Residential Condominiums and the Michigan Tax Incentive Program

Can a condominium unit owner claim a tax credit for a rehabilitation project on the owner’s historic condominium building under Michigan’s Historic Preservation Tax Incentives program? The State Historic Preservation Office (SHPO), in consultation with the Michigan Department of Treasury, has determined that an owner of a condominium unit in an historic resource is eligible to file an application for the tax credit. A residential condominium building would not be eligible for the federal tax credit program because it is an owner occupied structure. Therefore, the condominium owners would only be eligible for the state tax credit program. In order to explain how the condominium owner would be eligible for the credit, the following information, which was summarized from the Condominium Act (Act 59 of 1978), explains the eligibility of a condominium unit owner. In addition to the information provided here, the qualifications and eligibility criteria for the Michigan tax incentive program established by PA 69 and 70 will also apply.

How is the State Equalized Value (SEV) determined for a condominium building?

- According to Act 59, “Special Assessments and property taxes shall be assessed against the individual condominium units identified as units of the condominium subdivision plan and not on the total property of the project or any part of the project.” Therefore, for purposes of the Michigan tax credit, because each condominium unit owner is assessed individually, the required minimum expenditures of 10% of the SEV will be based on each individual condominium owner’s SEV.

Who can claim expenses for rehabilitation work on the exterior of the building or work in common areas?

- The master deed which records the condominium project is required by law to state “the total percentage of value for the condominium project and the separate percentages of values assigned to each individual condominium unit” (Act 59 of 1978). The percentages assigned to each individual condominium unit added together must equal 100%. The percentage of value for each unit is specified in the master deed and can be determined by factors such as market value, size, location, etc. Common space in a condominium building may be allocated to each condominium unit based on each unit’s percentage of value of the entire building. Alternately, each unit can be allocated an equal percentage of the common elements. All areas of the
building, including common areas, are divided and assigned to each condominium unit owner based on how that division was defined in the master deed.

“Common expenses associated with the maintenance, repair, renovation, restoration, or replacement of a limited common element shall be specially assessed against the condominium unit to which that limited common element was assigned at the time the expenses were incurred” (Act 59 of 1978). If a common element or a limited common element is assigned to more than one condominium unit, the expenses associated with that common element shall be divided equally among the condominium units unless specified otherwise. Common expenses which apply to all condominium unit owners shall be assessed in proportion based on the number of votes assigned to each condominium unit. The condominium bylaws allocate to each condominium unit a number of votes either in proportion to the percentage of value of each condominium unit, or an equal number of votes to each condominium unit.

Can expenses for work to the interior of an individual condominium unit be included in the costs to be claimed for a tax credit?

- Yes. Expenses incurred for work on an individual condominium unit can be included in the overall expenses which are being claimed for a tax credit. All interior work must be in conformance with the Secretary of the Interior’s Standards for Rehabilitation.

Can money which is put into a reserve fund, maintained by the association for major repairs and replacement of common elements, be included as an eligible expense for the individual condominium owner’s tax credit application?

- Money in a reserve fund can only be claimed for the tax credit after the work is completed. The money must be spent on a rehabilitation project before the expenses for that project can be claimed. After the project is completed, each condominium unit owner would then be eligible to claim the credit as specified above.

A Certificate of Appropriateness (COA) issued at the local level does not constitute approval of the project for tax credit work. Please be sure that every property owner who receives a COA is aware that work approved at the local level is not automatically approved for a tax credit application. SHPO review involves all aspects of a building rehabilitation, including both interior and exterior changes.