to construction, reconstruction, or erection by the taxpayer after October 3, 2008.

Energy efficiency percentage. The energy efficiency percentage of a combined heat and power system property is the fraction — the numerator of which is the total useful electrical, thermal, and mechanical power produced by the system at normal operating rates, and expected to be consumed in its normal application, and the denominator of which is the lower heating value of the fuel sources for the system. The energy efficiency percentage is determined on a Btu basis.

Combined heat and power system property does not include property used to transport the energy source to the facility or to distribute energy produced by the facility.

Biomass systems. Systems designed to use biomass for at least 90 percent of the energy source are eligible for a credit that is reduced in proportion to the degree to which the system fails to meet the efficiency standard. For more information, see section 48(c)(3)(D).

Line 12o

Enter the basis, attributable to periods after October 3, 2008, and before January 1, 2009, of any qualified small wind energy property placed in service during the tax year.

Qualified small wind energy property means property that uses a qualifying small wind turbine to generate electricity. For this purpose, a qualifying small wind turbine means a wind turbine which has a nameplate capacity of not more than 100 kilowatts. For details, see section 48(c)(4).

Basis is attributable to periods after October 3, 2008, and before January 1, 2009, if the property was acquired after October 3, 2008, and before January 1, 2009, or to the extent of basis attributable to construction, reconstruction, or erection by the taxpayer after October 3, 2008, and before January 1, 2009.

Line 12p

Enter the smaller of the basis you entered on line 12o or $4,000.

Line 12q

Enter the basis, attributable to periods after December 31, 2008, of any qualified small wind energy property placed in service during the tax year. For the definition of qualified small wind energy property, see the instruction to line 12o, above.

Basis is attributable to periods after December 31, 2008, if the property was acquired after December 31, 2008, or to the extent of basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2008.

Line 12r

Enter the basis, attributable to periods after October 3, 2008, of any geothermal heat pump system placed in service during the tax year. Geothermal heat pump systems constitute equipment which uses the ground or ground water as a thermal energy source to heat a structure or as a thermal energy sink to cool a structure. For details, see section 48(a)(3)(A)(vii).

Basis is attributable to periods after October 3, 2008, if the property was acquired after October 3, 2008, or to the extent of basis attributable to construction, reconstruction, or erection by the taxpayer after October 3, 2008.

Line 12s

Enter the basis of any qualified investment credit facility property placed in service during the tax year. Qualified investment credit facility property is property for which depreciation or amortization is allowable and is tangible personal property or other tangible property (not including a building or its structural components), but only if the property is used as an integral part of the qualified investment credit facility. See section 48(a)(5) for details.

A qualified investment credit facility is any of the following facilities if no credit has been allowed under section 45 for that facility and an irrevocable election was made to treat the qualified facility as energy property.

- Wind facilities under section 45(d)(1) if the facility is placed in service in 2009, 2010, 2011, or 2012,
- Any qualified facility under section 45(d)(2), (3), (4), (6), (7), (9), or (11), if that facility is placed in service in 2009, 2010, 2011, 2012, or 2013.

The election to treat a qualified facility as energy property is made by claiming the energy credit with respect to qualified investment credit facility property by completing Form 3468 and attaching it to your timely filed income tax return (including extensions) for the tax year that the property is placed in service. You must make a separate election for each qualified facility that is to be treated as a qualified investment credit facility. You must also attach a statement to the Form 3468 that includes the following information:

1. Your name, address, taxpayer identification number, and telephone number.
2. For each qualified investment credit facility:
   a. A detailed technical description of the facility, including generating capacity.
   b. A detailed technical description of the energy property placed in service during the tax year as an integral part of the facility, including a statement that the property is an integral part of such facility.
   c. The date that the energy property was placed in service.
   d. An accounting of your basis in the energy property.
   e. A depreciation schedule reflecting your remaining basis in the energy property after the energy credit is claimed.
3. A statement that you have not and will not claim a grant under section 1603 of the American Recovery and Reinvestment Tax Act of 2009 for property for which you are claiming the energy credit.
4. A declaration, applicable to the statement and any accompanying documents, signed by you, or signed by a person currently authorized to bind you in such matters, in the following form: “Under penalties of perjury, I declare that I have examined this statement, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this statement are true, correct, and complete.”

Line 13

Patrons, including cooperatives that are patrons in other cooperatives, enter the unused investment credit from the rehabilitation credit or energy credit allocated from cooperatives. If you are a cooperative, see the Instructions for Form 3800, line 1a, for allocating the investment credit to your patrons.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below:

Recordkeeping	17 hrs., 13 min.
Learning about the law or the form	6 hrs., 21 min.
Preparing and sending the form to the IRS	10 hrs., 31 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.