

RENEWAL COMMUNITY INITIATIVE

In December 2000, Congress approved the Renewal Communities (RCs) program, which through major federal tax incentives helps promote economic development in distressed communities. The state of Louisiana received authority for four Rural Renewal Communities. Qualified businesses located in these Rural Renewal Communities are eligible to take advantage of Federal tax incentives to hire residents and to expand or improve their operations through December 31, 2009.

For maps of the areas covered by the four Louisiana Renewal Communities, please click on the link following their name.

North Louisiana Rural Renewal Community, <http://www.renewallouisiana.com/nmap/default.asp>

Central Louisiana Rural Renewal Community, <http://www.renewallouisiana.com/cmap/default.asp>

Ouachita Parish Renewal Community, <http://www.renewallouisiana.com/ouachita/default.asp>

New Orleans/Jefferson Parish Renewal Community, <http://www.renewallouisiana.com/noieff/default.asp>

Businesses Qualified to Participate in RC Tax Incentives

Any corporation, partnership, or sole proprietorship that meets the following requirements for the taxable year:

- Every trade or business in the active conduct of a qualified business within the RC
- At least 50% of business income is derived from the active conduct of a trade or business within the RC
- A substantial portion of the use of the tangible property (owned or leased) of the business is within the RC
- A substantial portion of the intangible property of the business is used in the active conduct of business in the RC
- A substantial portion of services performed for the business by its employees is performed in the RC
- At least 35% of the employees are residents of the RC
- Less than 5% of the average of aggregate adjusted bases of the property of the business is attributable to collectibles (art work, wine, antiques) other than collectibles held primarily for sale to customers in the ordinary course of business
- Less than 5% of the average of the aggregate adjusted bases of the property of the business is attributable to "non-qualified financial property" (debt, stock, partnership interests, options, futures contracts) other than reasonable amounts of working capital held in cash, cash equivalents or debt instruments with a term of no more than 18 months)

Businesses RC Incentive Not Relevant to

- Business predominately involved in the development or holding of intangibles for sale or license (such as software)
- Rental of commercial real estate unless at least 50% of gross rental income is from RC businesses
- The rental of residential real estate the rental of tangible personal property unless at least 50% of rentals are to RC businesses or RC residents
- Country clubs, Massage parlors, Hot tubs, Racetracks, and Health clubs
- Stores for which the principal business is the sale of alcoholic beverages for consumption off premises
- Farming unless the aggregate unadjusted bases of the assets owned or leased by the taxpayer which are used in the trade or business of farming are less than \$500,000 as of the close of the taxable year

Qualified Employee Defined

A qualified employee is any employee who meets the following criteria.

- The employee performs substantially all of his or her services for you within a renewal community and in your trade or business.
- While performing those services, the employee has his or her main home within that renewal

community. (Employers in the North Louisiana RC must hire employees who reside in the North Louisiana RC; Employers in the Central Louisiana RC must hire employees who reside in the Central Louisiana RC.)

- A resident of the Renewal Community in which your company is located, i.e. if your business is in the North Louisiana Rural Renewal Community the employee must reside in a designated area within the same RC. To determine if your employee is located in the same Renewal Community as your business, go to http://hud.esri.com/locateservices/ezec/ezec_open.htm then type in your employee's home address and zip code where indicated. Note: you must use a street address, not a P. O. Box number.

Non-Qualified Employee Defined

The following individuals are not qualified RC employees.

- An individual you employ for less than 90 days. However, this 90-day requirement does not apply in either of the following situations.
 - You terminate the employee because of misconduct as determined under the state unemployment compensation law that applies.
 - The employee becomes disabled before the 90th day. However, if the disability ends before the 90th day, you must offer to reemploy the former employee.
- Certain related taxpayers.
- Certain dependents.
- Any 5% owner.
- An individual you employ at any:
 - Private or commercial golf course,
 - Country club,
 - Massage parlor,
 - Hot tub facility,
 - Suntan facility,
 - Racetrack, or other facility used for gambling, or
- An employee residing in a different RC from the one in which your business is located or in a Census Tract not included in the RC cannot be considered a qualified employee. (The North and Central Louisiana Rural RCs are considered separate entities.)

To determine if your business address is in and/or your employees reside in a Renewal Community, go to hud.esri.com/egis/cpd/rcezec/ezec_open.htm.

Tax Benefits

The Federal tax benefits available in RCs are designed to encourage businesses to invest in these areas. Expanding business development and commerce leads to greater job opportunities for residents, and to improved access to goods and services, both of which help energize long-term revitalization. The tax incentives offered through this program are substantial, and are available to businesses creating or retaining new jobs through December 31, 2009.

Wage Tax Credit

The renewal community employment credit provides businesses with an incentive to hire individuals who both live and work in a renewal community. You can claim the credit if you pay or incur "qualified wages" to a "qualified employee." The credit is for wages paid or incurred after 2001 and continues through December 31, 2009. The credit is 15% of the qualified wages paid or incurred during a calendar year. The amount of qualified wages you can use to figure the credit cannot be more than \$10,000 for each employee for each calendar year. As a result, the credit can be as much as \$1,500 (15% of \$10,000) per qualified employee each year. Note: Employees must be residents of the same Renewal Community as that in which the business is located.

Increased Section 179 Deduction

Section 179 of the Internal Revenue Code allows businesses to choose to deduct all or part of the cost of certain qualifying property (machinery and equipment) in the year they place it in service. Businesses can do this instead of recovering the cost by taking depreciation deductions over a specified recovery period.

There are limits, however, on the amount businesses can deduct in a tax year. Businesses may be able to claim an increased Section 179 deduction of as much as \$35,000 if they qualify as Renewal Community Businesses.

Commercial Revitalization Deduction

Businesses that construct or rehabilitate commercial property in Renewal Communities (RCs) can deduct a portion of the costs of acquisition and rehabilitation over a shorter period of time than permitted under standard depreciation rules. A business can elect a deduction of one-half of “qualifying revitalization expenditures” (QRE) up to \$10 million for any one project in the year the building is placed in service or can deduct all QRE pro rata over 10 years. Note: State authorization is required before a company or investor(s) may take the Commercial Revitalization Deduction (CRD). A Community Revitalization Agency Board created by the State of Louisiana will review all applications and approve those that the Board believes most benefits the State's economic development activities. To obtain a copy of the application, go to www.renewallouisiana.com/crdhelp.asp.

Zero Percent Capital Gains Rate

If a business holds a Renewal Community Business asset acquired after December 31, 2001 and before January 1, 2010 for a minimum of 5 years, the business does not have to include any “qualified capital gain” from the asset’s sale or exchange in its gross income. This exclusion applies only to an interest in, or property of, certain businesses operating in a Renewal Community (RC). The following qualify as RC assets: RC business stock, RC partnership interests, RC business properties. Only gain attributable to the period from January 1, 2002 through December 31, 2014 may be excluded for RCs.

For more information, contact: Macon Ridge Economic Development Region, Inc., 903 Louisiana Ave, Ferriday, LA 71334-2613, P. O. Drawer 746, Ferriday, LA 71334-0746, Website: www.renewallouisiana.com.