

## **West Central Mississippi Renewal Community Tax Incentive Program**

In 2002, the State was fortunate to receive one of the U. S. Department of Housing and Urban Development Renewal Community (RC) Designations. Mississippi's RC area covers portions of 13 counties and 30 municipalities located in the central portion of the State. The RC designation which began in January 2002 continues through December 2009 and allows businesses and industries located in the designated area to receive valuable tax credits aimed at providing business owners with immediate tax relief. Tax incentives available under the RC program include:

### **EMPLOYMENT CREDITS**

Employment credits allows businesses located in the RC to deduct **up to \$1,500** per year per employee that lives and works in the RC. Employers calculate their credit amount by taking 15% of the first \$10,000 in wages for each qualified employee. For example if an employee earns \$10,000 a year the employer is eligible to deduct the full \$1,500 employment credit for that employee if the following are true:

- # The employee lives and works substantially all (80%) of his/her time within the RC.
- # The full or part-time employee is a new or existing employee who earns wages subject to the Federal Unemployment Act.

An employee is a Nonqualified employee if at least one of the following is true:

- # An individual employed for less than 90 days except those terminated for misconduct or those that become disabled,
- # Relatives and dependents,
- # Any 5% or greater owner,
- # Individuals employed at a golf course, country club, massage parlor, hot tub facility, suntan facility, gambling facility, business whose principle sale is the sale of alcohol for off-site consumption, or an employee of a farming facility who has farm assets greater than \$500,00.

Employment Credits can be claimed on IRS Form 8844.

### **INCREASED SECTION 179 DEDUCTION**

Increased section 179 deduction allows qualified businesses to expense **up to an additional \$35,000** a year for qualified property such as equipment and machinery acquired during the year. In order for a business to qualify for this deduction they must qualify as a Renewal Community business and have purchased Renewal Community property. A business is a qualified Renewal Community business if the following are true:

- # The business is located within the boundaries of the RC area.
- # At least 35% of the employees are residents of the RC.
- # The business is generally any business or trade except one that consists primarily of the

- development or holding of intangibles for sale or license.
- # The business is not a golf course, country club, massage parlor, hot tub facility, suntan facility, gambling facility, business whose principal sale is the sale of alcohol for off-site consumption, or a farm with assets greater than \$500,00.

Equipment or machinery purchased qualifies as Renewal Community Property if the following are true:

- # The equipment was purchased between January 1, 2002 and December 31, 2009.
- # The equipment was not purchased from a relative.
- # You are the first person to use the equipment within a RC.
- # The price for the equipment is not determined by its adjusted basis or at the hands of the seller.

Section 179 Deductions can be claimed on IRS Form 4562.

### **COMMERCIAL REVITALIZATION DEDUCTIONS**

Commercial revitalization deductions allow the state to allocate **\$12 million**, \$10 million per project, in deductions to businesses who construct or rehabilitate commercial property in a RC. If a business is awarded an allocation from the state they are allowed to deduct a portion of the costs of acquisition and rehabilitation over a shorter period of time than permitted under standard depreciation rules. To apply for this deduction a business must contact the Mississippi Development Authority to receive an application packet. Once awarded an allocation the business can elect to deduct the allocation amount in either of the following ways:

- # Deduct half of the allocated amount for qualified revitalization expenses in the year the building is placed in service, or
- # Amortize the full allocated amount over a 10 year period beginning with the year the building is placed in service.

### **Capital Gain Exclusion**

Capital gain exclusion allows a holder of an RC asset to exclude in its gross income any “qualified capital gain” from the sale or exchange of the asset. The asset must be held for a minimum of 5 years, and must be acquired between January 1, 2002 and December 31, 2009. The following are qualified community assets:

- # Qualified community stock
- # Qualified community partnership interest
- # Qualified community business property

*For a complete list of rules and regulations regarding this program please reference **IRS Publication 954.***