Leveraging Federal Tax Credits

Building communities one credit at a time is a great way for corporations to display their citizenship by meeting local needs while earning valuable tax credits.

By Stephanie Droppelmann

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Approximately $100 billion in federal and state corporate tax credits and incentives are not being utilized. Companies, however, are not the only ones negatively affected. Often, there is a direct impact on local communities. Some credits are designated to address a disaster or circumstance to quickly rebuild a community. Others, meanwhile, are ongoing and focus on long-term, community revitalization. There are countless tax credits and incentives aimed at giving jobs to those who need them most. What follows is just a sampling.

■ **Community Development Corporations (CDCs).** Government and private supporters of urban revitalization have increasingly relied on CDCs to improve poor neighborhoods. Over the years, CDCs have proven that proper investment in the community can set off a chain reaction that leads to increased property values and economic development.

Making contributions to CDCs often make the most sense. The government encourages businesses to invest in gifts or long-term loans. An individual can claim a tax credit for five percent of the amount contributed for each of the 10 tax years beginning in the year of the contribution. Ultimately, an individual will receive a full 50 percent of his/her contribution in the form of tax credits. Further, if the contribution is a gift, a charitable contribution deduction for the full amount can be taken. To qualify, the contribution must be made to one of 20 organizations selected by the secretary of Housing and Urban Development (HUD, www.hud.gov).

■ **Work Opportunity Tax Credit (WOTC)/Welfare-to-Work (WtW).** WOTC/WTW programs focus on returning disadvantaged employees back to work. This credit grouping also provides career opportunities to those in specific areas in which business is conducted. Some individuals may have certain barriers to employment and represent a bigger challenge to hire, train, and retain.

The WOTC offers a one-time credit of up to $2,400 for each qualified new hire during their first year of employment. There are eight categories in which to qualify a person for eligibility, with the primary categories focused on welfare/food stamp recipients. The WtW program targets long-term recipients of welfare and is a one-time credit of up to $8,500 during the first two years of employment. Each program requires qualified new hires be certified by the local state workforce agency. They must also work a minimum of 120 hours for WOTC and 400 hours for WtW.

As with many federal programs, these credits have been subject to periodic renewal by Congress. Unfortunately, as in past years, legislative action does not occur until after it expires. This is again the case for both of these credits. In the past, each renewal has contained a provision to make the programs retroactive to cover all employees hired during the hiatus. Congress will likely act by April.

■ **Disaster Relief Credits (DRCs).** Along with providing an incentive for regular hiring activities, the government also gives additional incentives to rebuild and retain employees in hurricane-ravaged areas.

The federal government has expanded assistance to the Gulf Coast. The IRS recently outlined new initiatives regarding these events and explains adjustments to previous legislation. It explains changes to tax law and relief provisions and lists the disaster areas, specifying those eligible for relief through tax breaks. Included are specific lists of counties and parishes designated as Gulf Opportunity (GO) zones. Key provisions include:

- Doubling small business expensing;
- A 50-percent bonus depreciation for businesses that invest in new equipment and new structures; and
- Allowing additional issuance of tax-exempt, private-activity bonds.

One example is a deduction for loss occurring in a GO zone. These may include casualty losses and depreciation and amortization regarding property, as well as moving, temporary housing, and repair expenses.

On September 23, 2005, President Bush signed into law the Katrina Emergency Tax Relief Act. This legislation expanded the WOTC program by adding a temporary Hurricane Katrina category. This tax credit is worth up to $2,400 per individual. Employers who hired "Katrina" employees outside the affected area were eligible for the credit if they began work between August 29 and December 31, 2005. This period is extended to August 28, 2007 for individuals hired within the disaster area.

Overall, federal tax credits enable today's corporations to exhibit great citizenship in claiming what is rightfully theirs. In this way, corporations continue to help build their communities one credit at a time. HRO