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Tax Incentives for Distressed Communities



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Introduction

This publication is for business owners who want to find out whether they qualify for certain tax incentives. These incentives are intended to help empowerment zones, enterprise communities, renewal communities, and other 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 using this publication.

To find out whether your area has been designated an empowerment zone read *Designated Zones* on page 3. To find out whether your area has been designated a renewal community, read *Designated Renewal Communities* on page 8. To find out whether your area has been designated an enterprise community, read *Enterprise Communities* on page 13.

If you know that your area has been designated as an empowerment zone, enterprise community, or renewal community, skip the sections on designated zones and communities and begin by reading the first few paragraphs of each of the other sections of the publication. Then, read the details of the sections that apply to you.

If you know that your area has not been designated as a zone or community, you should still read the first few paragraphs of each section. Some of these incentives are available in distressed communities that have not been designated as empowerment zones, enterprise communities, or renewal communities. Read the details of the sections that apply to you.

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Useful Items

You may want to see:

Publication

- 946** How To Depreciate Property

Form (and Instructions)

- 3800** General Business Credit
 - 5884** Work Opportunity Credit
 - 8844** Empowerment Zone and Renewal Community Employment Credit
 - 8845** Indian Employment Credit
 - 8850** Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits
 - 8860** Qualified Zone Academy Bond Credit
 - 8861** Welfare-to-Work Credit
 - 8874** New Markets Credit
 - 8884** New York Liberty Zone Business Employee Credit
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Table 1. Tax Incentives for Distressed Communities

Type of Benefit	Empowerment Zones (EZs)	Enterprise Communities (ECs)	Renewal Communities (RCs)
Credits			
EZ Employment Credit	X		
RC Employment Credit			X
Work Opportunity Credit	X	X	X
Welfare-to-Work Credit	X	X	X
Indian Employment Credit	X	X	X
New Markets Credit	X	X	X
Deductions			
Increased Section 179 Deduction	X		X
Commercial Revitalization Deduction			X
Depreciation of Property Used on Indian Reservations	X	X	X
Bond Financing			
Enterprise Zone Facility Bonds	X	X	
Qualified Zone Academy Bonds (QZABs)	X	X	X
Capital Gains			
Capital Gain Exclusion for RC and DC Zone Assets			X*
Rollover of Gain from Sale of EZ Assets	X		
Increased Exclusion of Gain From Qualified Small Business Stock	X		

* Also applicable to District of Columbia Enterprise Zone.

Empowerment Zones

This section describes the areas that have been designated empowerment zones and explains the tax benefits available to businesses in those zones.

Designated Zones

The following paragraphs describe current designations of empowerment zones. The empowerment zone designations will generally remain in effect until the end of 2009.

Urban areas. Parts of the following urban areas are empowerment zones. You can find out if your business or an employee's residence is located within an urban empowerment zone by using the RC/EZ/EC Address Locator at www.hud.gov/crlocator or by calling **1-800-998-9999**.

- 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 section 1400, parts of Washington, DC, are treated as an empowerment zone. For details, use the RC/EZ/EC Address Locator at www.hud.gov/crlocator or see **Notice 98-57**, on page 9 of Internal Revenue Bulletin 1998-47 at www.irs.gov/pub/irs-irbs/irb98-47.pdf.

Rural areas. Parts of the following rural areas are empowerment zones. You can find out if your business is located within a rural empowerment zone by using the RC/EZ/EC Address Locator at www.hud.gov/crlocator or by calling **1-800-645-4712**.

- Desert Communities, CA (part of Riverside County)
- Southwest Georgia United, GA (part of Crisp County and all of Dooly County)
- Southernmost Illinois Delta, IL (parts of Alexander and Johnson Counties and all of Pulaski County)
- Kentucky Highlands, KY (part of Wayne County and all of Clinton and Jackson Counties)
- Aroostook County, ME (part of Aroostook County)
- Mid-Delta, MS (parts of Bolivar, Holmes, Humphreys, Leflore, Sunflower, and 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 FUTURO Communities, TX (parts of Dimmit, Maverick, Uvalde, and Zavala Counties)
- Rio Grande Valley, TX (parts of Cameron, Hidalgo, Starr, and Willacy Counties)

Empowerment Zone Employment Credit

The empowerment zone employment 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.) You can claim the credit if you pay or incur “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 employee. 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.

Substantially all services performed within the zone. You can use the pay-period method or the calendar-year method to determine the period of time the employee has performed services in the zone. For details, see section 1.1396–1 of the regulations.

Nonqualified employees. The following individuals are not qualified zone employees. For more details, see the Form 8844 instructions.

- 1) An individual you employ for less than 90 calendar days. However, this 90-day requirement does not apply in either of the following situations.
 - a) You terminate 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, you must offer to reemploy the former employee.
- 2) Certain related taxpayers.
- 3) Certain dependents.
- 4) Any 5% owner.
- 5) An individual you employ at any:
 - 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 you employ 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, you must reduce the \$15,000 maximum qualified zone wages for each qualified zone employee by the amount of wages you use to figure any of those credits for that employee.

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

Example. Your tax year begins on February 1 and ends on January 31 of the next year. You use the cash method of accounting and have one employee, whom you hired in March 2003 and pay \$1,000 a month. You paid that employee qualified zone wages of \$10,000 in calendar year 2003 and \$1,000 in January 2004. When you figure your credit for the tax year ending January 31, 2004, you use the \$10,000 paid in 2003 but cannot use the \$1,000 paid in January 2004. That amount will be used to figure the credit on your next tax return.

Claiming the credit. Use *Form 8844* to claim this credit. Although the empowerment zone employment credit is a component of the general business credit, a special tax liability limit applies to this credit. Therefore, you figure the credit separately and never carry it to Form 3800, *General Business Credit*.

Effect on salary and wage deduction. In general, you must reduce the deduction on your income tax return for

salaries and wages and certain education and training costs by the amount of your current year empowerment zone employment credit (before applying the tax liability limit).

More information. For more information about the empowerment zone employment credit, see Form 8844.

Increased Section 179 Deduction

Section 179 of the Internal Revenue Code allows you to choose to deduct all or part of the cost of certain qualifying property in the year you place it in service. You can do this instead of recovering the cost by taking depreciation deductions over a specified recovery period. There are limits, however, on the amount you can deduct in a tax year.

You may be able to claim an increased section 179 deduction if your business qualifies as an “enterprise zone business.” The increase can be as much as \$35,000. This increased section 179 deduction applies to “qualified zone property” you place 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 *Nonqualified employees* in the *Empowerment Zone Employment 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) You acquired the property after the zone designation took effect.
- 2) You did not acquire the property from a related person or member of a controlled group of which you are a member.
- 3) Your 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) You were 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.

Special rule for substantially renovated property. Property will be treated as having met requirements (1) and (4) if you substantially renovate the property. You substantially renovate property if, during any 24-month period beginning after the zone designation took effect, your additions to the property's basis are more than the greater of the following amounts.

- 1) 100% of the adjusted basis of the property at the beginning of the 24-month period.
- 2) \$5,000.

Section 179 deduction limits. There are limits on the amount you can deduct under section 179. The following sections explain how these limits are increased for certain qualified zone property placed in service by an enterprise zone business.

Maximum dollar limit. The total cost of section 179 property that you can deduct for a tax year generally cannot be more than the maximum section 179 dollar limit. However, if you place section 179 property that is qualified zone property in service during the year, this maximum

dollar limit is increased by the smaller of the following amounts.

- 1) The cost of that property.
- 2) \$35,000.

The following table shows these maximum dollar limits.

Table 2. Maximum Dollar Limits

For Tax Years Beginning In:	Maximum Section 179 Dollar Limit	Maximum Dollar Limit With Qualified Zone Property
2002	\$ 24,000	\$ 59,000
2003	100,000	135,000
2004	102,000*	137,000*
2005	Inflation Adjusted	Inflation Adjusted

*Inflation-adjusted amount for 2004

TIP For 2005, the total amount you can elect to deduct under section 179 will be increased to reflect an adjustment for inflation. The inflation-adjusted amount for 2004 is \$102,000 (rounded to the nearest multiple of \$1,000).

These maximum dollar limits are reduced if you go over the investment limit (discussed next) in any tax year.

Investment limit. For each dollar of your business cost over the threshold amount (\$400,000 for 2003) for section 179 property placed in service in a tax year, reduce the maximum dollar limit by \$1 (but not below zero). However, count only one-half of the cost of section 179 property that is also qualified zone property when figuring the investment limit.

Reduced dollar limit for cost exceeding the threshold amount. If the cost of your qualifying section 179 property placed in service in 2003 is over \$400,000, you must reduce the dollar limit (but not below zero) by the amount of cost over \$400,000. If the cost of your section 179 property placed in service during 2003 is \$500,000 or more, you cannot take a section 179 deduction and you cannot carry over the cost that is more than \$500,000.

TIP For 2005, the threshold amount used to figure any reduction in the dollar limit will be increased to reflect an adjustment for inflation. The inflation-adjusted amount for 2004 is \$410,000 (rounded to the nearest multiple of \$10,000).

Example. In 2003, your enterprise zone business placed in service section 179 property that is qualified zone property costing \$820,000. Because all of this property is qualified zone property, only \$410,000 (one-half of its cost) is used to figure the investment limit. Because \$410,000 is \$10,000 more than \$400,000, you must reduce the maximum dollar limit by \$10,000. Your maximum dollar limit for 2003 is \$135,000. You can claim a section 179 deduction

of \$125,000 (\$135,000 – \$10,000) for 2003 (if your taxable income from trades or businesses is at least \$125,000).

Recapture. The recapture rules of section 179 apply when qualified zone property is no longer used in an empowerment zone by an enterprise zone business.

More information. For more information about the section 179 deduction and the increased section 179 deduction (including the section 179 deduction for off-the-shelf computer software that is placed in service in 2003), see chapter 2 of Publication 946. Also, see sections 1397A, 1397C, and 1397D of the Internal Revenue Code.

Rollover of Gain From Sale of Empowerment Zone Assets

If you sold a qualified empowerment zone asset that you held for more than one year, you may be able to elect to postpone part or all of the gain that you would otherwise include on Schedule D. If you make 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) you 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.
- You 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) You acquired the property after December 21, 2000,
 - 2) The original use of the property in the empowerment zone began with you, and
 - 3) Substantially all of the use of the property, during substantially all of the time that you held it, was in your enterprise zone business; **and**
- Stock in a domestic corporation or a capital or profits interest in a domestic partnership, if:

- 1) You 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 you acquired the stock or partnership interest; and
- 3) The business qualified as an enterprise zone business during substantially all of the time during which you held the stock or partnership interest.

How to report. Report the entire gain realized from the sale, as you otherwise would, without regard to the election. On Schedule D, line 8, enter “Section 1397B Rollover” in column (a) and enter as a loss in column (f) (and for 2003 only, in column (g) for sales after May 5, 2003) the amount of gain included on Schedule D that is not recognized. (If you report the sale directly on Schedule D, line 8, use the line directly below the line on which you reported the sale.)

More information. For more information about rollover of gain from empowerment zone assets, see section 1397B of the Internal Revenue Code.

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 you hold the stock, you can exclude 60% of your gain.

To claim this increased exclusion, you 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 you hold the stock will still be met if the corporation ceased to qualify after the 5-year period beginning on the date you acquired the stock. However, the gain that qualifies for the 60% exclusion cannot be more than the gain you would have had if you had sold the stock on the date the corporation ceased to qualify.

If you sell 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.

For more information about this exclusion, including a definition of qualified small business stock, see chapter 4 of Publication 550, *Investment Income and Expenses*.

Renewal Communities

This section describes the areas that have been designated renewal communities and explains the 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.

You can find out if a business or an employee's residence is located within a renewal community by using the RC/EZ/EC Address Locator at www.hud.gov/crlocator or by calling HUD at **1-800-998-9999**.

- 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 Employment 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.

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.

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 you within a renewal community and in your trade or business.
- While performing those services, the employee's main home is within that renewal community.

Both full-time and part-time employees may qualify.

Substantially all services performed within the renewal community. You can use the pay-period method or the calendar-year method to determine the period of time the employee has performed services in the renewal community. For details, see section 1.1396-1 of the regulations.

Nonqualified employees. Certain individuals cannot be qualified employees. For a list of those individuals, see *Nonqualified employees* under *Empowerment Zone Employment Credit*, earlier.

Qualified wages. Qualified wages are any wages you pay or incur for services performed by an employee while the employee is a qualified 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 wages certain training and education expenses you pay or incur on behalf of a qualified employee.

Effect of welfare-to-work or work opportunity credit.

Qualified wages do not include any amount you take into account in figuring the welfare-to-work credit or the work opportunity credit. In addition, you must reduce the \$10,000 maximum qualified wages for each qualified employee by the amount of wages you use to figure either of those credits for that employee.

Fiscal year taxpayers. If you use a fiscal tax year, the amount of qualified wages you use to figure the credit is the amount paid or incurred during the calendar year that ends during the tax year.

Example. Your tax year begins on February 1 and ends on January 31 of the next year. You use the cash method of accounting and have one employee, whom you hired in March 2003 and pay \$500 a month. You pay that employee qualified wages of \$5,000 in calendar year 2003 and \$500 in January 2004. When you figure your credit for the tax year ending January 31, 2004, you use the \$5,000 paid in 2003 but cannot use the \$500 paid in January 2004. That amount will be used to figure the credit on your next tax return.

Claiming the credit. Use **Form 8844** to claim this credit. Although the renewal community employment credit is a component of the general business credit, a special tax liability limit applies to this credit. Therefore, you figure the credit separately and never carry it to Form 8300, *General Business Credit*.

Effect on salary and wage deduction. In general, you must reduce the deductions on your income tax return for salaries and wages and certain education and training costs by the amount of your current year renewal community employment credit (before applying the tax liability limit).

Increased Section 179 Deduction

Section 179 of the Internal Revenue Code allows you to choose to deduct all or part of the cost of certain qualifying property in the year you place it in service. You can do this instead of recovering the cost by taking depreciation deductions over a specified recovery period. There are limits, however, on the amount you can deduct in a tax year.

You may be able to claim an increased section 179 deduction if your business qualifies as a renewal community business. The increase can be as much as \$35,000. This increased section 179 deduction applies to "qualified renewal property" you acquire after 2001 and before 2010 and place in service in a renewal community.

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 Employment Credit* section.

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

- 1) You acquired the property after the renewal community designation is in effect.
- 2) You did not acquire the property from a related person or member of a controlled group of which you are a member.
- 3) Your 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) You were 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.

More information. See the earlier discussion of the increased 179 deduction under *Empowerment Zones* for a special rule for renovated property, the section 179 deduction limits, and the recapture rules, all of which also apply in renewal communities. That earlier discussion also tells where to get additional information about the section 179 deduction.

Commercial Revitalization Deduction

You can elect to treat qualified revitalization expenditures chargeable to a capital account for any qualified revitalization building in either of the following ways:

- 1) Deduct half of the expenditures for the tax year the building is placed in service, or
- 2) Amortize all the expenditures over a 120-month period beginning with the month the building is placed in service.

If you elect to take this deduction, you cannot take a depreciation deduction for the same expenditures. Claiming this deduction enables you to recover half (or all) of your qualified revitalization expenditures over a shorter period of time than depreciation. The commercial revitalization deduction is also allowed for both regular tax and alternative minimum tax purposes.

The election must be made by the due date (including extensions) of your return for the tax year the building is placed in service. If you timely filed your return without making the election, you can still make the election by filing an amended return within 6 months of the due date (excluding extensions). Enter "Filed pursuant to section 301.9100-2" on the amended return. Once made, the election may be revoked only with IRS consent. To do so, you must submit a request for a letter ruling under the provisions of Rev. Proc. 2004-1 (or its successor). See Rev. Proc. 2004-1 on page 1 of Internal Revenue Bulletin 2004-1 at www.irs.gov/pub/irs-irbs/irb04-01.pdf.

Qualified revitalization building. This is a building and its structural components that you place in service in a renewal community before 2010. If the building is new, the original use of the building must begin with you. If the building is not new, you must substantially rehabilitate the building and then place it in service.

Substantially rehabilitated building. You substantially rehabilitate a building if, during any 24-month period,

your qualified rehabilitation expenditures are more than the greater of the following amounts.

- 1) The adjusted basis of the building at the beginning of the 24-month period, or at the beginning of your holding period for the building, whichever is later.
- 2) \$5,000.

Qualified revitalization expenditure. This is a capital expenditure for depreciable property that is:

- 1) Nonresidential real property, or
- 2) Section 1250 property that is functionally related and subordinate to nonresidential real property. Section 1250 property is depreciable real property that is not and never has been section 1245 property. Section 1245 property is defined in Publication 544, *Sales and Other Dispositions of Assets*.

The total amount of qualified revitalization expenditures for any qualified revitalization building cannot be more than the **smaller** of:

- 1) \$10 million, or
- 2) The commercial revitalization expenditure amount allocated to the building by the commercial revitalization agency for the state in which the building is located.

Nonresidential real property. This is section 1250 property that is **not** residential rental property or property with a class life of less than 27.5 years. **Residential rental property** is any building or structure if 80% or more of the gross rental income from it is rental income from dwelling units.

Expenditures that do not qualify. The following do not count as revitalization expenditures.

- 1) The cost of acquiring a building that you substantially rehabilitate, to the extent that cost is more than 30% of the total qualified revitalization expenses for the building (not counting the cost of the building itself).
- 2) Expenditures you use to figure any allowable credit (such as the rehabilitation credit).

Allocation of revitalization expenditure amounts. Each state authorizes an agency to act as the community revitalization agency. For a renewal community located within an Indian Reservation, the reservation governing body (as determined by the Department of the Interior) is treated as a state for this purpose. A commercial revitalization agency may make the following types of allocations for each qualified revitalization building.

- An allocation made during the calendar year in which a qualified revitalization building is placed in service.
- A binding commitment to make an allocation of a specified dollar amount to a qualified revitalization building during the calendar year in which the build-

ing is placed in service. A binding commitment is not, in and of itself, an allocation.

- A carryover allocation for a single-building project or a multi-building project.
- 1) You must place the building in service by the close of the second calendar year following the calendar year during which the allocation is made **and**
 - 2) Your basis in the project of which the building is a part (as of the later of the date that is 6 months after the date the allocation was made or the end of the calendar year during which the allocation was made) must be **more than 10%** of your reasonably expected basis in the project (land and depreciable property) as of the end of the second calendar year following the calendar year during which the allocation was made. Under an exception that applies for allocations made after June 30, 2002, and before January 1, 2003, you had until December 31, 2003, to meet this test.

Dollar ceiling. Each state is allowed to allocate up to \$12 million of commercial revitalization expenditure amounts to each renewal community located within the state for calendar years 2002 through 2009. For calendar years after 2002, the \$12 million ceiling for a renewal community may not be allocated, in whole or in part, to any other renewal community. For a special rule that applies for 2002, see section 8.02 of Rev. Proc. 2003-38 on page 1020 of Internal Revenue Bulletin 2003-24 at www.irs.gov/pub/irs-irbs/irb03-24.pdf. Allocations for buildings placed in service during the allocation year and carryover allocations both reduce the \$12 million ceiling for the calendar year during which the allocation is made. A binding commitment does not reduce the \$12 million ceiling until the year in which the actual allocation is made.

Carryforward. If a commercial revitalization agency does not allocate all of the commercial revitalization expenditure ceiling for a renewal community for any calendar year after 2002, the unused ceiling amount may not be carried forward to another year. For a special rule that applies for 2002, see section 8.01 of Rev. Proc. 2003-38 on page 1020 of Internal Revenue Bulletin 2003-24 at www.irs.gov/pub/irs-irbs/irb03-24.pdf.

Allocation document. An allocation is made when an allocation document containing all of the required information is completed, signed, and dated by an authorized official of the commercial revitalization agency. The agency must send a copy of the allocation document to you no later than 60 days following the end of the calendar year during which the allocation was made.

The allocation document requires the following information.

- Name, address, and taxpayer identification number of the commercial revitalization agency making the commercial revitalization expenditure.
- The name, address, and taxpayer identification number of the taxpayer receiving the allocation.

- The address or specific location of each qualified revitalization building.
- The date of the allocation of the expenditure amount.
- The commercial revitalization expenditure amount allocated to each qualified revitalization building on that date.
- A certification under penalties of perjury by an authorized official of the commercial revitalization agency that the official has examined the document, and to the best of the official's knowledge and belief, the information in the document is true, correct, and complete.

A carryover allocation document must include the following additional information:

- The taxpayer's reasonably expected basis in the project (land and depreciable property) as of the end of the second calendar year following the calendar year during which the allocation was made.
- The date that each qualified revitalization building is expected to be placed in service.

How to report the deduction. If you claim amortization, report it in Part VI of **Form 4562, Depreciation and Amortization**.

If you claim the deduction for half your expenditures, report it on the applicable "Other deductions" or "Other expenses" line of your return.

If your commercial revitalization deduction is from a passive rental real estate activity, you must file Form 8582, *Passive Activity Loss Limitations*, to use the \$25,000 special allowance. You can claim the special allowance for the commercial revitalization deduction regardless of your adjusted gross income and even if you do not actively participate in the rental real estate activity.

More information. For more information, see section 1400I of the Internal Revenue Code.

Capital Gain Exclusion

If you hold a qualified community asset more than 5 years, you will not have to include any "qualified capital gain" from its sale or exchange in your gross income. This exclusion applies to an interest in, or property of, certain businesses operating in a renewal community.

Qualified community asset. The following are qualified community assets.

- 1) Qualified community stock.
- 2) Qualified community partnership interest.
- 3) Qualified community business property.

Qualified community stock. This is any stock in a U.S. corporation, if all the following requirements are met.

- 1) You acquired the stock after 2001 and before 2010 at its original issue solely in exchange for cash. (This

requirement is also met if you acquired the stock at any time from another person in whose hands it was qualified community stock.)

- 2) The corporation was a renewal community business (or was being organized as a renewal community business) at the time the stock was issued.
- 3) The corporation qualified as a renewal community business during substantially all of your holding period for the stock. (This requirement is also met if the corporation ceased to qualify as a renewal community business after the 5-year period beginning on the date you acquired the stock. However, your qualified capital gain cannot be more than what it would have been if you had sold the stock on the date the corporation ceased to qualify.)

Redemptions of stock. Stock will not qualify as qualified community stock if the issuing corporation makes certain redemptions of its stock within 2 years before or 2 years after the date the stock was issued. For details, see sections 1400F(b)(2)(B) and 1202(c)(3) of the Internal Revenue Code.

Qualified community partnership interest. This is any capital or profits interest in a U.S. partnership, if all the following requirements are met.

- 1) You acquired the partnership interest from the partnership after 2001 and before 2010 solely in exchange for cash.
- 2) The partnership was a renewal community business (or was being organized as a renewal community business) at the time the partnership interest was acquired.
- 3) The partnership qualified as a renewal community business during substantially all of your holding period for the partnership interest. (This requirement is also met if the partnership ceased to qualify as a renewal community business after the 5-year period beginning on the date you acquired the partnership interest. However, your qualified capital gain cannot be more than what it would have been if you had sold the partnership interest on the date the partnership ceased to qualify.)

Redemptions of partnership interest. A partnership interest will not qualify as a qualified community partnership interest if the partnership makes certain acquisitions of its partnership interests within 2 years before or 2 years after the date the partnership interest was issued. For details, see sections 1400F(b)(3), 1400F(b)(2)(B), and 1202(c)(3) of the Internal Revenue Code.

Qualified community business property. This is tangible property that meets all the following requirements.

- 1) You acquired the property after 2001 and before 2010.

- 2) You did not acquire the property from a related person or member of a controlled group of which you are a member.
- 3) Your 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) You were the first person to use the property in the renewal community.
- 5) Substantially all of the use of the property was in your renewal community business during substantially all of your holding period for that property. (This requirement is also met if you stopped using the property in your renewal community business, or your business ceased to qualify as a renewal community business, after the 5-year period beginning on the date you acquired the property. However, your qualified capital gain cannot be more than what it would have been if you had sold the property on the date you stopped using it in your renewal community business or on the date your business ceased to qualify.)

Special rule for substantially improved buildings. Buildings (and land on which they are located) will be treated as having met requirements (1) and (4) if you substantially improve the buildings before 2010. You substantially improve a building if, during any 24-month period beginning after 2001, your additions to the basis of the property are more than the greater of the following amounts.

- 1) 100% of the adjusted basis of the property at the beginning of the 24-month period.
- 2) \$5,000.

Renewal community business. This term is defined earlier under *Increased Section 179 Deduction*.

Qualified capital gain. This is generally any gain recognized on the sale or exchange of a capital asset or property used in a trade or business as defined in section 1231(b) of the Internal Revenue Code (generally real property or depreciable personal property). Qualified capital gain **does not** include:

- Gain attributable to periods before 2002 or after 2014.
- Ordinary (section 1245) gain. See chapter 3 in Publication 544, *Sales and Other Dispositions of Assets*.
- Section 1250 gain figured as if section 1250 applied to **all** depreciation rather than the additional depreciation.
- Gain attributable to real property or an intangible asset that is not an integral part of a renewal community business.
- Gain attributable, directly or indirectly, in whole or in part, to a transaction with a related person. For the

definition of a related person, see chapter 2 in Publication 544.

Other rules. Rules similar to certain rules in section 1202 of the Internal Revenue Code apply to interests in pass-through entities, certain tax-free transfers, contributions to capital after the original stock issuance date, and short positions.

More information. For more information, see section 1400F of the Internal Revenue Code.

Enterprise Communities

There are currently 49 urban areas that were designated as urban enterprise communities by the Secretary of Housing and Urban Development (HUD) on December 21, 1994. There are also currently 28 rural areas that were designated as rural enterprise communities by the Secretary of Agriculture (USDA) on December 21, 1994. These designations will remain in effect until the end of 2004. The 20 additional rural enterprise communities designated by USDA on December 24, 1998 (“Round II” enterprise communities) are not treated as enterprise communities for Federal tax purposes.

Urban areas. Parts of the following urban areas are enterprise communities. You can find out if your business or an employee’s residence is located within an urban enterprise community by using the RC/EZ/EC Locator at www.hud.gov/crlocator.

- Birmingham, AL
- Little Rock/Pulaski, AR
- Phoenix, AZ
- Oakland, CA
- Denver, CO
- Bridgeport, CT
- New Haven, CT
- Washington, DC
- Wilmington, DE
- Miami/Dade, FL
- Tampa, FL
- Albany, GA
- Des Moines, IA
- East St. Louis, IL
- Springfield, IL
- Indianapolis, IN
- Louisville, KY
- Boston, MA
- Springfield, MA

- Muskegon, MI
- Minneapolis, MN
- St. Paul, MN
- Kansas City/Kansas City KS, MO
- St. Louis, MO
- Jackson, MS
- Charlotte, NC
- Omaha, NE
- Manchester, NH
- Albuquerque, NM
- Las Vegas, NV
- Newburgh/Kingston, NY
- Akron, OH
- Cleveland, OH
- Columbus, OH
- Oklahoma City, OK
- Portland, OR
- Harrisburg, PA
- Pittsburgh, PA
- Providence, RI
- Nashville/Davidson, TN
- Dallas, TX
- El Paso, TX
- Houston, TX
- San Antonio, TX
- Waco, TX
- Ogden, UT
- Norfolk, VA
- Seattle, WA
- Huntington, WV

Rural areas. Parts of the following rural areas are enterprise communities. You can find out if your business or an employee’s residence is located within an urban enterprise community by using the RC/EZ/EC Locator at www.hud.gov/crlocator.

- Chambers County, AL
- East Arkansas, EC
- Mississippi County, AR
- Arizona Border Region, AZ
- Imperial County, CA
- City of Watsonville, CA
- Jackson County, FL

- Central Savannah River Area, GA
- Crisp/Dooly, GA
- Northeast Louisiana Delta, LA
- Lake County, MI
- City of East Prairie, MO
- North Delta Mississippi, MS
- Halifax/Edgecombe/Wilson, NC
- Robeson County, NC
- La Jicarita, NM
- Greater Portsmouth, OH
- Southeast Oklahoma, OK
- Josephine County, OR
- City of Lock Haven, PA
- Williamsburg-Lake City, SC
- Beadle/Spink, SD
- Fayette/Haywood County, TN
- Scott/McCreary Area, TN
- Accomack-Northampton, VA
- Lowe Yakima County Rural, WA
- Central Appalachia, WV
- McDowell County, WV

New York Liberty Zone

The tax incentives described below apply to the parts of New York City damaged in the terrorist attack on September 11, 2001. This area is referred to as the New York Liberty Zone.

Area defined. The New York Liberty Zone is the area located on or south of Canal Street, East Broadway (east of its intersection with Canal Street), or Grand Street (east of its intersection with East Broadway) in the Borough of Manhattan.

New York Liberty Zone Business Employee Credit

The New York Liberty Zone business employee credit is part of the work opportunity credit (discussed later). You can claim the credit if you pay or incur “qualified wages” to a “Liberty Zone business employee.” The credit is for wages paid or incurred to new and existing employees for work performed during 2002 or 2003.



This credit is set to expire for wages paid to employees for work performed after 2003. However, at the time this publication was issued, Congress was considering legislation that would allow this credit with respect to work performed by qualified employ-

*ees during 2004. See **What’s Hot in Tax Forms, Pubs, and Other Tax Products** at www.irs.gov/formspubs to find out if this legislation was enacted.*

The credit is 40% (25% for employees who worked for you at least 120 hours but fewer than 400 hours) of the qualified wages for the year. The amount of the qualified wages you can use to figure the credit cannot be more than \$6,000 for each employee for each calendar year. As a result, the credit can be as much as \$2,400 (40% of \$6,000) for each employee each year.

Liberty Zone business employee. A Liberty Zone business employee is generally any employee who performs 80% or more of his or her services:

- 1) In the Liberty Zone (defined earlier), or
- 2) Elsewhere in New York City for a business that relocated from the Liberty Zone due to the destruction or damage of its place of business by the September 11, 2001, terrorist attack.

Limit on number of employees located outside the Liberty Zone. The number of employees described in (2) above that are treated as Liberty Zone business employees on any day is limited to the excess of:

- The number of employees of the business on September 11, 2001, in the Liberty Zone, over
- The number of Liberty Zone business employees (determined without regard to employees described in (2) above) of the business on the day to which the limit is being applied.

Limit for large businesses. You cannot claim the credit for any tax year in which you employed an average of more than 200 employees on business days during the tax year.

Qualified wages. Qualified wages are wages you pay or incur to a Liberty Zone business employee (defined earlier) for work performed during 2002 or 2003. Wages are generally defined as wages (excluding tips) subject to the Federal Unemployment Tax Act (FUTA) without regard to the FUTA dollar limit, but not more than \$6,000 each calendar year for each employee. Qualified wages for any employee must be reduced by the amount of any work supplementation payments you received under the Social Security Act.

Nonqualified wages. See Form 8884 for a complete list of wages that do not qualify for the credit. Some of the most common wages that do not qualify include wages you pay or incur to an employee who:

- 1) Does not work for you at least for 120 hours, or
- 2) Is your relative or dependent.

Claiming the credit. Use **Form 8884** to claim this credit.

Effect on work opportunity credit and welfare-to-work credit. Wages you use to figure this credit cannot be used to figure the work opportunity credit or welfare-to-work credit.

Effect on salary and wage deduction. In general, you must reduce the deduction on your income tax return for salaries and wages by the amount of your current year credit (before applying the tax liability limit).

More information. For more information about this credit, see Form 8884.

Special Liberty Zone Depreciation Allowance

You can take a special Liberty Zone depreciation allowance for qualified Liberty Zone property you place in service during the tax year. The allowance is an additional 30% deduction and it applies for the year you place the property in service. You can take the additional 30% deduction after any section 179 deduction and before you figure regular depreciation under MACRS for the year you place the property in service. To figure the depreciable basis, you must first multiply the property's cost or other basis by the percentage of business/investment use and then reduce that amount by any section 179 deduction and certain other deductions and credits for the property.

The allowance is deductible for both regular tax and alternative minimum tax (AMT) purposes. There is no AMT adjustment required for any depreciation figured on the remaining basis of the property.

You can claim the allowance only for the year the property is placed in service. In the year you claim the allowance, you must reduce the basis of the property by the allowance before figuring the regular depreciation deduction.

Special depreciation allowance. A special 30% or 50% depreciation allowance is allowed for qualified property placed in service after September 10, 2001, and before 2005 (2006 in certain cases), even if not in the Liberty Zone. If you place in service property that is eligible for that allowance, you cannot claim the special Liberty Zone depreciation allowance for the same property.

Qualified Liberty Zone property. Property qualifies for the special Liberty Zone depreciation allowance if it meets all the following requirements.

- 1) It is one of the following types of property.
 - a) Property depreciated under MACRS with a recovery period of 20 years or less.
 - b) Water utility property.
 - c) Computer software that is not a section 197 intangible as described in Publication 946. (The cost of some computer software is treated as part of the cost of hardware and is depreciated under MACRS.)
 - d) Certain nonresidential real property and residential rental property (defined later).
- 2) It meets all the following tests (explained later under *Tests to be met*).
 - a) Acquisition date test.

b) Placed in service date test.

c) Substantial use test.

d) Original use test.

- 3) It is **not** excepted property (explained later under *Excepted property*).

Property described in 1(a), 1(b), 1(c), generally qualifies for the special Liberty Zone depreciation allowance only if it is used property. That is because, if it is new, it may qualify instead for the special depreciation allowance described earlier under *Special depreciation allowance*. However, property does not qualify for that special depreciation allowance unless it is acquired and placed in service before 2005 (2006 in certain cases). Property acquired or placed in service at a later date may qualify for the special Liberty Zone depreciation allowance, even if new.

Nonresidential real property and residential rental property. This property is qualifying property only to the extent it rehabilitates real property damaged, or replaces real property destroyed or condemned, as a result of the terrorist attack of September 11, 2001. Property is treated as replacing destroyed or condemned property if, as part of an integrated plan, such property replaces real property included in a continuous area that includes real property destroyed or condemned.

For these purposes, real property is considered destroyed (or condemned) only if an entire building or structure was destroyed (or condemned) as a result of the terrorist attack. Otherwise, the property is considered damaged real property. For example, if certain structural components of a building (such as walls, floors, or plumbing fixtures) are damaged or destroyed as a result of the terrorist attack, but the building is not destroyed (or condemned), then only costs related to replacing the damaged or destroyed structural components qualify for the special Liberty Zone depreciation allowance.

Tests to be met. To qualify for the special Liberty Zone depreciation allowance, your property must meet all of the following tests.

Acquisition date test. You must have acquired the property by purchase after September 10, 2001, and there must not have been a binding written contract for the acquisition in effect before September 11, 2001.

Property you manufacture, construct, or produce for your own use meets this test if you began the manufacture, construction, or production of the property after September 10, 2001.

Placed in service date test. Generally, the property must be placed in service for use in your trade or business or for the production of income before 2007 (2010 in the case of qualifying nonresidential real property and residential rental property).

If you sold property you placed in service after September 10, 2001, and you leased it back within 3 months after the property was originally placed in service, the property is treated as placed in service no earlier than the date it is used under the leaseback.

Substantial use test. Substantially all (80% or more) use of the property must be in the Liberty Zone and in the active conduct of your trade or business in the Liberty Zone.

Original use test. The original use of the property in the Liberty Zone must have begun with you after September 10, 2001.

Used property can be qualified Liberty Zone property if it has not previously been used within the Liberty Zone. Also, additional capital expenditures you incurred after September 10, 2001, to recondition or rebuild your property meet the original use test if the original use of the property in the Liberty Zone began with you.

Excepted property. The following property does not qualify for the special Liberty Zone depreciation allowance.

- Property eligible for the special depreciation allowance explained earlier under *Special depreciation allowance*.
- Property required to be depreciated using the Alternative Depreciation System (ADS). This includes listed property used 50% or less in a qualified business use.
- Qualified New York Liberty Zone leasehold improvement property (defined later under *New York Liberty Zone Leasehold Improvement Property*).

Election not to claim the Liberty Zone allowance. You can elect *not* to claim the special Liberty Zone depreciation allowance for qualified property. If you make this election for any property, it applies to all property in the same property class placed in service during the year. To make this election, attach a statement to your return indicating you elect not to claim the allowance and the class of property for which you are making the election.

More information. For more information, get Publication 946.

Increased Section 179 Deduction

Section 179 of the Internal Revenue Code allows you to choose to deduct all or part of the cost of certain qualifying property in the year you place it in service. You can do this instead of recovering the cost by taking depreciation deductions over a specified recovery period. There are limits, however, on the amount you can deduct in a tax year.

You may be able to claim an increased section 179 deduction if the property you place in service is qualified Liberty Zone property. The increase can be as much as \$35,000.

Qualified Liberty Zone property. To qualify for the increased section 179 deduction, your property must be qualified Liberty Zone property (described earlier under *Special Liberty Zone Depreciation Allowance*) that qualifies for the section 179 deduction. For information on the requirements that must be met for property to qualify for the section 179 deduction, see Publication 946.

Section 179 deduction limits. There are limits on the amount you can deduct under section 179. The following sections explain how these limits are increased for qualified Liberty Zone property.

Maximum dollar limit. The total cost of section 179 property that you can deduct for a tax year generally cannot be more than the maximum section 179 dollar limit. However, if you place section 179 property that is qualified Liberty Zone property in service during the year, this maximum dollar limit is increased by the smaller of the following amounts.

- 1) The cost of that property.
- 2) \$35,000.

The following table shows these maximum dollar limits.

Table 3. Maximum Dollar Limits

For Tax Years Beginning In:	Maximum Section 179 Dollar Limit	Maximum Dollar Limit With Qualified Zone Property
2002	\$ 24,000	\$ 59,000
2003	100,000	135,000
2004	102,000*	137,000*
2005	Inflation Adjusted	Inflation Adjusted

*Inflation-adjusted amount for 2004

TIP For 2005, the total amount you can elect to deduct under section 179 will be increased to reflect an adjustment for inflation. The inflation-adjusted amount for 2004 is \$102,000 (rounded to the nearest multiple of \$1,000).

These maximum dollar limits are reduced if you go over the investment limit (discussed next) in any tax year.

Investment limit. For each dollar of your business cost over the threshold amount (\$400,000 for 2003) for section 179 property placed in service in a tax year, reduce the maximum dollar limit by \$1 (but not below zero). However, count only one-half of the cost of section 179 property that is also qualified Liberty Zone property when figuring the investment limit.

Reduced dollar limit for cost exceeding the threshold amount. If the cost of your qualifying section 179 property placed in service in 2003 is over \$400,000, you must reduce the dollar limit (but not below zero) by the amount of cost over \$400,000. If the cost of your section 179 property placed in service during 2003 is \$500,000 or more, you cannot take a section 179 deduction and you cannot carry over the cost that is more than \$500,000.

TIP For 2005, the threshold amount used to figure any reduction in the dollar limit will be increased to reflect an adjustment for inflation. The inflation-adjusted amount for 2004 is \$410,000 (rounded to the nearest multiple of \$10,000).

Recapture. The recapture rules of section 179 apply when qualified Liberty Zone property is no longer used in the Liberty Zone.

More information. For more information about the section 179 deduction and the increased section 179 deduction (including the section 179 deduction for off-the-shelf computer software that is placed in service in 2003), see chapter 2 of Publication 946.

New York Liberty Zone Leasehold Improvement Property

Qualified New York Liberty Zone leasehold improvement property is classified as 5-year property. This means that it is depreciated over a recovery period of 5 years. The straight-line method must be used.

Under ADS, the recovery period is 9 years.

Qualified New York Liberty Zone leasehold improvement property. This is any qualified leasehold improvement property (as defined later) if all of the following requirements are met.

- The improvement is to a building located in the New York Liberty Zone (defined earlier).
- The improvement is placed in service after September 10, 2001, and before January 1, 2007.
- No written binding contract for the improvement was in effect before September 11, 2001.

Qualified leasehold improvement property. Generally, this is any improvement to an interior part of a building that is nonresidential real property, provided all of the following requirements are met.

- The improvement is made under or pursuant to a lease by the lessee (or any sublessee) or the lessor of that part of the building.
- That part of the building is to be occupied exclusively by the lessee (or any sublessee) of that part.
- The improvement is placed in service more than 3 years after the date the building was first placed in service.

However, a qualified leasehold improvement does not include any improvement for which the expenditure is due to any of the following.

- The enlargement of the building.
- Any elevator or escalator.
- Any structural component benefiting a common area.
- The internal structural framework of the building.

Generally, a binding commitment to enter into a lease is treated as a lease and the parties to the commitment are treated as the lessor and lessee. However, a lease or a

binding commitment between related persons is not treated as a lease.

Related persons. For this purpose, the following are related persons.

- Members of an affiliated group.
- The persons listed in items (1) through (9) under *Related persons* in chapter 1 of Publication 946 (except that “80% or more” should be substituted for “more than 10%” each place it appears).
- An executor and a beneficiary of the same estate.

More information. For more information, see Publication 946.

Extension of Replacement Period for Involuntarily Converted Property

The replacement period has been extended from 2 years to 5 years for certain property involuntarily converted in the Liberty Zone as a result of the terrorist attack on September 11, 2001, but only if substantially all the use of the replacement property is in New York City.

If you buy replacement property within the replacement period, you may be able to postpone any gain you have had on the involuntary conversion.

Replacement period. The replacement period ends 5 years after the close of the first year in which any part of your gain is realized.

More information. For more information about involuntary conversions, see *Postponement of Gain* in Publication 547, *Casualties, Disasters, and Thefts*.

New Markets Credit

You can claim a tax credit for a qualified equity investment in a qualified community development entity (CDE) made after April 19, 2001. This is called the new markets credit.

Amount of credit. You claim the credit over a period of 7 years until 2007. To find the amount of your credit each year, multiply the amount you paid the qualified CDE for your qualified equity investment by a percentage. The percentage is:

- 5% for the year the investment is made and each of the next 2 years, and
- 6% for each of the next 4 years.

Thus, the credit can be up to 39% of your investment over a 7-year period.

To claim the credit for a year, you must hold the qualified equity investment on the credit allowance date for that year. The credit allowance date is the date you make the initial investment and each of the next 6 anniversary dates.

How the new markets credit (NMC) works. Qualified CDEs apply to the U.S. Department of Treasury’s Commu-

nity Development Financial Institutions (CDFI) Fund for an allocation of the new markets credit. A CDE will seek taxpayers to make qualifying equity investments in the CDE. The CDE will be required to use substantially all of the qualified equity investments to make qualified low-income community investments in qualified active low-income community businesses (QALICBs), discussed later. After the CDE is awarded a tax credit allocation, the CDE is authorized to allocate the tax credits to private equity investors in the CDE.

Qualified CDE. A qualified CDE is any U.S. corporation or partnership that meets the following requirements.

- Its primary mission is serving, or providing investment capital for, low-income communities or persons.
- It maintains accountability to residents of low-income communities through their representation on any governing or advisory boards of the entity.
- It is certified by the CDFI Fund of the Department of Treasury.

Qualified CDEs also include specialized small business investment companies and community development financial institutions. For more information, see section 45D(c)(2) of the Internal Revenue Code.

Qualified equity investment. Generally, this is the cost of any stock in a corporation or any capital interest in a partnership if the following requirements are met.

- The corporation or partnership is a qualified CDE (defined earlier).
- You acquire the investment on the original issue date for cash. The cash may be from borrowed funds, including a nonrecourse loan.
- At least 85% of the cash is used to make qualified low-income community investments (defined later), or at least 85% of the entity's total gross assets are in qualified low-income community investments. The 85% requirement is reduced to 75% for the seventh year of the 7-year credit period.
- The qualified CDE designates the investment as a qualified equity investment on its books and records for purposes of the new markets credit.

Qualified low-income community investment. Generally, this means one of the following.

- Any capital or equity investment in, or loan to, any QALICB (defined below).
- The purchase from another qualified CDE of any loan made by that entity provided that it was a qualified low-income community investment at the time it made or sold the loan.
- Providing financial advice about organizing or operating a business to QALICBs and residents of low-income communities.

- Any equity investment in, or loan to, any qualified CDE used to make other qualified low-income community investments.



*Any equity investment in, or loan to, any CDE may include a primary and second CDE to the extent that the second CDE uses the proceeds of the investment or loan. For details on the requirements that apply to CDEs making investments through multiple tiers of CDEs, see **Notice 2003-64** on page 646 of *Internal Revenue Bulletin 2003-39* at www.irs.gov/pub/irs-irbs/irb03-39.pdf.*

QALICB. This is any corporation (including a nonprofit corporation), partnership, or sole proprietorship, if all the following requirements are met for the tax year.

- 1) At least 50% of its total gross income is from the active conduct of a qualified business (defined next) within a low-income community.
- 2) At least 40% of the use of its tangible property (whether owned or leased) is within a low-income community.
- 3) At least 40% of its employees' services are performed in a low-income community.
- 4) Less than 5% of the average of the total unadjusted bases of the property of the entity 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 in the ordinary course of its business.

Also, a sole proprietorship that would qualify if it were separately incorporated is treated as a qualified active low-income community business.

Qualified business. This is generally any trade or business except one that consists primarily of developing or holding intangibles for sale or license. However, the rental to others of real property located in a low-income community is a qualified business only if the property is not residential rental property and there are substantial improvements located on the property. Also, a qualified business does not include any business listed earlier in item (5) or item (6) under *Nonqualified employees* in the *Empowerment Zone Employment Credit* section.

Low-income community. A low-income community generally means any population census tract if any of the following apply.

- The poverty rate is at least 20%.
- If the tract is not located within a metropolitan area, the median family income is not more than 80% of statewide median family income.
- If the tract is located within a metropolitan area, the median family income is not more than 80% of the

greater of the statewide median family income or the metropolitan area median family income.

CDE designations of qualified equity investments.

Generally, a qualified CDE can designate an equity investment as a qualified equity investment only if it applied for and received a new markets credit allocation and entered into an allocation agreement with the CDFI Fund **before** the investment was made.

Exceptions. An equity investment in an entity is eligible to be designated as a qualified equity investment if made prior to an allocation agreement only if one of the following applies.

- The equity investment was made after April 19, 2001, and the designation of the equity investment as a qualified equity investment is made for a credit allocation received under an allocation application timely submitted to the CDFI Fund no later than August 29, 2002. For details, see **Notice 2003-9** on page 369 of Internal Revenue Bulletin 2003-5 at www.irs.gov/pub/irs-irbs/irb03-05.pdf.
- The equity investment was made after July 17, 2003, and the designation of the equity investment as a

qualified equity investment is made for a credit allocation received under an allocation application submitted to the CDFI Fund under a Notice of Allocation Availability (NOAA) published by the CDFI Fund in the Federal Register on or before the date the equity investment was made. If the entity in which the equity investment is made does not receive an allocation under that NOAA, the equity investment is not eligible to be designated as a qualified equity investment under future NOAAs. For details, see **Notice 2003-56**, on page 396 of Internal Revenue Bulletin 2003-34 at www.irs.gov/pub/irs-irbs/irb03-34.pdf.

NMC Allocations. NMCs are allocated annually by the CDFI Fund to CDEs under a competitive application process. The maximum amount of qualified equity investments designated by the qualified CDE cannot exceed the amount of the allocation received from the CDFI Fund. The U.S. Department of Treasury awarded to 66 entities on March 14, 2003, the first \$2.5 billion in tax credit allocations under the NMC program. These entities are listed in Table 4, below. For information about future NMC allocations, see the CDFI fund website at www.cdfifund.gov/programs/nmtc.

Table 4. 2002 New Markets Credit Allocation Awardees

Name of Awardee	City and State	Credit Allocation
Alaska Growth Capital BIDCO, Inc.	Anchorage, AK	\$5,000,000
Advantage Capital Community Development Fund, L.L.	New Orleans, LA	\$110,000,000
ASB Community Development Corp	Portsmouth, OH	\$2,000,000
Bethel New Life, Inc.	Chicago, IL	\$4,000,000
Border Communities Capital Company, LLC	Solana Beach, CA	\$50,000,000
Cahaba Community Development, LLC	Birmingham, AL	\$40,000,000
Campus Partners for Community Urban Redevelopment	Columbus, OH	\$35,000,000
CBSI Development Fund, Inc.	New Albany, IN	\$3,000,000
Central Ohio Loan Services, Inc.	Waverly, OH	\$6,000,000
CFBanc Corporation	Washington, DC	\$73,000,000
Citizens Business Development Company, LLC	Jackson, KY	\$3,000,000
Citizens Tri-County Development Corporation	Dunlap, TN	\$1,000,000
Clearinghouse CDFI	Lake Forest, CA	\$56,000,000
Cleveland New Markets Investment Fund LLC	Cleveland, OH	\$15,000,000
CNC Development Foundation, Inc.	Paintsville, KY	\$2,000,000
Coastal Enterprises, Inc.	Wiscasset, ME	\$65,000,000

Name of Awardee	City and State	Credit Allocation
Community Development Funding, LLC	Clarksville, MD	\$25,000,000
Community Development New Markets I LLC	Cleveland, OH	\$150,000,000
Community Economic Redevelopment Corporation	Chicago, IL	\$6,000,000
Community Loan Fund of New Jersey, Inc.	Trenton, NJ	\$15,000,000
Community Trust Community Development Corporation	Pikeville, KY	\$7,000,000
Community Ventures Corporation, Inc.	Lexington, KY	\$12,000,000
Delaware Community Investment Corporation (DCIC)	Wilmington, DE	\$15,000,000
Eclipse Development Partners I LLC	Atlanta, GA	\$22,000,000
Empowerment Reinvestment Fund, LLC	New York City, NY	\$10,000,000
Enterprise Corporation of the Delta	Jackson, MS	\$15,000,000
ESIC New Markets Partners Limited Partnership	Columbia, MD	\$90,000,000
First State Development Corp.	Union City, TN	\$7,000,000
Greater Jamaica Local Development Company, Inc.	Jamaica, NY	\$21,000,000
GS New Markets Fund	New York, NY	\$75,000,000
HEDC New Markets, Inc.	New York, NY	\$30,000,000
Illinois Facilities Fund, The	Chicago, IL	\$10,000,000
Impact Community Capital CDE, LLC	San Francisco, CA	\$40,000,000
Impact Seven, Inc.	Almena, WI	\$21,000,000
KHC New Markets CDE, LLC Series A	Carlsbad, CA	\$134,000,000
LA Charter School New Markets CDE LLC	Santa Monica, CA	\$36,000,000
Lenders for Community Development	San Jose, CA	\$25,000,000
Liberty Bank and Trust Company	New Orleans, LA	\$50,000,000
Local Initiatives Support Corporation (LISC)	New York, NY	\$65,000,000
MetaFund Corporation	Oklahoma City, OK	\$54,000,000
MHIC, LLC	Boston, MA	\$25,000,000
Mid-City Community CDE, LLC	Silver Spring, MD	\$36,000,000
National Community Capital	Philadelphia, PA	\$8,000,000
National New Markets Tax Credit Fund, Inc.	Minneapolis, MN	\$162,500,000
National Trust Community Investment Corporation	Washington, DC	\$127,000,000
Neighborhood Bancorp	National City, CA	\$5,000,000
New Markets Community Capital, LLC	Los Angeles, CA	\$30,000,000

Name of Awardee	City and State	Credit Allocation
Norfolk Redevelopment & Housing Authority	Norfolk, VA	\$15,000,000
North Coast Community Development Corporation	Lorain, OH	\$9,000,000
Northside Community Development Fund	Pittsburgh, PA	\$500,000
Nuestra Development Fund	Roxbury, MA	\$1,000,000
Ohio Community Development Finance Fund	Columbus, OH	\$15,000,000
Paramount Community Development Fund, LLC	Granville, OH	\$75,000,000
Phoenix Community Development and Investment Corporation	Phoenix, AZ	\$170,000,000
Prince George's Community Capital Corporation	Largo, MD	\$10,000,000
REI New Markets Investment, LLC	Durant, OK	\$80,000,000
Rural Community Assistance Corporation	West Sacramento, CA	\$8,000,000
Self-Help Ventures Fund	Durham, NC	\$75,000,000
Southeast Indiana Community Development	Dillsboro, IN	\$3,000,000
Southern Appalachian Fund	Oak Ridge, TN	\$2,000,000
The Association For Theater-Based Community Development	Columbus, OH	\$6,000,000
Urban Development Fund, LLC	Chicago, IL	\$15,000,000
Wachovia Community Development Enterprises, LLC	Charlotte, NC	\$150,000,000
West Virginia Community Development Loan Fund, Inc.	Barboursville, WV	\$4,000,000
WNC National Community Development Advisors, LLC	Costa Mesa, CA	\$50,000,000
123 New Market Investors LLC	Washington, DC	\$13,000,000

Recapture. The credit is recaptured if, within the 7-year credit period, the CDE is no longer qualified, substantially all of the proceeds of the investment are no longer used for a qualifying purpose, or the investment is redeemed.

Claiming the credit. Use **Form 8874** to claim this credit.

More information. For more information about the new markets credit, see section 45D of the Internal Revenue Code and the regulations under that section.

Tax-Exempt Bond Financing

State or local governments can issue enterprise zone facility bonds (a type of exempt facility tax-exempt bond) to raise funds to provide an "enterprise zone business" with "qualified zone property." At least 95% of the net proceeds from the bond issue must be used to finance:

- 1) Qualified zone property whose principal user is an enterprise zone business, and

- 2) Certain land used for a related purpose (for example, land where the business is located and a parking lot for customers and employees).

Tax-exempt bonds generally have lower interest rates than conventional financing.



Contact the appropriate state or local government agency to find out if this type of financing is available in your empowerment zone or enterprise community.

Enterprise zone business. For tax-exempt bond financing, a corporation, partnership, or sole proprietorship is generally 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 or an enterprise community. (This rule does not apply to a sole proprietorship.)
- 2) At least 50% (80% for bonds issued before August 6, 1997) of its total gross income is from the active

conduct of a qualified business within a zone or community.

- 3) A substantial part of the use of its tangible property is within a zone or community. (For bonds issued before August 6, 1997, at least 85% of the use of its tangible property must be within a zone or community.)
- 4) A substantial part of its intangible property is used in the active conduct of the business. (For bonds issued before August 6, 1997, at least 85% of its intangible property must be used in, and exclusively related to, the active conduct of the business.)
- 5) A substantial part of the employees' services are performed within a zone or community. (For bonds issued before August 6, 1997, at least 85% of the employees' services must be performed within a zone or community.)
- 6) At least 35% of the employees are residents of an empowerment zone or enterprise community. (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. Also, a business located in a zone or community that would qualify if it were separately incorporated is treated as an enterprise zone business. For example, a business that is part of a national chain could qualify, providing it would meet the definition of an enterprise zone business if it were separately incorporated.

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 or enterprise community 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 or community residents. (For bonds issued before August 6, 1997, at least 85% of the rentals of the property must be to enterprise zone businesses or zone 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 Employment Credit* section.

Relaxed requirements during start-up period. For bonds issued after August 5, 1997, a business will be treated as an enterprise zone business during a start-up period if both of the following apply.

- 1) It is reasonable, at the beginning of the start-up period, to expect the business to be an enterprise zone business by the end of the start-up period.
- 2) The business makes bona fide efforts to be an enterprise zone business.

The start-up period is the period that ends with the start of the first tax year beginning more than 2 years after the later of the following two dates.

- 1) The issue date of the bond issue financing the qualified zone property.
- 2) The date this property is first placed in service (or, if earlier, the date that is 3 years after the issue date).

Requirements during and after testing period. For bonds issued after August 5, 1997, a business that qualifies as an enterprise zone business at the end of the start-up period must continue to qualify during a testing period that ends 3 tax years after the start-up period ends.

After the 3-year testing period, a business will continue to be treated as an enterprise zone business as long as it meets an employee residency requirement. To meet this requirement, at least 35% of its employees must be residents of an empowerment zone or enterprise community. However, the following businesses are not treated as enterprise zone businesses even if they meet the employee residency requirement.

- 1) Any business that consists primarily of the development or holding of intangibles for sale or license.
- 2) Any business listed earlier in item (5) or item (6) under *Nonqualified employees* in the *Empowerment Zone Employment Credit* section.

A business in the DC Zone does not need to meet the employee residency requirement to continue to be treated as an enterprise zone business after the testing period.

Qualified zone property. For tax-exempt bond financing, qualified zone property is any depreciable real or tangible personal property if all the following are true.

- 1) You acquired the property after the zone or community designation is in effect.
- 2) You did not acquire the property from a related person or member of a controlled group of which you are a member.
- 3) Your 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) You were the first person to use the property in an empowerment zone or enterprise community.

- 5) At least 85% of the property's use is in an empowerment zone or enterprise community and in the active conduct of a qualified trade or business in the zone or community.

Used property may be qualified zone property if it has not previously been used within an empowerment zone or enterprise community.

Special rule for substantially renovated property.

Property will be treated as having met requirements (1) and (4) if you substantially renovate the property. You substantially renovate property if, during any 24-month period beginning after the zone or community designation takes effect, your additions to the property's basis are more than the greater of the following amounts.

- 1) 15% (100% for bonds issued before August 6, 1997) of the adjusted basis of the property at the beginning of the 24-month period.
- 2) \$5,000.

Special rule for bonds issued after July 30, 1996.

Generally for bonds issued after July 30, 1996, property that you reasonably expect by exercising due diligence to be qualified zone property by an initial testing date will be treated as qualified zone property for the period before that date.

The **initial testing date** is generally the date that is 18 months after the later of the following dates.

- 1) The issue date of the bond issue financing the qualified zone property.
- 2) The date this property is first placed in service (or, if earlier, the date that is 3 years (5 years for certain construction projects) after the issue date).

However, the issuer of the bonds can choose to use any earlier date that comes after the bond issue date as the initial testing date.

Interest not deductible. No deduction will be allowed for interest on any financing provided from a bond if the interest accrues during the period beginning on the first day of the calendar year in which either of the following occurs.

- 1) Substantially all of the facility that was financed ceases to be used in an empowerment zone or enterprise community.
- 2) The principal user of the facility ceases to be an enterprise zone business.

This rule does not apply if the use of the facility ceases to qualify because of bankruptcy or the termination or revocation of the designation as an empowerment zone or enterprise community.

In addition, interest will remain deductible if the issuer and principal user try in good faith to meet the requirements and any failure is corrected within a reasonable period after discovery.

More information. For more information, see section 1394 of the Internal Revenue Code and the regulations under that section.

Qualified Zone Academy Bonds

Beginning in 1998, state or local governments can issue qualified zone academy bonds to raise funds for the use of a "qualified zone academy." However, these bonds require a private business contribution. Certain banks, insurance companies, and corporations actively engaged in the business of lending money can receive a tax credit as an incentive to hold these bonds. For more information about claiming the credit, see **Form 8860**.



*The national qualified academy zone bond limit for 2003 was \$400 million, but is zero for 2004 (excluding any carryover limitation). However, at the time this publication was issued, Congress was considering legislation that would establish a national limitation amount for 2004. See **What's Hot in Tax Forms, Pubs, and Other Tax Products** at www.irs.gov/formspubs to find out if this legislation was enacted.*



Contact the appropriate state or local government agency to find out if qualified zone academy bonds are available in your area.

Qualified zone academy. A qualified zone academy is a public school (or academic program within a public school) at the secondary level or below that meets certain requirements. It must be located in either an empowerment zone or an enterprise community, or there must be a reasonable expectation when the bonds are issued that at least 35% of the school's students (or program's participants) will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act. A qualified zone academy must also meet other requirements.

Private business contribution requirement. Before qualified zone academy bonds can be issued, the local educational agency (as defined in section 14101 of the Elementary and Secondary Education Act of 1965) must obtain written commitments from private entities for qualified contributions with a present value (as of the bond issue date) of not less than 10% of the proceeds of the bond issue.

A qualified contribution is a contribution made with the approval of the local educational agency of any property or service from the following list.

- 1) Equipment for use in the qualified zone academy.
- 2) Technical assistance in developing curriculum or in training teachers to promote appropriate market driven technology in the classroom.
- 3) Services of employees as volunteer mentors.

- 4) Internships, field trips, or other educational opportunities outside the academy for students.
- 5) Any other property or service specified by the local educational agency.
- 6) A donation of cash is generally a qualified contribution if it is to be used to buy any property or service described in this list.

More information. For more information about qualified zone academy bonds, see section 1397E of the Internal Revenue Code and the regulations under that section.

Work Opportunity Credit

The work opportunity credit provides businesses with an incentive to hire individuals from groups that have a particularly high unemployment rate or other special employment needs. Your business does not have to be in an empowerment zone, enterprise community, or renewal community to qualify for this credit. You can claim the credit if you pay or incur “qualified first-year wages” to a “targeted group employee.”

The work opportunity credit includes New York Liberty Zone business employees. This part of the work opportunity credit is called the New York Liberty Zone business employee credit. It has a different tax liability limit and is figured separately on Form 8884. For details, see *New York Liberty Zone Business Employee Credit*, earlier.



*This credit is set to expire for individuals who begin work for you after December 2003. However, at the time this publication was issued, Congress was considering legislation that would allow this credit with respect to employees who began work for you in 2004. See **What’s Hot in Tax Forms, Pubs, and Other Tax Products** at www.irs.gov/formspubs to find out if this legislation was enacted.*

Targeted group employee. A targeted group employee is any employee who has been certified by your state employment security agency (SESA) as a:

- 1) Recipient of assistance under Temporary Assistance for Needy Families (TANF),
- 2) Veteran,
- 3) Ex-felon,
- 4) High-risk youth, age 18 to 24 who lives in an empowerment zone, enterprise community, or renewal community,
- 5) Vocational rehabilitation referral,
- 6) Summer youth employee, age 16 or 17 who lives in an empowerment zone, enterprise community, or renewal community,
- 7) Food stamp recipient, or
- 8) Supplemental security income (SSI) recipient.

The employee must meet the requirements explained in the instructions to Form 8850.

State certification required. An employee is not considered a targeted group employee without SESA certification. To receive certification, submit **Form 8850** to your SESA.

You must either:

- 1) Receive the certification by the day the individual begins work, or
- 2) Do both of the following:
 - a) Complete Form 8850 by the day you offer the individual a job, and
 - b) Submit the form to your SESA by the 21st day after the individual begins work.

Qualified first-year wages. Qualified first-year wages are qualified wages you pay or incur for work performed by a targeted group employee during the 1-year period beginning on the date the individual begins work for you. Qualified wages are generally wages (excluding tips) subject to the Federal Unemployment Tax Act (FUTA) without regard to the FUTA dollar limit, but not more than \$6,000 each tax year for each employee (\$3,000 each tax year for a summer youth employee).

If the work performed by the employee during more than half of any pay period qualifies under FUTA as agricultural labor, the first \$6,000 of that employee’s wages subject to social security and Medicare taxes are qualified wages. For a special rule that applies to railroad employees, see section 51(h)(1)(B) of the Internal Revenue Code.

Nonqualified wages. See Form 5884 for a complete list of wages that do not qualify for the credit. Some of the most common wages that do not qualify include wages you pay or incur to an employee who:

- 1) Has worked for you for more than 1 year,
- 2) Is your relative or dependent,
- 3) You rehired, or
- 4) Does not work for you for at least 120 hours.

Successor employer. If you are a successor employer, the 1-year period begins on the date the employee first began work for the previous employer and any qualified first-year wages paid by the successor employer are reduced by the qualified first-year wages paid by the previous employer. You are a successor employer if you acquire substantially all of the property used in a trade or business (or a separate unit thereof) of another employer (previous employer) and immediately after the acquisition you employ in your trade or business an individual who was employed immediately prior to the acquisition in the trade or business of the previous employer.

Amount of credit. The following table shows the rate you apply to qualified first-year wages you pay or incur each tax year to a targeted group employee who works for you

for the number of hours shown. The table also shows the maximum credit you can claim each tax year for each targeted group employee.

Table 5. Rate and Maximum Credit Each Tax Year for Each Targeted Group Employee

Hours Worked For You	Rate	Maximum Qualified First-Year Wages	Maximum Credit
At least 400	40%	\$6,000*	\$2,400
Fewer than 400 but at least 120	25%	6,000*	1,500

*\$3,000 for a summer youth employee

Claiming the credit. Use **Form 5884** to claim this credit.

Effect on salary and wage deduction. In general, you must reduce the deduction on your income tax return for salaries and wages by the amount of your current year work opportunity credit (before applying the tax liability limit).

Effect on empowerment zone and renewal community employment credits. Wages you use to claim the work opportunity credit cannot be used to figure the empowerment zone or renewal community employment credits. In addition, they reduce the maximum wage amount you can use to figure either of those credits.

Effect of welfare-to-work credit. You cannot claim both the work opportunity credit and the welfare-to-work credit for the same employee during the same tax year.

Effect on New York Liberty Zone business employee credit. Wages you use to claim the work opportunity credit cannot be used to figure the New York Liberty Zone business employee credit.

More information. For more information about the work opportunity credit, see Form 5884.

Welfare-to-Work Credit

The welfare-to-work credit provides businesses with an incentive to hire long-term family assistance recipients. Your business does not have to be in an empowerment zone, enterprise community, or renewal community to qualify for this credit. You can claim the credit if you pay or incur “qualified wages” during the first 2 years of employment to a “long-term family assistance recipient.”



*This credit is set to expire for individuals who begin work for you after December 2003. However, at the time this publication was issued, Congress was considering legislation that would allow this credit with respect to employees who began work for you in 2004. See **What’s Hot in Tax Forms, Pubs, and Other Tax Products** at www.irs.gov/formspubs to find out if this legislation was enacted.*

Long-term family assistance recipient. A long-term family assistance recipient is an individual who has been certified by your state employment security agency (SESA) as a member of a family that:

- 1) Has received assistance payments from Temporary Assistance for Needy Families (TANF) for at least 18 consecutive months ending on the hiring date,
- 2) Receives assistance payments from TANF for any 18 months (whether or not consecutive) beginning after August 5, 1997, and is hired not more than 2 years after the end of the earliest 18-month period, or
- 3) Stops being eligible after August 5, 1997, for assistance payments because federal or state law limits the maximum period that assistance is payable, and is hired not more than 2 years after that eligibility for assistance ends.

State certification required. An individual is not considered a long-term family assistance recipient without SESA certification. To receive certification, submit **Form 8850** to your SESA.

You must either:

- 1) Receive the certification by the day the individual begins work, or
- 2) Do both of the following:
 - a) Complete Form 8850 by the day you offer the individual a job, and
 - b) Submit the form to your SESA by the 21st day after the individual begins work.

Qualified wages. Qualified wages are generally wages (excluding tips) subject to the Federal Unemployment Tax Act (FUTA) without regard to the FUTA dollar limit, but not more than \$10,000 each tax year for each employee.

If the work performed by the employee during more than half of any pay period qualifies under FUTA as agricultural labor, the first \$10,000 of that employee’s wages subject to social security and Medicare taxes are qualified wages. For a special rule that applies to railroad employees, see section 51A(b)(5)(C) of the Internal Revenue Code.

For this credit, qualified wages also generally include the following amounts paid or incurred by the employer that are normally excludable from the employee’s gross income.

- 1) Amounts received for medical care under accident and health plans.
- 2) Employer-provided coverage under accident and health plans.
- 3) Certain amounts excludable under an educational assistance program.
- 4) Amounts excludable under a dependent care assistance program.

Nonqualified wages. See Form 8861 for a complete list of wages that do not qualify for the credit. Some of the most common wages that do not qualify include wages you pay or incur to an employee who:

- 1) Has worked for you for more than 2 years,
- 2) Is your relative or dependent, or
- 3) Does not either:
 - a) Work for you for at least 180 days, or
 - b) Complete at least 400 hours of service.

Amount of credit. The following table shows the rate you apply to the qualified wages you pay or incur during each year of employment. The table also shows the maximum credit you can claim each tax year for each qualified employee.

Table 6. Rate and Maximum Credit Each Tax Year for Each Long-Term Family Assistance Recipient

	<u>Rate</u>	<u>Maximum Qualified Wages</u>	<u>Maximum Credit</u>
Qualified first-year wages	35%	\$10,000	\$3,500
Qualified second-year wages	50%	\$10,000	\$5,000

Qualified first-year wages. Qualified first-year wages are qualified wages you pay or incur for work performed by a long-term family assistance recipient during the 1-year period beginning on the date the individual begins work for you.

Qualified second-year wages. Qualified second-year wages are qualified wages you pay or incur for work performed by a long-term family assistance recipient during the 1-year period beginning on the day after the last day of the first-year wage period.

Successor employer. If you are a successor employer, the 1-year period for qualified first-year wages begins on the date the employee first began work for the previous employer. The 1-year period for qualified second-year wages begins on the day after the last day of that first-year wage period. Any qualified first-year wages paid by the successor employer are reduced by the qualified first-year wages paid by the previous employer. Also, any qualified second-year wages paid by the successor employer are reduced by the qualified second-year wages paid by the previous employer. You are a successor employer if you acquire substantially all of the property used in a trade or business (or a separate unit thereof) of another employer (previous employer) and immediately after the acquisition you employ in your trade or business an individual who was employed immediately prior to the acquisition in the trade or business of the previous employer.

Claiming the credit. Use **Form 8861** to claim this credit.

Effect on salary and wage deduction. In general, you must reduce the deduction on your income tax return for

salaries and wages by the amount of your current year welfare-to-work credit (before applying the tax liability limit).

Effect on empowerment zone and renewal community employment credits. Wages you use to claim the welfare-to-work credit cannot be used to figure the empowerment zone or renewal community employment credits. In addition, they reduce the maximum wage amount you can use to figure either of those credits.

Effect of work opportunity credit. You cannot claim both the welfare-to-work credit and the work opportunity credit for the same employee during the same tax year.

Effect of New York Liberty Zone business employee credit. You cannot claim both the welfare-to-work credit and the New York Liberty Zone business employee credit for the same employee during the same tax year.

More information. For more information about the welfare-to-work credit, see Form 8861.

Indian Employment Credit

The Indian employment credit provides businesses with an incentive to hire certain individuals who live on or near an Indian reservation. Your business does not have to be in an empowerment zone, enterprise community, or renewal community to qualify for this credit. You can claim the credit if you pay or incur "qualified wages" to a "qualified employee."



At the time this publication was printed, this credit was set to expire for tax years beginning after 2004.

Qualified employee. A qualified employee, for any tax period, is any employee who meets all the following tests.

- 1) The employee is an enrolled member of an Indian tribe or the spouse of an enrolled member of an Indian tribe.
- 2) The employee performs substantially all of his or her services for you within an Indian reservation.
- 3) While performing those services, the employee has his or her main home on or near that reservation.

Also, more than 50% of the wages you pay or incur to the employee during the year must be for services performed in your trade or business.

Nonqualified employees. The following individuals are not qualified employees.

- 1) Any employee to whom you pay or incur wages (including wages for services outside an Indian reservation) at a rate that would cause you to pay the employee more than the wage limit if the rate applied for an entire year. (The wage limit was \$35,000 for 2003 but may be adjusted for inflation for tax years beginning after 2003.)

- 2) Certain related taxpayers.
- 3) Certain dependents.
- 4) Any 5% owner.
- 5) Any individual who performs services involving certain gaming activities.
- 6) Any individual who performs services in a building housing certain gaming activities.

Qualified wages. Qualified wages are any wages you pay or incur for services performed by an employee while the employee is a qualified 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 wages any qualified employee health insurance costs you pay or incur on behalf of a qualified employee. However, do not include any amount you pay or incur for health insurance under a salary reduction arrangement.

The total amount of qualified wages (including qualified employee health insurance costs) you can use to figure the credit cannot be more than \$20,000 for each employee each tax year.

Effect of work opportunity credit. Qualified wages do not include any amount you pay or incur for work performed by a qualified employee during the 1-year period beginning on the date the individual begins work for you, if you use any part of these wages to claim the work opportunity credit.

Amount of credit. In most cases, the credit is 20% of the excess of your current year qualified wages and qualified employee health insurance costs over the sum of the corresponding amounts you paid or incurred during calendar year 1993.

Claiming the credit. Use **Form 8845** to claim this credit.

Effect on salary and wage deduction. In general, you must reduce the deductions on your income tax return for salaries and wages and health insurance costs by the amount of your current year Indian employment credit (before applying the tax liability limit).

Early termination of employee. Generally, if you terminate a qualified employee sooner than 1 year after the date of initial employment, you cannot claim a credit for that employee for the tax year the employment is terminated. Also, you may have to recapture credits allowed in earlier years.

These rules do not apply in the following situations.

- The employee voluntarily quits.
- The employee is terminated because of misconduct.
- The employee becomes disabled. However, if the disability ends before the end of the first year of employment, you must offer reemployment to the former employee.

More information. For more information about the Indian employment credit, see Form 8845.

Depreciation of Property Used on Indian Reservations

Depreciation is a loss in the value of property over the time the property is being used. You can get back your cost of certain property by taking deductions for depreciation. This includes the cost of certain buildings and equipment you use in your business.

Special depreciation rules apply to qualified property that you place in service on an Indian reservation after 1993 and before 2005. These special rules allow you to use shorter recovery periods to figure your depreciation deduction for qualified property. As a result, your deduction is larger. Your business does not have to use the property in an empowerment zone, enterprise community, or renewal community to use these special rules.



*The special depreciation rules that apply to qualified Indian reservation property is set to expire for property placed in service after 2004. However, at the time this publication was issued, Congress was considering legislation that would apply the special rules for property placed in service in 2005. See **What's Hot in Tax Forms, Pubs, and Other Tax Products** at www.irs.gov/formspubs to find out if this legislation was enacted*

Qualified property. Property eligible for the shorter recovery periods is 3-, 5-, 7-, 10-, 15-, and 20-year property and nonresidential real property. You must use this property predominantly in the active conduct of a trade or business within an Indian reservation. Real property you rent to others that is located on an Indian reservation is also eligible for the shorter recovery periods.

The following property is **not** qualified property.

- 1) Property used or located outside an Indian reservation on a regular basis, other than qualified infrastructure property.
- 2) Property acquired directly or indirectly from certain related persons.
- 3) Property placed in service for purposes of conducting or housing certain gaming activities.
- 4) Any property you must depreciate under the Alternative Depreciation System (ADS).

Qualified infrastructure property. Item (1) above does not apply to qualified infrastructure property located outside the reservation that is used to connect with qualified infrastructure property within the reservation.

Qualified infrastructure property is property that meets all the following requirements.

- 1) It is qualified property, as defined earlier (except that it is outside the reservation).

- 2) It benefits the tribal infrastructure.
- 3) It is available to the general public.
- 4) It is placed in service in connection with the active conduct of a trade or business within a reservation.

Infrastructure property includes, but is not limited to, roads, power lines, water systems, railroad spurs, and communications facilities.

Recovery periods. The following table shows the shorter recovery periods you can use to depreciate qualified property.

Table 7. Recovery Periods for Qualified Property

<u>Property Class</u>	<u>Recovery Period</u>
3-year	2 years
5-year	3 years
7-year	4 years
10-year	6 years
15-year	9 years
20-year	12 years
Nonresidential real property	22 years

More information. For more information about depreciation, including the special rules that apply to property used on Indian reservations, see Publication 946.

Capital Gain Exclusion for DC Zone Assets

If you hold a District of Columbia Enterprise Zone (DC Zone) asset more than 5 years, you will not have to include any “qualified capital gain” from its sale or exchange in your gross income. This exclusion applies to an interest in, or property of, certain businesses operating in the District of Columbia.

DC Zone asset. A DC Zone asset is any of the following.

- DC Zone business stock.
- DC Zone partnership interest.
- DC Zone business property.



In determining whether any property is a DC Zone asset, continue to treat the DC Zone as an empowerment zone for years after 2003.

DC Zone business stock. DC Zone business stock is any stock in a U.S. corporation that is originally issued after 1997, if all the following requirements are met.

- 1) You acquired the stock before 2004 at its original issue solely in exchange for cash. (This requirement is also met if you acquired the stock at any time from

another person in whose hands it was DC Zone business stock.)

- 2) The corporation was a DC Zone business (or was being organized as a DC Zone business) at the time the stock was issued.
- 3) The corporation qualified as a DC Zone business during substantially all of your holding period for the stock. (This requirement is also met if the corporation ceased to qualify as a DC Zone business after the 5-year period beginning on the date you acquired the stock. However, your qualified capital gain cannot be more than what it would have been if you had sold the stock on the date the corporation ceased to qualify.)

Redemptions of business stock. Stock will not qualify as DC Zone business stock if the issuing corporation makes certain redemptions of its stock within 2 years before or 2 years after the date the stock was issued. For details, see sections 1400B(b)(2)(B) and 1202(c)(3) of the Internal Revenue Code.

DC Zone partnership interest. A DC Zone partnership interest is any capital or profits interest in a U.S. partnership that is originally issued after 1997, if all the following requirements are met.

- 1) You acquired the partnership interest from the partnership before 2004 in exchange for cash. (This requirement is also met if you acquired the partnership interest at any time from another person in whose hands it was a DC Zone partnership interest.)
- 2) The partnership was a DC Zone business (or was being organized as a DC Zone business) at the time the partnership interest was acquired.
- 3) The partnership qualified as a DC Zone business during substantially all of your holding period for the partnership interest. (This requirement is also met if the partnership ceased to qualify as a DC Zone business after the 5-year period beginning on the date you acquired the partnership interest. However, your qualified capital gain cannot be more than what it would have been if you had sold the partnership interest on the date the partnership ceased to qualify.)

Redemptions of partnership interest. A partnership interest will not qualify as a DC Zone partnership interest if the partnership makes certain acquisitions of its partnership interests within 2 years before or 2 years after the date the partnership interest was issued. For details, see sections 1400B(b)(3), 1400B(b)(2)(B), and 1202(c)(3) of the Internal Revenue Code.

DC Zone business property. DC Zone business property is tangible property acquired after 1997 that meets all the following requirements.

- 1) You acquired the property before 2004. (This requirement is also met if you acquired the property at

any time from another person in whose hands it was DC Zone business property.)

- 2) You did not acquire the property from a related person or member of a controlled group of which you are a member.
- 3) Your 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) You were the first person to use the property in the DC Zone. (This requirement is also met if you acquired the property from another person in whose hands it was DC Zone business property.)
- 5) Substantially all of the use of the property was in your DC Zone business during substantially all of your holding period for that property. (This requirement is also met if you stopped using the property in your DC Zone business, or your business ceased to qualify as a DC Zone business, after the 5-year period beginning on the date you acquired the property. However, your qualified capital gain cannot be more than what it would have been if you had sold the property on the date you stopped using the property in your DC Zone business or on the date your business ceased to qualify.)

Special rule for substantially improved buildings.

Buildings (and land on which they are located) will be treated as having met requirements (1) and (4) if you substantially improve the buildings before 2004. You substantially improve a building if, during any 24-month period beginning after 1997, your additions to the basis of the property are more than the greater of the following amounts.

- 1) 100% of the adjusted basis of the property at the beginning of the 24-month period.
- 2) \$5,000.

DC Zone business. A DC Zone business for this capital gains exclusion is an enterprise zone business as defined earlier under *Increased Section 179 Deduction* in the discussion of empowerment zones, with the following exceptions.

- The 35% employee residence requirement listed in item (6) does not apply.
- The 50% of gross income requirement listed in item (2) is increased to 80%.
- No area other than the DC Zone can be treated as an empowerment zone or enterprise community.

For this purpose, the DC Zone is treated as including all census tracts in the District of Columbia with a poverty rate of at least 10% as determined by the 1990 census. See **Notice 98-57**, on page 9 of Internal Revenue Bulletin 1998-47 at www.irs.gov/pub/irs-irbs/irb98-47.pdf.

Qualified capital gain. Qualified capital gain is any gain recognized on the sale or exchange of a DC Zone asset that is a capital asset or property used in a trade or business as defined in section 1231(b) of the Internal Revenue Code (generally real property or depreciable personal property). But it does not include any of the following gains.

- Gain attributable to periods before 1998 or after 2008.
- Ordinary (section 1245) gain. See chapter 3 in Publication 544, *Sales and Other Dispositions of Assets*.
- Section 1250 gain figured as if section 1250 applied to *all* depreciation rather than the additional depreciation. See chapter 3 in Publication 544.
- Gain attributable to real property or an intangible asset that is not an integral part of a DC Zone business.
- Gain attributable, directly or indirectly, in whole or in part, to a transaction with a related person. For the definition of a related person, see chapter 2 in Publication 544.

Other rules. Rules similar to certain rules in section 1202 of the Internal Revenue Code apply to interests in pass-through entities, certain tax-free transfers, contributions to capital after the original stock issuance date, and short positions.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at **1-877-777-4778**.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1-800-829-4059** if you are a TTY/TDD user.
- Visit the website at www.irs.gov/advocate.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS*.

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



Internet. You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov to:

- **E-file.** Access commercial tax preparation and *e-file* services available for free to eligible taxpayers.
- Check the amount of advance child tax credit payments you received in 2003.
- Check the status of your 2003 refund. Click on “Where’s My Refund.” Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically) and have your 2003 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- See answers to frequently asked tax questions.
- Search publications online by topic or keyword.
- Figure your withholding allowances using our Form W-4 calculator.
- Send us comments or request help by email.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

You can also reach us using File Transfer Protocol at [ftp.irs.gov](ftp://ftp.irs.gov).



Fax. You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call **703-368-9694** from your fax machine. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

For help with transmission problems, call **703-487-4608**.

Long-distance charges may apply.



Phone. Many services are available by phone.

- **Ordering forms, instructions, and publications.** Call **1-800-829-3676** to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.

- **Asking tax questions.** Call the IRS with your tax questions at **1-800-829-1040**.
- **Solving problems.** You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov or look in the phone book under “United States Government, Internal Revenue Service.”
- **TTY/TDD equipment.** If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax or account questions or to order forms and publications.
- **TeleTax topics.** Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.
- **Refund information.** If you would like to check the status of your 2003 refund, call **1-800-829-4477** for automated refund information and follow the recorded instructions or call **1-800-829-1954**. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically) and have your 2003 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- **Products.** You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- **Services.** You can walk in to your local Taxpayer Assistance Center every business day to ask tax questions or get help with a tax problem. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. You can set up an appointment by calling your local Center and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representa-

tive will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to www.irs.gov or look in the phone book under "United States Government, Internal Revenue Service."



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CD-ROM for tax products. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current-year forms, instructions, and publications.

- Prior-year forms and instructions.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

Buy the CD-ROM from National Technical Information Service (NTIS) on the Internet at www.irs.gov/cdorders for \$22 (no handling fee) or call **1-877-233-6767** toll free to buy the CD-ROM for \$22 (plus a \$5 handling fee). The first release is available in early January and the final release is available in late February.



CD-ROM for small businesses. IRS Publication 3207, *Small Business Resource Guide*, is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions and publications needed to successfully manage a business. In addition, the CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in early April. You can get a free copy by calling **1-800-829-3676** or by visiting the website at www.irs.gov/smallbiz.



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