



Incentives for Business in Distressed Communities

Tips on credits and deductions for investing in disadvantaged areas.

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Since the mid-1990s, Congress has tried to help businesses operating in certain low-income and economically disadvantaged areas. This has taken the form of tax credits and deductions for businesses that locate in, and hire residents from, those areas. These inducements may be of interest to companies looking to start new operations, or expand or relocate existing ones.

Empowerment Zones and Renewal Communities

Certain economically distressed communities have been designated as “empowerment zones.” These are nominated by state and local governments, and meet certain criteria (for example, population, general economic distress and poverty rate). Empowerment-zone businesses may be eligible for several tax incentives. Other communities characterized by high unemployment and poverty rates have been designated as “renewal communities”; qualified businesses in these areas are eligible for similar (not identical) incentives.

Employment Credits

Empowerment-zone businesses may take a 20 percent credit on the first \$15,000 of qualified wages paid to either full- or part-time employees living in the zone, up to a maximum \$3,000 credit per employee per year. Employees must perform substantially all of their work in the employer’s trade or business within the zone. For renewal communities, the credit is 15 percent of the first \$10,000 of qualified wages.

Section 179 Expensing

In general, IRC section 179 allows businesses to deduct immediately the cost of certain assets (up to a ceiling), rather than capitalizing and depreciating the property over its life. For 2007, this dollar limit is \$112,000, reduced dollar-for-dollar for qualified asset purchases over \$450,000.

For businesses purchasing qualified zone property to use in an empowerment zone, the \$112,000 limit may be increased by as much as \$35,000; the \$450,000 limit is reduced by 50 percent of the cost of qualified zone asset purchases (rather than the dollar-for-dollar reduction). Businesses in renewal communities are eligible for the same increased section 179 benefits.

Capital Gain Rollovers and Exclusions

In certain cases, a taxpayer can elect to roll over (or defer recognition of) capital gain realized from the sale or exchange of qualified empowerment-zone assets purchased after Dec. 20, 2000, and held for more than a year. The seller must use the proceeds from the sale to purchase other qualifying empowerment-zone property within 60 days of the original sale; the new property must be used in the same empowerment zone as the sold asset. For renewal communities, qualified capital gains resulting from the sale of certain

qualified renewable community assets held more than five years are tax-free.

Qualified small business stock. Generally, noncorporate investors can exclude up to 50 percent of the gain on the sale or exchange of qualified small business stock issued after Aug. 10, 1993, and held for more than five years. For empowerment-zone stock sales, the gain exclusion percentage is 60 percent.

For a detailed discussion of these and other available incentives, see “Tax Incentives for Businesses in Distressed Communities,” by Larry R. Garrison, Ph.D., CPA, in the May 2007 issue of *The Tax Adviser*.

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