

Tax Incentives for Community Renewal Webcast



U. S. Dept. of Housing and Urban Development
& The Internal Revenue Service





Webcast Overview



- **EZ Designation Extension**
- **EZ/RC Locator**
- **Employment Credits**
- **Work Opportunity Tax Credit (WOTC)**
- **Section 179 Deductions**
- **Capital Gains Tax Reductions**
- **EZ Facility Bonds**
- **Qualified Zone Academy Bonds (QZABs)**
- **Tax Incentive Utilization Plan (TIUPs)**



Empowerment Zone (EZ) Extension



Designation of Empowerment Zones (IRC section 1391(d)(1))

**Designation of empowerment zones ends
on the earliest of:**

- December 31, 2013;
- Termination date provided by the State or local government in its nomination; or
- Date on which HUD or USDA revokes the designation.



Instruction for Renewing EZ Designation IRS NOTICE 2013-38

- ✦ **IRS Notice 2013-38 provides the procedure for a State or local government to amend its nomination of an empowerment zone to provide for a new termination date of December 31, 2013.**
- ✦ **Any nomination for an empowerment zone that was in effect on December 31, 2009, is deemed to be amended to provide for a new termination date of December 31, 2013, unless the State or local government sends written notification to the IRS by July 29, 2013, affirmatively declining extension of the empowerment zone nomination through December 31, 2013. Notice 2013-38 provides the address to send this written notification.**
- ✦ **If the State or local government does not send this written notification, the nomination of that empowerment zone will be deemed extended from December 31, 2009 through December 31, 2013, and the designation of that empowerment zone ends on December 31, 2013.**
- ✦ **IRS Notice 2013-38 will be in the Internal Revenue Bulletin (IRB) 2013-25, which will be published on June 17, 2013.**
- ✦ **For further questions, contact Kathleen Reed or Winston Douglas, IRS Office of Chief Counsel, 202-622-4930.**



District of Columbia (DC) Empowerment Zone Designation



- DC Zone was established under IRC section 1400
- Designation ended on December 31, 2011
- Designation was not extended by the American Taxpayer Relief Act of 2012



EZ/RC Locator



EZ/RC Locator - Basics

- The EZ/RC Locator is also known as the Address Locator
- The mapping tool is used to determine whether an address resides in a Zone or not
- Address searches can be conducted for a single address or multiple addresses
- If you have trouble using the mapping tool please contact EGIS@hud.gov



Accessing the EZ/RC Locator

- The address locator can be accessed at <http://egis.hud.gov/ezrclocator/>
- A dialogue box appears when the page opens offering three choices
- This demonstration will show the “Search by Address” and “Search by Multiple Addresses” applications



"Search by Address" Application

- The "Search by Address" application requires the following data entry:
 - Address
 - City
 - State
 - Zip Code
- Let's go to the map for to try out the following address www.hud.gov/crlocator
 - 205 Clarisa Ln
El Paso, TX 79907



“Search by Multiple Addresses” Application

- The “Search by Multiple Addresses” application requires upload of a 2007 or higher Excel worksheet
- When you select the “Search by Multiple Addresses” application, the dialog box explains the guidelines for worksheet preparation
- Please note that the application can only handle about 500 addresses per run
- Let’s check out an example



Locator Troubleshooting

- Whether you are using the single or multiple address application make sure to conduct quality control on your addresses
- The system does not recognize PO boxes, intersections, or landmarks; nor can it process improperly coded addresses
- If problems persist after validating the data entry and accuracy, email EGIS@hud.gov



EZ Locator

- Is my Address in an Empowerment Zone?

Use www.hud.gov/crlocator

- Print Statements from the Address Locator
for Tax Purposes



EZ Wage Credits



Empowerment Zone Wage Credit

- Employee lives in EZ
- Employee performs services in EZ for employer
- EZ credit = 20% x wages paid to employee
- Maximum wages per year = \$15,000
- Maximum credit per year = \$3,000



IRS Form 8844

- IRS form for Empowerment Zone Credit



IRS Form 8844

Form **8844**

Department of the Treasury
Internal Revenue Service

Empowerment Zone Employment Credit

▶ Attach to your tax return.

▶ Information about Form 8844 and its instructions is at www.irs.gov/form8844.

OMB No. 1545-1444

2012

Attachment
Sequence No. **99**

Name(s) shown on return

Identifying number

1	Enter the total qualified wages paid or incurred during calendar year 2012 only (see instructions)		
a	Qualified empowerment zone wages \$ x 20% (.20)	1a	
b	Reserved	1b	
2	Enter the amount from line 1a. See instructions for the adjustment you must make to salaries and wages	2	
3	Empowerment zone employment credit from partnerships, S corporations, cooperatives, estates, and trusts	3	
4	Add lines 2 and 3. Cooperatives, estates, and trusts, go to line 5. Partnerships and S corporations, stop here and report this amount on Schedule K. All others, stop here and report this amount on Form 3800, Part III, line 3	4	
5	Amount allocated to patrons of the cooperative or beneficiaries of the estate or trust (see instructions)	5	
6	Cooperatives, estates, and trusts, subtract line 5 from line 4. Report this amount on Form 3800, Part III, line 3	6	

For Paperwork Reduction Act Notice, see instructions.

Cat. No. 16145S

Form **8844** (2012)



Work Opportunity Tax Credit (WOTC)



Work Opportunity Tax Credit (WOTC)

- Qualified wages paid to members of targeted groups
- Designated community resident
- Qualified summer youth employee
 - New hire
 - Living in EZ
 - Certified by state workforce agency



Calculating WOTC

- Designated community resident
 - 40% x wages paid to employee
 - Maximum wages = \$6,000
 - Maximum credit per year = \$2,400
- Qualified summer youth employee
 - 40% x wages paid to employee
 - Maximum wages = \$3,000
 - Maximum credit per year = \$1,200



Form 8850

Form **8850**
(Rev. January 2013)

Department of the Treasury
Internal Revenue Service

Pre-Screening Notice and Certification Request for the Work Opportunity Credit

OMB No. 1545-1500

► Information about Form 8850 and its separate instructions is at www.irs.gov/form8850.

Job applicant: Fill in the lines below and check any boxes that apply. Complete only this side.

Your name _____ Social security number ► _____

Street address where you live _____

City or town, state, and ZIP code _____

County _____ Telephone number _____

If you are under age 40, enter your date of birth (month, day, year) _____

- 1 Check here if you received a conditional certification from the state workforce agency (SWA) or a participating local agency for the work opportunity credit.

- 2 Check here if **any** of the following statements apply to you.
 - I am a member of a family that has received assistance from Temporary Assistance for Needy Families (TANF) for any 9 months during the past 18 months.
 - I am a veteran and a member of a family that received Supplemental Nutrition Assistance Program (SNAP) benefits (food stamps) for at least a 3-month period during the past 15 months.
 - I was referred here by a rehabilitation agency approved by the state, an employment network under the Ticket to Work program, or the Department of Veterans Affairs.
 - I am at least age 18 but **not** age 40 or older and I am a member of a family that:
 - a Received SNAP benefits (food stamps) for the past 6 months, or
 - b Received SNAP benefits (food stamps) for at least 3 of the past 5 months, **but** is no longer eligible to receive them.
 - During the past year, I was convicted of a felony or released from prison for a felony.
 - I received supplemental security income (SSI) benefits for any month ending during the past 60 days.
 - I am a veteran and I was unemployed for a period or periods totaling at least 4 weeks but less than 6 months during the past year.

- 3 Check here if you are a veteran and you were unemployed for a period or periods totaling at least 6 months during the past year.

- 4 Check here if you are a veteran entitled to compensation for a service-connected disability and you were discharged or released from active duty in the U.S. Armed Forces during the past year.

- 5 Check here if you are a veteran entitled to compensation for a service-connected disability and you were unemployed for a period or periods totaling at least 6 months during the past year.

- 6 Check here if you are a member of a family that:
 - Received TANF payments for at least the past 18 months, or
 - Received TANF payments for any 18 months beginning after August 5, 1997, **and** the earliest 18-month period beginning after August 5, 1997, ended during the past 2 years, or
 - Stopped being eligible for TANF payments during the past 2 years because federal or state law limited the maximum time those payments could be made.



Form 5884

Form 5884 Department of the Treasury Internal Revenue Service	Work Opportunity Credit ▶ Attach to your tax return. ▶ Information about Form 5884 and its instructions is at www.irs.gov/form5884 .	OMB No. 1545-0219 2012 Attachment Sequence No. 77
Name(s) shown on return		Identifying number
1 Enter on the applicable line below the total qualified first- or second-year wages paid or incurred during the tax year, and multiply by the percentage shown, for services of employees who are certified as members of a targeted group.		
a Qualified first-year wages of employees who worked for you at least 120 hours but fewer than 400 hours . \$ _____ x 25% (.25)	1a	
b Qualified first-year wages of employees who worked for you at least 400 hours \$ _____ x 40% (.40)	1b	
c Qualified second-year wages of employees certified as long-term family assistance recipients \$ _____ x 50% (.50)	1c	
2 Add lines 1a, 1b, and 1c. See instructions for the adjustment you must make to salaries and wages		2
3 Work opportunity credit from partnerships, S corporations, cooperatives, estates, and trusts		3
4 Add lines 2 and 3. Cooperatives, estates, and trusts, go to line 5. Partnerships and S corporations, stop here and report this amount on Schedule K. All others, stop here and report this amount on Form 3800, line 4b		4
5 Amount allocated to patrons of the cooperative or beneficiaries of the estate or trust (see instructions)		5
6 Cooperatives, estates, and trusts, subtract line 5 from line 4. Report this amount on Form 3800, line 4b		6



EZ Credit Interaction

- Interaction of EZ Wage Credit with Work Opportunity Tax Credit (WOTC)
- Reduce wages for EZ wage credit by wages used to claim WOTC



Example: EZ Wage Credit

- 10 employees – live in EZ
- Earn > \$15,000 per year



Example: Calculating EZ Wage Credit

- $\$15,000 \text{ wages} \times 20\% \text{ credit rate} = \$3,000$
- $10 \text{ employees} - \$3,000 \times 10 = \$30,000$
- **Credit = \$30,000 per year**



Example: EZ Wage Credit

- Employees work for 8 years
- **$\$30,000 \times 8 \text{ years} = \$240,000$**



Example: Combining EZ Wage Credit with WOTC

- All 10 employees certified as “designated community residents”
- Employer can claim EZ Wage Credits and WOTC



Example: Combining EZ Wage Credit with WOTC

WOTC calculation

- $\$6,000 \text{ wages} \times 40\% = \$2,400$
- $\$2,400 \times 10 \text{ employees} = 24,000 \text{ credit for year 1}$



Example: Combining EZ Wage Credit with WOTC

EZ credit calculation

- (\$15,000 wages) minus (\$6,000 wages for WOTC) = \$9,000 wages per employee
- \$9,000 X 20% = \$1,800 EZ credit per employee
- \$1,800 X 10 = \$18,000



Example: Combining EZ Wage Credit with WOTC

- WOTC \$24,000
- EZ credit \$18,000
- **Total** **\$42,000**



References/Links

- Publication 954: Tax Incentives for Distressed Communities
- IRC 1396 (EZ) and 51 (WOTC)
- HUD Publication: Tax Incentive Guide for Businesses in the Empowerment Zones available at:

www.hud.gov/economicdevelopment/index.cfm



Questions



Questions

- What can a business owner do with any employment credits if their Federal tax liability is less than the total credit amount?
- Is there a minimum time the employee must work for a business before the credit can be taken?



Empowerment Zone Business Definition



Business Operational Requirements (1 of 4)

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

- Every trade or business is the active conduct of a qualified business within the EZ
- At least 50% of business income is derived from the active conduct of a trade or business within the EZ
- A substantial portion of the use of the tangible property (owned or leased) of the business is within the EZ



Business Operational Requirements (2 of 4)

- A substantial portion of the intangible property of the business is used in the active conduct of business in the EZ
- A substantial portion of services performed for the business by its employees is performed in the EZ
- At least 35% of the employees are residents of the EZ



Business Operational Requirements (3 of 4)

- 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



Business Operational Requirements (4 of 4)

- Less than 5% of the average of the aggregate adjusted bases of the property of the business is attributable to “**nonqualified financial property**” (***debt, stock, partnership interests, options, future 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



Definition of "Qualified Zone Business" (1 of 3)

Any trade or business other than:

- ✓ Business predominantly 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 the EZ businesses;
- ✓ The rental of residential real estate; and
- ✓ The rental of intangible personal property unless at least 50% of rentals are to EZ businesses or residents.



Definition of "Qualified Zone Business" (2 of 3)

Any trade or business other than:

- ✓ Country clubs
- ✓ Massage parlors
- ✓ Hot tubs
- ✓ Racetracks
- ✓ Health clubs



Definition of "Qualified Zone Business" (3 of 3)

Any trade or business other than:

- ✓ Stores the principal business of which 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



Tax Incentives Requiring EZ Business Status

- ❖ Increased Section 179 expensing
- ❖ Tax-exempt bonds
- ❖ Non-recognition of gain on sale of Empowerment Zone assets
- ❖ Partial exclusion of gain on sale of Empowerment Zone stock



Increased Section 179 Deduction



Overview of Section 179 Deduction

- Dollar Limitation - \$500,000
- Reduction in Limitation - \$2,000,000
- Taxable Income Limitation
- Sec. 179 Property Definition
- Elections
- Recapture



Increased Section 179 Empowerment Zone



- Qualified Zone Property Definition
- Dollar Limitation
- Reduction in Limitation
- Recapture



IRS References



- IRS Publication 946: How to Depreciate Property



Questions



Questions



- Whether the term “Section 179 property, which is qualified zone property”, includes depreciable off-the-shelf computer software?
- Can a business owner amend past tax returns to claim the Section 179 deduction?



Capital Gains Tax Reductions



Non-Recognition of Gain on Rollover of Empowerment Zone

- IRC Section 1397B
- Congress intended to extend this incentive with the American Taxpayer Relief Act of 2012. But as I explain later there is a “glitch” in the statute causing this incentive not to apply currently. IRS cannot fix the “glitch” because action by Congress is required.



Introduction



- Applies to a person who makes certain investments in an Empowerment Zone
- Normally, when a taxpayer sells an asset at a price in excess of its cost, the person will report a gain on the sale
- This tax incentive allows a taxpayer to elect ***to rollover the gain on the sale of certain investments*** – that is, defer the recognition of the gain until a later time



How to Qualify for Gain Rollover



- Purchase a qualified Empowerment Zone asset after 12/21/2000 and hold it for more than 1 year, and
- Within 60 days of the sale of this asset, purchase another qualified Empowerment Zone asset in the same Empowerment Zone as the asset was sold



Non-Qualifying Gains



Gain rollover treatment does not apply to any gain that is:

- Treated as ordinary income
- Attributable to real property or an intangible asset that is not an integral part of an enterprise zone business
- Attributable to an asset in the District of Columbia Enterprise Zone



Qualified Empowerment Zone Assets



Three types of assets:

1. Tangible business property
2. Stock in a domestic corporation
3. Capital or profits interest in a domestic partnership



Tangible Business Property



- Acquired by the taxpayer after 12/21/2000 and before 1/1/2010 (here's the “glitch”)
- New property in the Empowerment Zone
- Used property that is used for the first time in the Empowerment Zone
- Substantially all of the use of the property is in the taxpayer's enterprise zone business (as defined in IRC section 1397C)



Stock and Partnership Interests



- Stock in a domestic corporation, or capital or profits interest in a domestic partnership
- Acquired after 12/21/2000 and before 1/1/2010 solely for cash (here's the "glitch")
- Corporation or partnership has to be an enterprise zone business (as defined in IRC section 1397C)



Effect of Election



If Congress corrects the “glitch” and the election is made –

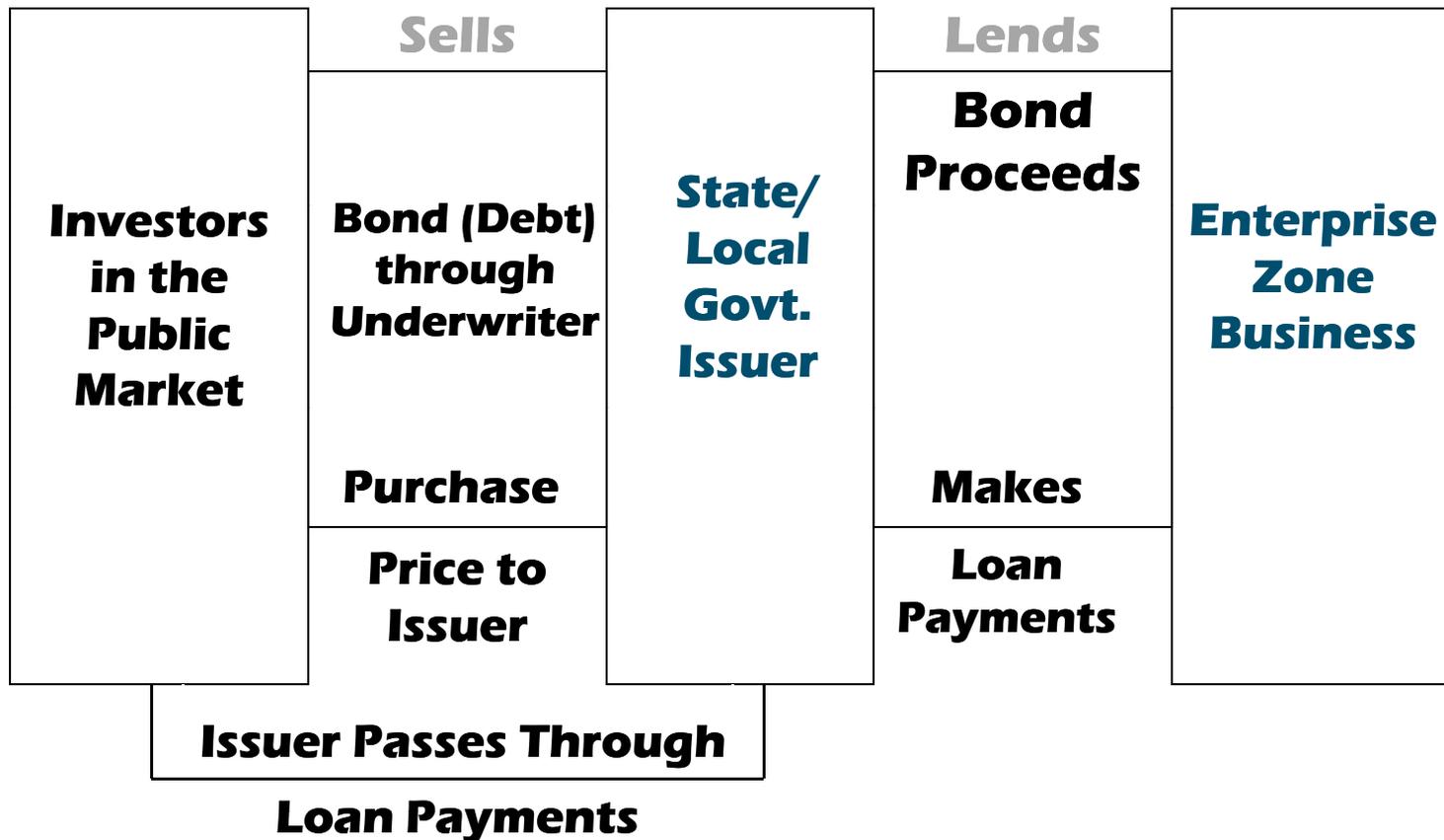
- Gain is taxed only to the extent the amount realized from the sale exceeds the cost of the replacement property, and
- The basis of the replacement property is reduced by the amount of the gain deferred



Enterprise Zone Facility Bonds



A Tax Exempt Bond Transaction





EZ Facility Bond: Technical Steps, Documents, Players (1 of 2)

- Private business meeting definition of Enterprise Zone Business makes application to State or local government issuer
- Issuer reviews and approves financing after a published notice and public hearing
- Issuer sells bonds to underwriter or placement agent (investment banking firm)



EZ Facility Bond: Technical Steps, Documents, Players (2 of 2)

- Investor is willing to charge a lower interest rate for the Issuer's debt because the interest income is exempt (investor gets higher return)
- Issuer enters into a loan agreement with the EZ business to lend the money from the sale of the bonds to the EZ business
- EZ business makes loan payments to the Trustee, who passes the payments on to bondholders



Time Period for meeting Enterprise Zone Business Definition(1 of 3)

Start-up period

- Borrowers are allowed up to 2 years after the later of the date the bonds are issued OR the date the financed property is placed in service to come into compliance with Enterprise Zone business requirements
- To qualify for the start-up period, the borrower must expect to meet the tests by the end of the start-up period



Time Period for meeting Enterprise Zone Business Definition (2 of 3)

Test period

- The requirements for being an enterprise zone business (***other than the resident employee requirement***) must be met only for the first three taxable years beginning after the start-up period
- In addition, throughout the term of the bonds, the following requirements must be met:
 - ❖ The business must be a “qualified business”
 - ❖ At least 35% of the employees of the business are residents of the Zone



Time Period for meeting Enterprise Zone Business Definition (3 of 3)

- For tax-exempt financing purposes only, a business may meet the business definition by treating its business operations in the EZ as separately incorporated (***for example, an EZ store of a national chain could apply the tests to the EZ operations only.***).



What can be financed?

(1 of 2)

- Acquiring land (limited to an amount related to the needs of the business)
- Constructing a new facility
- Acquiring an existing building if the building is renovated in an amount equal to 15% of the building price



What can be financed?

(2 of 2)

- Rehabilitating an existing facility
- Expanding an existing facility
- Acquiring new equipment
- Acquiring used equipment that has not previously been used in the EZ
- Acquiring an abandoned building prior to the EZ designation

Limit on the Principal Amount of Bonds Issued During Zone Designation Period

Rural Zones	\$60 million
Urban Zones Zone population 100,000 or less	\$130 million
Urban Zone Zone population greater than 100,000	\$230 million
No limit per borrower	



Qualified Academy Zone Bonds (QZABs) (IRC Section 54E)



Overview

- State or local governments can issue “qualified zone academy bonds” to raise funds for the use of a “qualified zone academy”
- No restriction on entity or person that can purchase bonds and credits may be “stripped” from principal component
- Tax credit rate set daily by US Treasury
- The issuer essentially receives an interest free loan. The interest is paid by the federal government in the form of the credit.



Private Business Contribution Requirement

- Before a QZAB can be issued, the local education agency must obtain written commitments from private entities for qualified contributions of not less than 10% of the proceeds of the bond issue



Qualified Contribution

- Equipment for use in the qualified zone academy
- Technical assistance in developing curriculum or in training teachers
- Services of employees as volunteer mentors
- Internships, field trips, or other educational opportunities outside the zone academy for students



Qualified Zone Academy

A public school (*or academic program within a public school*) at the secondary level or below that meets several requirements, including that the academy is:

- Located in either an EZ or an enterprise community; OR
- Located in a school where it is reasonably expected when the bonds are issued that ***at least 35% of the school's students*** (or academy's participants) ***will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act***



What can these funds finance?

- Rehabilitate or repair Zone Academy facility
- Obtain equipment
- Develop course materials
- Train teachers and other school personnel
- Not available for new construction



Program Impacts and Tax Incentive Utilization Plan (TIUPs)



Value from the EZ Program (1 of 2)

- In Processing Year (PY) 2008, Small Business owners claimed nearly \$180 Million of EZ/RC Employment Credits
- From PY 1997 – 2010, nearly \$1.2 Billion in credits were claimed
- These benefits can expand further since the program is not capped



Value from the EZ Program (2 of 2)

- These tax benefits are widely disbursed
- In PY 2007, the 23,067 Form 1040 returns filed had an average credit of \$7,000
- This means that businesses with as few as 2 to 4 employees are benefitting



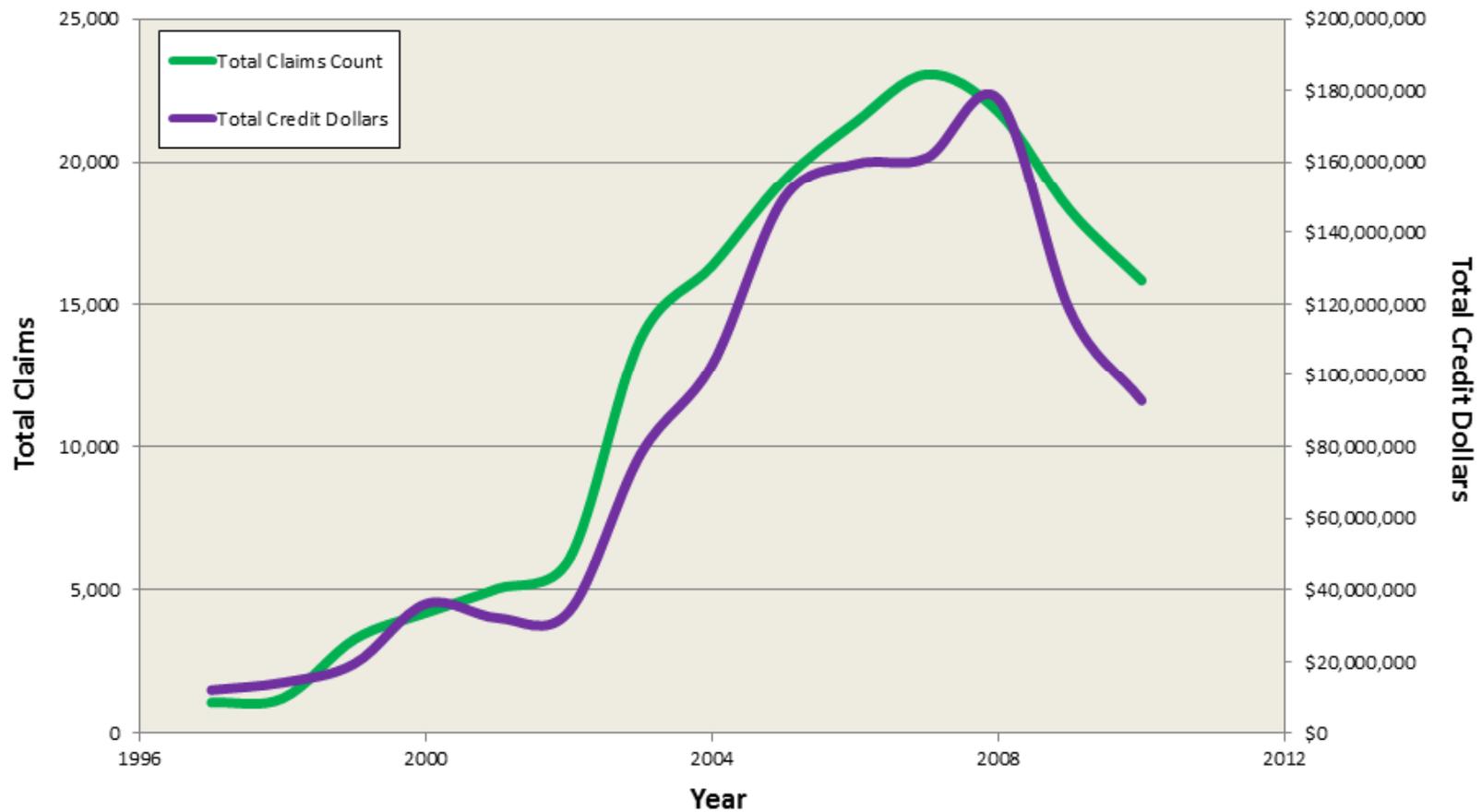
Tax Incentives At Work

- From 1997 to 2007, the number and dollar amount of tentative claims by 1040 taxpayers grew markedly
- This time period correlates with the time period in which HUD and IRS and the designated EZs and RCs actively promoted the program
- The graph on the next slide supports HUD's view that public information and outreach are effective for maximizing tax incentive utilization



EZ Tax Incentive Utilization

Total Claims and Credit Dollars for Businesses
in an EZ or RC from 1997 to 2010





Tax Incentive Utilization Plan (TIUPs)

- HUD is urging each Urban EZ to have a plan to accomplish outreach and to compare utilization results to expectations
- This plan is a “***Tax Incentive Utilization Plan***” or TIUP



Benefits of a TIUP

- Developing a plan and reporting accomplishments is easy using HUD's on-line Performance Measurement System aka - PERMs
- Incentives may motivate business owners to hire or retain EZ residents in these distressed communities
- Outreach and public education show commitment at the local level and may encourage more employment and investment
- Reported outreach informs creation of future programs and reporting helps enlighten stakeholders about what works.



TIUP Development

- Reporting is easy! HUD has standardized plans in PERMS to report actions and accomplishments

The screenshot shows the 'Office of Community Planning and Development RC/EZ/EC Performance Measurement System' interface. On the left is a red sidebar with navigation links: 'Implementation Plan', 'Edit Plans', 'Add New Plan', 'Submit Plans', 'View/Print Plans', and 'Deleted Plans'. The main content area has a top navigation bar with links: 'Impl. Plan', 'Annual Report', 'Governance Contact', 'Ad-Hoc', 'Search', 'Change Password', 'Help', 'User Guide', and 'Log out'. Below this is a form for 'Add Program/Project'. The form includes a 'Goal' dropdown (G6 Maximizing the Use of Tax Incentives Available to EZs), a 'Category' dropdown (G6.C1 EZ Wage Credits), and a 'Program/Project Title' text field (Promoting EZ Wage Credits). The 'Program/Project Description' is a multi-line text area containing: 'EZ staff and partners will meet with 150 local businesses to facilitate awareness of TIUP.' and 'Outreach to 150 local businesses'. Below the description are 'Baseline' and 'Proposed Outcome' text areas, with the proposed outcome being 'Educate businesses of benefits of extended EZ Wage Credits'. A 'Spell Check' button is located below the description. At the bottom of the form is a 'Plan Status' dropdown (Active) and two red asterisked notes: '* The Program/Project Title is limited to 80 characters.' and '* Other text fields are limited to 255 characters.' A 'Next' button is at the bottom left of the form. The footer contains the HUD logo and contact information: 'U.S. Department of Housing and Urban Development, 451 7th Street S.W., Washington, DC 20410, Telephone: (202) 708-1112 TTY: (202) 708-1455'.

- To gain access to PERMS email Judy Mize at Judy.L.Mize@hud.gov



Concluding Points



Don't Forget....

1. Read Publication 954 for more information on the EZ Employment Credit
2. Use HUD's Address Locator to check eligibility:
www.hud.gov/crlocator
3. For more information on HUD's Empowerment Zone Program, please visit www.hud.gov/cr



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this Webcast**

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OCRTaxCredit@hud.gov**

