

Drop-in Article

Empowerment Zones/Enterprise Communities

In the 1990's, two Federal programs were enacted to help economically distressed communities through the use of targeted tax incentives. These communities had similar characteristics such as high unemployment, poverty and crime rates. The tax incentives were designed to help businesses already established in these specific areas and to attract new businesses and investors. A "win-win" situation was foreseen for all involved since these incentives could have positive impacts both economically and socially.

The Omnibus Budget Reconciliation Act of 1993 established **Empowerment Zones** and **Enterprise Communities**. The Taxpayer Relief Act of 1997 and the Community Renewal Act of 2000 established additional "Zones." This last Act also standardized all of the Empowerment Zone incentives and extended them to December 31, 2009. Presently, there are 40 authorized Empowerment Zones.

If you are a small business in an **Empowerment Zone**, you may benefit from one or more of the following tax incentives:

- Employment Credit
- Increased IRC Section 179 Deduction
- Rollover of Gain from the Sale of Empowerment Zone Assets
- Increased Exclusion of Gain from Qualified Small Business Stock and
- Tax-Exempt Bond Financing.

CAUTION: The tax laws authorizing these incentives are very complex. It is highly recommended that you consult with a qualified tax professional in order to determine whether you are eligible for these benefits. Certain limitations may also apply in order for you to fully utilize these tax incentives.

As an Empowerment Zone employer, you may qualify for the Employment Credit, equal to 20% of the first \$15,000 of qualified wages paid to each qualified employee of your trade or business. The employee must live and work in the Empowerment Zone, be employed at least 90 days and cannot be related to the business owner, be the business owner's dependent or own more than 5% of the business. Also, certain business types are precluded from utilizing this credit.

Section 179 of the Internal Revenue Code allows you to choose to deduct all or part of the cost of qualifying property in the first year you use it in your business, instead of depreciating it over a number of years. There is a dollar limit on how much you can deduct. Certain phase out rules and other special rules apply. You can rollover certain gains made from the sale of Empowerment Zone assets if you owned the asset more than one year, the gain is capital in nature, and the replacement zone asset is purchased in the same zone as the asset sold within.

Finally, if you are not a corporation, you can exclude 50% of the gain from the sale of qualified small business stock, which was held more than 5 years. This exclusion is increased to 60% if the stock qualifies as an Enterprise Zone Business for the majority of time the stock was held.

The tax-exempt bond financing provision allows State & local entities to issue Enterprise Zone facility bonds for the purpose of acquiring property for an Enterprise Business. At least 95% of the proceeds of the bond issue must be used to finance qualified zone property.

Enterprise Communities were authorized by the Omnibus Budget Reconciliation Act of 1993 to help distressed areas through other means. These communities were eligible for Federal grants and tax-exempt financing benefits. There are no specific tax incentives offered to businesses in Enterprise Communities.

There are other tax incentives available to all businesses, whether they reside in designated “Zones” or not. They are the Work Opportunity Tax Credit, Welfare to Work Wage Credit, Environmental Cleanup Cost Deduction, Qualified Zone Academy Bonds, New Markets Credits, Indian Employment Credit, Low Income Housing Credit and Depreciation of Property used on a Reservation. For more information on these and other tax incentives for distressed communities, please visit www.hud.gov or www.irs.gov.

It is important to note that many States offer additional tax benefits related to these areas. Contact your state or local government authorities for more information on locally offered incentives.