



Cannon Heyman & Weiss, LLP

Law Practice Concentrating in Affordable Housing and Community Development Law

OVERVIEW: FEDERAL RENEWAL COMMUNITY INITIATIVE (“FRCI”)

(1) What is the FRCI?

- The Secretary of Housing and Urban Development (HUD) has designated certain parts of the country as renewal communities (“RC”). The designation will generally remain in effect until December 31, 2009.
- In New York State, designated areas of Jamestown, Buffalo, Rochester, Niagara Falls, and Schenectady are eligible to receive benefits under the FRCI.
- The goal of the FRCI is to provide tax incentives to encourage economic growth and opportunity in identified RC’s and surrounding areas.

(2) Who is eligible for benefits under the FRCI?

- A business located in a qualified RC that qualifies as a RC business, and that meets the benefit requirements outlined in Internal Revenue Service Publication 954.
- A qualified RC business is a business that;
 - i) A substantial part of the use of its tangible property is within a RC.
 - ii) A substantial part of its intangible property is used in the active conduct of the business.
 - iii) A substantial part of the employees services are performed within a renewal community.
 - iv) At least 35% of the employees are residents of a renewal community.
 - v) Less than 5% of the average of the total unadjusted bases of the property owned by the business is a) from nonqualified financial property or b) Collectibles not held primarily for sale to customers.

(3) What are the benefits of FRCI?

- The RC Employment Credit: provides businesses with an incentive to hire individuals who both live and work in a RC. You can claim the credit if you pay or incur “qualified wages” to a “qualified employee.”
- The amount of the credit is 15% of the qualified wages paid or incurred during a calendar year. Not more than \$10,000 in wages can be used to figure this credit per employee. Thus, the maximum credit per employee is \$1,500.
- Increased § 179 Deductions: Internal Revenue Code §179 allows businesses to deduct certain expenditures that would otherwise be capitalized and depreciated over the useful life of the asset. Qualified RC businesses may be able to take an increased amount of §179 deductions for qualified renewal property.
- Commercial Revitalization Deduction: A business within a RC can elect to treat qualified revitalization expenditures chargeable to a capital account for any qualified revitalization building in either of the following ways;
 - i) deduct half of the expenditures for the tax year the building is placed in service, or
 - ii) amortize all the expenditures over a 120-month period beginning with the month the building is placed in service.

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- Capital gain exclusion: If a business holds 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 RC businesses operating in a RC. The following are qualified community assets:

- i) qualified community stock,
- ii) qualified community partnership interest,
- iii) qualified community business property.

The content contained within this summary should not be construed as legal advice, and readers should not act upon information contained herein in the absence of professional counsel.

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