

# Renewal Communities in Alabama

The Renewal Community Program provides for the designation to 40 communities throughout the United States in order to assist in economic development and expansion through the provision of federal tax incentives for businesses located, locating or expanding in the designated areas.

## **Purpose:**

The Renewal Community program, created by Congress in 2000, provides federal income tax incentives to businesses that are located or will locate in designated areas. Three of the nation's 40 Renewal Community areas are in Alabama. The sites include the Greene and Sumter Renewal Community, made up of both counties, the Mobile Renewal Community, which includes Prichard and a section of east Mobile, and the Southern Alabama Renewal Community, which includes Wilcox County and parts of Butler, Conecuh, Dallas, Hale, Lowndes, Marengo, Monroe, and Perry Counties.

## **Renewal Community Business Definition:**

Generally, a Renewal Community Business is defined as a corporation, partnership, or sole proprietorship that for each taxable year actively conducts every trade or business of the entity in a Renewal Community (RC), at least 50% of the total gross income of the entity is derived from the active conduct of business within a RC, a substantial portion of the use of the tangible property of the entity is within a RC, a substantial portion of the intangible property of the business is used in the active conduct of the business, a substantial portion of the services performed for the employer by its employees occur within a RC, at least 35% of the employees reside in a RC, no more than five (5) percent of the property is nonqualified financial property except for reasonable amounts of working capital held in cash, cash equivalents, or debt instruments, and no more than five (5) percent of the property is works of art or other collectibles unless held for sale to customers.



Source: Alabama Department of Economic and Community Affairs

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### **Overview of the Tax Benefits**

The Community Renewal Act creates four tax incentives that reward businesses operating in a designated Renewal Community (RC) that employ community residents and invest in plant and equipment, as well as taxpayers investing in such businesses. These incentives apply to qualifying events from January 1, 2002, through December 31, 2010, although some benefits may be realized later if the qualifying investment occurred during this period. The tax incentives consist of the following:

- **Employment tax credit**  
A \$1,500 maximum tax credit per employee, available to any business with qualifying employees living and working in the RC.
- **Commercial revitalization deduction**  
A vastly accelerated deduction for new commercial building or substantial rehabilitation of an existing building in the RC. It may be available to any business in the RC, but deductions are allocated by a state agency.
- **Enhanced IRC (Internal Revenue Code) section 179 deduction**  
An additional \$35,000 accelerated deduction for newly acquired qualifying property, available to a qualifying RC business only.
- **Exclusion of capital gain**  
An exclusion of qualified gain on the sale of stock or a partnership interest in a qualifying RC business or on the capital gain on the sale of a qualifying RC business asset, subject to a five-year holding period and various criteria regarding acquisition and use.

The employment credit and the commercial revitalization deduction are available to any business in the RC meeting the criteria of the specific benefit.

The enhanced section 179 deduction and the capital gain exclusion apply only to “qualifying RC businesses” or their investors. See publication 954

Certain businesses are disqualified from the four RC tax benefits because of their line of business: golf courses, country clubs, massage parlors, hot tub facilities, tanning salons, racetrack or gambling facilities, and liquor stores.

*Source: Alabama Department of Economic and Community Affairs, Resources for Economic Assistance Programs (REAP), <http://www.adeca.state.al.us/C15/RC/default.aspx> (January 2010)*