



This memorandum is for business owners who want to find out whether they qualify for certain incentives for operations within the boundaries of federal designated Empowerment Zones and Renewal Communities (often referred to as distressed communities). A distressed community is any area whose poverty rate or other conditions cause any of these tax incentives to apply. The requirements for each tax incentive are different. The following paragraphs may guide you in determining your potential benefits.

Empowerment Zones

Certain urban and rural areas of the United States have been designated empowerment zones and this memorandum explains the tax benefits available to businesses in designated Empowerment Zones. The following locations are currently designated empowerment zones in effect until the end of 2009.

Urban areas - Parts of the following urban areas are designated empowerment zones.

- Pulaski County, AR
- Tucson, AZ
- Fresno, CA
- Los Angeles, CA (city and county)
- Santa Ana, CA
- New Haven, CT
- Jacksonville, FL
- Miami/Dade County, FL
- Chicago, IL
- Gary/Hammond/East Chicago, IN
- Boston, MA
- Baltimore, MD
- Detroit, MI
- Minneapolis, MN
- St. Louis, MO/East St. Louis, IL
- Cumberland County, NJ
- New York, NY
- Syracuse, NY
- Yonkers, NY
- Cincinnati, OH
- Cleveland, OH
- Columbus, OH
- Oklahoma City, OK
- Philadelphia, PA/Camden, NJ
- Columbia/Sumter, SC
- Knoxville, TN
- El Paso, TX
- San Antonio, TX
- Norfolk/Portsmouth, VA
- Huntington, WV/Ironton, OH

Washington, DC

Under Internal Revenue Code Section 1400, parts of Washington, DC, are treated as an empowerment zone (please check to determine if zone status is still eligible).

Rural areas

Parts of the following rural areas are designated empowerment zones.

- Desert Communities CA (part of Riverside County)



- Southwest Georgia (part of Crisp County and all of Dooly County)
- Southernmost Illinois (parts of Alexander & Johnson Counties & all of Pulaski County)
- Kentucky Highlands (part of Wayne County and all of Clinton and Jackson Counties)
- Aroostook County ME (part of Aroostook County)
- Delta MS (parts of Bolivar, Holmes, Humphreys, Leflore, Sunflower, & Washington Counties)
- Griggs-Steele, ND (part of Griggs County and all of Steele County)
- Oglala Sioux Tribe, SD (part of Jackson County and all of Bennett and Shannon Counties)
- Middle Rio Grande TX (parts of Dimmit, Maverick, Uvalde, & Zavala Counties)
- Rio Grande Valley TX (parts of Cameron, Hidalgo, Starr, and Willacy Counties)

Empowerment Zone Wage Credit - The empowerment zone wage credit provides businesses with an incentive to hire individuals who both live and work in an empowerment zone. An exception applies to the Washington, DC empowerment zone. Individuals who work in the Washington, DC empowerment zone may live anywhere in the District of Columbia. Employers can claim the wage credit for “qualified zone wages” to a “qualified zone employee.”

The credit is 20% of the qualified zone wages paid or incurred during a calendar year. The amount of qualified zone wages you can use to figure the credit cannot be more than \$15,000 for each employee for each calendar year. As a result, the credit can be as much as \$3,000 (20% of \$15,000) per qualified zone employee each year.

Qualified zone employees

A qualified zone employee is any employee who meets both of the following tests.

1. The employee performs substantially all of his or her services for you within an empowerment zone and in your trade or business.
2. While performing those services, the employee's main home is within that empowerment zone. For services performed within the DC Zone, the employee's main home may be anywhere within the District of Columbia. Both full-time and part-time employees may qualify for the empowerment zone wage credit. Substantially all services of the qualified zone employee must be performed within the zone.

Nonqualified employees

The following individuals are not qualified zone employees eligible for the empowerment zone wage credit.

1. An individual employed for less than 90 calendar days. However, this 90-day requirement does not apply in either of the following situations.
 - (a) Termination of the employee because of misconduct as determined under the state unemployment compensation law that applies.
 - (b) The employee becomes disabled before the 90th day. However, if the disability ends before the 90th day, employee must be offered re-employment.
- (2) Certain related taxpayers.
- (3) Certain dependents.
- (4) Any 5% owner.
- (5) An individual employed at any of the following:
 - (a) Private or commercial golf course,
 - (b) Country club,
 - (c) Massage parlor,
 - (d) Hot tub facility,
 - (e) Suntan facility,
 - (f) Racetrack, or other facility used for gambling, or
 - (g) Store whose principal business is the sale of alcoholic beverages for off-premise consumption.
- (6) Any individual employed in a farming trade or business if, at the close of the tax year, the sum of the following amounts is more than \$500,000.



- (a) The larger of the unadjusted bases or fair market value of the farm assets you own.
- (b) The value of the farm assets you lease.

Qualified zone wages

Qualified zone wages are any wages you pay or incur for services performed by an employee while the employee is a qualified zone employee (defined earlier). Wages are generally defined as wages (excluding tips) subject to the Federal Unemployment Tax Act (FUTA) without regard to the FUTA dollar limit. Also treat as qualified zone wages certain training and education expenses you pay or incur on behalf of a qualified zone employee.

Effect of welfare-to-work, work opportunity, or New York Liberty Zone business employee credit

Qualified zone wages do not include any amount you take into account in figuring the welfare-to-work credit, the work opportunity credit, or the New York Liberty Zone business employee credit. In addition, employers must reduce the \$15,000 maximum qualified zone wages for each qualified zone employee by the amount of wages used to figure any of those credits for that employee.

Fiscal year taxpayers

If a fiscal tax year, the amount of qualified zone wages used to figure the credit is the amount paid or incurred during the calendar year that ends during your tax year.

Claiming the credit

Taxpayers utilize Form 8844 to claim this credit. Although the empowerment zone wage credit is a component of the general business credit, a special tax liability limit applies to this credit.

Effect on salary and wage deduction

In general, taxpayers must reduce the deduction on income tax return for salaries and wages and certain education and training costs by the amount of the current year empowerment zone wage credit (before applying any tax liability limit).

Increased IRC Section 179 Deduction – IRC Section 179 allows taxpayers to choose to deduct all or part of the cost of certain qualifying property in the year placed in service. Taxpayers can do this instead of recovering the cost by taking depreciation deductions over a specified recovery period. There are limits, however, on the amount that can be deducted in a tax year. Taxpayers may be able to claim an increased Section 179 deduction if the business qualifies as an “enterprise zone business”. The increased Section 179 deduction can be as much as \$35,000. This increased Section 179 deduction applies to “qualified zone property” placed in service in an empowerment zone.

Enterprise zone business

For the increased Section 179 deduction, a corporation, partnership, or sole proprietorship is an enterprise zone business if all the following statements are true for the tax year.

- (1) Every trade or business of the corporation or partnership is the active conduct of a qualified business (defined later) within an empowerment zone. This rule does not apply to a sole proprietorship.
- (2) At least 50% of its total gross income is from the active conduct of a qualified business within a zone.
- (3) A substantial part of the use of its tangible property is within a zone.
- (4) A substantial part of its intangible property is used in the active conduct of the business.
- (5) A substantial part of the employees' services are performed within a zone.
- (6) At least 35% of the employees are residents of an empowerment zone. This rule does not apply to businesses in the DC Zone.
- (7) Less than 5% of the average of the total unadjusted bases of the property owned by the business is from:
 - (a) Nonqualified financial property (generally, debt, stock, partnership interests, options, futures contracts, forward contracts, warrants, notional principal contracts, and annuities), or
 - (b) Collectibles not held primarily for sale to customers.



For a sole proprietorship, the term “employee” in (5) and (6) includes the proprietor.

Qualified business

A qualified business is generally any trade or business except one that consists primarily of the development or holding of intangibles for sale or license. However, the rental to others of real property located in an empowerment zone is a qualified business only if the property is not residential rental property and at least 50% of the gross rental income from the property is from enterprise zone businesses. The rental to others of tangible personal property is a qualified business only if at least 50% of the rentals of the property are to enterprise zone businesses or zone residents. Also, a qualified business does not include any business listed earlier in item (5) or item (6) under non-qualified employees in the Empowerment Zone Wage Credit section.

Qualified zone property

For the increased Section 179 deduction, qualified zone property is any depreciable tangible property if all the following are true.

- (1) Taxpayer acquired the property after the zone designation took effect.
- (2) Taxpayer did not acquire the property from a related person or member of a controlled group of which you are a member.
- (3) Taxpayer basis in the property is not determined either by its adjusted basis in the hands of the person from whom you acquired it or under the stepped-up basis rules for property acquired from a decedent.
- (4) Taxpayer was the first person to use the property in an empowerment zone.
- (5) At least 85% of the property's use is in an empowerment zone and in the active conduct of a qualified trade or business in the zone.

Buildings are qualified zone property, but they do not qualify for the Section 179 deduction. Used property may be qualified zone property if it has not previously been used within an empowerment zone.

Rollover of Gain From Sale of Empowerment Zone Assets - If the taxpayer sold a qualified empowerment zone asset that was held for more than one year, the taxpayer may be able to elect to postpone part or all of the gain that would otherwise be included on Schedule D. If the taxpayer makes the election, the gain on the sale generally is recognized only to the extent, if any that the amount realized on the sale exceeds the cost of qualified empowerment zone assets (replacement property) purchased during the 60-day period beginning on the date of the sale. The following rules apply.

- No portion of the cost of the replacement property may be taken into account to the extent the cost is taken into account to exclude gain on a different empowerment zone asset.
- The replacement property must qualify as an empowerment zone asset with respect to the same empowerment zone as the asset sold.
- Taxpayer must reduce the basis of the replacement property by the amount of postponed gain.
- This election does not apply to any gain (a) treated as ordinary income or (b) attributable to real property, or an intangible asset, which is not an integral part of an enterprise zone business.
- The District of Columbia enterprise zone is not treated as an empowerment zone for this purpose.
- The election is irrevocable without IRS consent.

Qualified empowerment zone asset

The following are qualified empowerment zone assets.

Tangible property, if

- (1) Taxpayer acquired the property after December 21, 2000,
- (2) The original use of the property in the empowerment zone began with the taxpayer, and
- (3) Substantially all of the use of the property, during substantially all of the time that taxpayer held it, was in an enterprise zone business; and

Stock in a domestic corporation or a capital or profits interest in a domestic partnership, if:



- (1) Taxpayer acquired the stock or partnership interest after December 21, 2000, solely in exchange for cash, from the corporation at its original issue (directly or through an underwriter) or from the partnership;
- (2) The business was an enterprise zone business (or a new business being organized as an enterprise zone business) as of the time the taxpayer acquired the stock or partnership interest; and
- (3) The business qualified as an enterprise zone business during substantially all of the time during which the taxpayer held the stock or partnership interest.

Increased Exclusion of Gain From Qualified Small Business Stock - Taxpayers other than corporations generally can exclude from income 50% of their gain from the sale or trade of qualified small business stock held more than 5 years. If the stock is in a corporation that qualifies as an enterprise zone business (defined earlier under Increased Section 179 deduction) during substantially all of the time the taxpayer holds the stock, the taxpayer can exclude 60% of your gain. To claim this increased exclusion, the taxpayer must have acquired the stock after December 21, 2000. Gain from periods after 2014 will not qualify for the increased exclusion.

The requirement that the corporation must qualify as an enterprise zone business during substantially all of the time the taxpayer held the stock will still be met if the corporation ceased to qualify after the 5-year period beginning on the date the taxpayer acquired the stock. However, the gain that qualifies for the 60% exclusion cannot be more than the gain the taxpayer would have had if the taxpayer had sold the stock on the date the corporation ceased to qualify.

If the taxpayer sells the stock after 2009, disregard the end of the empowerment zone designation on December 31, 2009, in determining whether the corporation qualified as an enterprise zone business during substantially all of the time you held the stock.

Renewal Communities

This section describes the areas that have been designated renewal communities and explains the potential tax benefits available to businesses in those renewal communities.

Designated Renewal Communities - The Secretary of Housing and Urban Development (HUD) has designated the parts of the following areas as renewal communities. The designation will generally remain in effect until December 31, 2009. The designation may be revoked if the state or local government modifies the boundaries of the area or does not keep certain commitments.

- Greene-Sumter County, AL
- Mobile County, AL
- Southern Alabama
- Los Angeles, CA
- Orange Grove, CA
- Parlier, CA
- San Diego, CA
- San Francisco, CA
- Atlanta, GA
- Chicago, IL
- Eastern KY
- Central Louisiana
- New Orleans, LA
- Northern Louisiana
- Ouachita Parish, LA
- Lawrence, MA
- Lowell, MA



- Detroit, MI
- Flint, MI
- West Central Mississippi
- Turtle Mountain Band of Chippewa, ND
- Camden, NJ
- Newark, NJ
- Buffalo-Lackawanna, NY
- Jamestown, NY
- Niagara Falls, NY
- Rochester, NY
- Schenectady, NY
- Hamilton, OH
- Youngstown, OH
- Philadelphia, PA
- Charleston, SC
- Chattanooga, TN
- Memphis, TN
- Corpus Christi, TX
- El Paso County, TX
- Burlington, VT
- Tacoma, WA
- Yakima, WA
- Milwaukee, WI

Renewal Community Wage Credit - The renewal community wage credit provides businesses with an incentive to hire individuals who both live and work in a renewal community. Taxpayers can claim the credit if the taxpayer pays or incurs “qualified wages” to a “qualified employee.” The credit is for wages paid or incurred after 2001. The credit is 15% of the qualified wages paid or incurred during a calendar year. The amount of qualified wages a taxpayer 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.

Qualified employee

A qualified employee is any employee who meets both of the following tests.

- The employee performs substantially all of his or her services for the employer within a renewal community.
- While performing those services, the employee's main home is within the renewal community boundaries.

Both full-time and part-time employees may qualify if substantially all of the employee’s services are performed within the renewal community.

Nonqualified employees / Qualified Wages / Effect of WOTC / Fiscal Year

See each respective section under Empowerment Zone summary.

Renewal community business

For the increased section 179 deduction, a corporation, partnership, or sole proprietorship is a renewal community business if all the following statements are true for the tax year.

- (1) Every trade or business of the corporation or partnership is the active conduct of a qualified business (defined later) within a renewal community. (This rule does not apply to a sole proprietorship.)
- (2) At least 50% of its total gross income is from the active conduct of a qualified business within a renewal community.



- (3) A substantial part of the use of its tangible property is within a renewal community.
- (4) A substantial part of its intangible property is used in the active conduct of the business.
- (5) A substantial part of the employees' services are performed within a renewal community.
- (6) At least 35% of the employees are residents of a renewal community.
- (7) Less than 5% of the average of the total unadjusted bases of the property owned by the business is from:
 - (a) Nonqualified financial property (generally, debt, stock, partnership interests, options, futures contracts, forward contracts, warrants, notional principal contracts, and annuities), or
 - (b) Collectibles not held primarily for sale to customers.

For a sole proprietorship the term “employee” in (5) and (6) includes the proprietor.

Qualified business

A qualified business is generally any trade or business except one that consists primarily of the development or holding of intangibles for sale or license. However, the rental to others of real property located in a renewal community is a qualified business only if the property is not residential rental property (defined under Commercial Revitalization deduction, later) and at least 50% of the gross rental income from the property is from renewal community businesses. The rental to others of tangible personal property is a qualified business only if at least 50% of the rentals of the property are to renewal community businesses or community residents. Also, a qualified business does not include any business listed earlier in item (5) or item (6) under Nonqualified employees in the Empowerment Zone Wage Credit section.

Qualified renewal property

This is any depreciable tangible property if all the following are true.

- (1) Acquired the property after the renewal community designation is in effect.
- (2) Taxpayer did not acquire the property from a related person or member of a controlled group of which you are a member.
- (3) Taxpayer basis in the property is not determined either by its adjusted basis in the hands of the person from whom you acquired it or under the stepped-up basis rules for property acquired from a decedent.
- (4) Taxpayer was the first person to use the property in a renewal community.
- (5) At least 85% of the property's use is in a renewal community and in the active conduct of a qualified trade or business in the community.

Buildings are qualified renewal property, but they do not qualify for the Section 179 deduction. Used property may be qualified renewal property if it has not previously been used within a renewal community.