



Carolina's

Environmental Consultants & Contractors

Remediation Costs

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Federal Bailout Package Extends Brownfields Tax Incentive. A Boost for Redevelopers

Remediation Tax Deduction

Remediation costs can be a significant part of a Brownfields project. The recent Federal financial "bail out" legislation provides more favorable accounting treatment of remediation costs, at least through 2010. Instead of being considered capital costs subject to depreciation, remediation costs can be expensed when incurred, thus lowering income taxes.

The law (signed on October 3, 2008) extends the deadline for Section 198 of the Internal Revenue Code through 2010 for expenditures paid or incurred after December 31, 2007. Section 198 allows taxpayers to receive a current federal income tax deduction for certain qualifying environmental remediation costs that would otherwise be subject to capitalization. The extension is a welcome benefit to companies seeking to acquire or dispose of environmentally contaminated properties.

Companies prefer deductions because they substantially reduce the current income, allowing the company to capture tax savings now rather than later. This is an immediate tax advantage that helps offset short-term cleanup costs.

Qualified Contaminated Sites

- Site must not be proposed for or listed on the Superfund National Priorities List.
- Site is held by taxpayer for use in trade or business or for the production of income.
- Site is subject of a real or potential threat of a release or disposal of any hazardous substance.
- Taxpayer must receive a statement from the appropriate State agency that the site is in an area that meets the requirements (that cleanup is required)

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Qualified Expenditures

A qualified environmental remediation expenditure is one which is otherwise chargeable to a capital account and which is paid or incurred in connection with the abatement or control of hazardous substances at a qualified contaminated site.

An earlier change in the law (December 2006) expanded eligible properties to include those affected by petroleum contamination, in addition to Superfund hazardous substances.

Other Brownfield Incentives

This change in Federal tax accounting joins a host of incentives for redevelopment of tainted properties. In order to encourage business development and commercial economic revitalization, federal, state, and local governments have created a full range of enabling incentives and financial aid that can be used to turn environmentally-challenged sites into smart growth for communities and financial opportunities for owners, developers, and investors. Mix of available incentives varies by state and city.

Specific Information for South Carolina

"South Carolina offers non-transferable tax credits and other incentives that buyers may use to offset the cost of redeveloping property under a Brownfields/Voluntary Cleanup Program (BFVCP) contract. Using Incentives, it is possible to:

- Recover up to 60% of environmental costs incurred while under contract;
- Obtain an extra \$1,000 in Job Tax Credits for each job created on property
- Be exempt from county property taxes for five ; and
- Negotiate lower Fees in Lieu of Taxes with the county government.

Responsible parties cannot obtain incentives; however, expenses incurred by responsible parties in cleaning up their sites may be tax-deductible under other state and federal statutes. Responsible parties are urged to consult a knowledgeable tax attorney to other professional for advice."

Source: South Carolina Department of Health & Environmental Control