THE CITY OF SAN DIEGO

Renewal Community Program

FACT SHEET

The 2000 Community Renewal Tax Relief Act established new federal income tax benefits for businesses and investments in 40 areas around the country to be designated as “Renewal Communities.” San Diego received a Renewal Community (or RC) designation for the neighborhoods of Barrio Logan, East Village, Grant Hill, Lincoln Park, Lindbergh Field, Little Italy, Logan Heights, Mount Hope, and Mountain View, plus parts of Centre City, Chollas View, Golden Hill, Oak Park, and Webster. The RC tax savings are effective for the period of January 1, 2002, through December 31, 2009.

To claim the Renewal Community federal income tax savings, the business or investment must be located within the designated area and meet other specific qualifying criteria for each tax benefit. For details on qualifying criteria and specified exclusions, see *IRS Publication 954*. A summary of the Renewal Community tax savings is as follows:

- ***Renewal Community Employment Credit (RC Wage Credit)*** – Most businesses in the RC may claim a credit against their federal income taxes in the amount of 15 percent of the wages of each employee who resides in the RC. The maximum amount of tax credit per employee is $1,500. The tax credit may be claimed for each year the employee works for the RC business while the RC designation is in effect. The credit may be claimed on both full-time and part-time employees, and both current and new employees, so long as they reside within the RC. Note that tax credits are deducted directly againsu the calculated tax liability and not against the gross income and thus have a dollar-for-dollar value for the business in tax savings. However, amounts claimed as a tax credit cannot also be used for the standard business deduction. A business owner’s and any family employees’ wages cannot be claimed for the *RC Wage Credit*. ***Example:*** *A business located in the RC has five full-time employees and one part-time employee. The full-time employees all earn over $25,000 per year and the part-time employee earns $8,000 per year. Three of the full-time employees and the part-time employee all reside in the RC. The taxpayer may claim employee tax credits totaling $5,700 against his or her federal income taxes (15 percent of the maximum $10,000 for each of the three RC resident employees plus 15 percent of the $8,000 in wages for the part-time employee).*

- ***Increased Section 179 Expensing*** – Under Section 179 of the Internal Revenue Code, a business may elect to deduct the full cost of certain property that would otherwise be subject to depreciation, such as equipment and machinery used in the conduct of the business, in the year the property is placed in service. The amount of this normal expensing option is $24,000 for the 2002 tax year, and $25,000 for the 2003 tax year and thereafter. The *Increased Section 179 Expensing* allows an RC business to claim up to $35,000 **in addition to** the standard expensing on qualifying property acquired during the period of the RC designation. To qualify for this increased deduction, at least 35 percent of the RC’s employees must be residents of the RC, and the business must meet other qualifying criteria. For the purpose of the *Increased Section 179 Expensing*, the business owner and any family employees who reside in the RC will count toward the 35 percent RC residency requirement. ***Example:*** *In October, 2002, the business spends $40,000 to purchase a widget that is used for business purposes and normally would be depreciated over seven years. If the business is located in the RC, at least 35*

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percent of its employees are RC residents, and the business meets other qualifying criteria, the business may deduct the entire $40,000 from its gross income for the purpose of calculating its 2002 federal income tax. Otherwise, the business may deduct only $24,000 of the widget's cost in 2002 and deduct the remaining value according to the depreciation schedule.

- ***Zero Percent Capital Gains Rate for RC Assets*** – If an investor acquires an RC asset between January 1, 2002, and December 31, 2009, and that investor holds the asset for a minimum of five years, then the investor may exclude any gain from the sale or exchange of the asset from the investor's gross federal income in the year the gain is realized. An RC asset is defined as stock or a partnership interest in a business that is located within the RC, or business property used in the RC. To qualify for this savings on capital gains, the asset must be a business and at least 35 percent of the business's employees must be residents of the RC, and the business must meet other qualifying criteria. For the purpose of the *Zero Percent Capital Gains Rate*, the business owner and any family employees who reside in the RC will count toward the 35 percent RC residency requirement. ***Example:*** *On July 1, 2002, you purchase $100,000 in stock in RCBiz, Inc., a privately held corporation that meets the requirements of being a Renewal Community business, including that 35 percent of its employees are residents of the RC. On July 1, 2007, you sell the stock for $200,000. You can exclude the $100,000 gain from your gross income for the purpose of calculating your 2007 federal income tax.*

- ***Commercial Revitalization Deduction*** – Most investments in commercial properties are depreciated over 39 years. In the RC, expenses charged to a capital account to build a new commercial building or substantially rehabilitate an existing building may be deducted in one of two ways, at the taxpayer's option: (1) Deduction of one-half of the expenses in the first year a building is placed in service, with a straight-line depreciation for the remaining half of the expenses over the remaining 38 years; or (2) All the expenses may be amortized over 10 years (120 months) beginning in the month the building is placed into service. Each RC in the U.S. has a yearly maximum of $12 million in *Commercial Revitalization Deductions* that it may allocate to projects, and there is a $10 million limit on any one project's allocation. To be considered a commercial property, at least 20 percent of the building's revenue must be earned on commercial uses. If the deduction is claimed on rehabilitation expenses, no more than 30 percent of the expense can be claimed on the cost of acquiring the building. ***Example:*** *You own a building in the Renewal Community that is used for business purposes. You invest $500,000 to rehabilitate the building and the State allocates to you the full $500,000 for the Commercial Revitalization Deduction. At your election, you may deduct $250,000 from your gross revenue for the tax year in which the building is placed back into service, with the remaining $250,000 depreciated over the following 38 years. Alternatively, you may depreciate the full $500,000 over the next ten years beginning from the month in which the building's rehabilitation is completed.*

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