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General Business Tax Credit

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What is the general business credit?

The general business credit is the sum of a number of individual tax credits. The general business credit was established by Congress to encourage particular social or economic objectives, such as promoting increased investment in disadvantaged communities.

The general business credit includes: (1) the credits listed on Form 3800, (2) the empowerment zone and renewal community employment credit, (3) the New York Liberty Zone employee credit, and (4) the portion of the renewable electricity and refined coal production credit figured in Section B of Form 8835. Each of the individual credits listed on Form 3800 also require their own forms.

Who must file Form 3800

You must file Form 3800 if any of the following apply:

- You're claiming more than one of the credits listed on Form 3800
- Any of those credits (other than the low-income housing credit) is from a passive activity
- Any of those credits has a carryforward or carryback
- You're claiming the trans-Alaska pipeline credit or general credits from an electing large partnership

Carryforwards and carrybacks

If, because of limits that are imposed, there is an unused portion of any of the credits that allow a carryforward or carryback, carry the unused portion back one year. If you still have an unused portion, you can carry it forward for up to 20 years. If there is still an unused portion, you may take it as a deduction.

Credit ordering rule

The order in which any of the credits can be used in a given tax year is as follows:

1. Carryforwards, the earliest ones first
2. The current year credit
3. Carrybacks

The individual credits that make up the general business credit are taken in the order in which they are listed on Form 3800 (also the order in which they appear in this article).

Form 3800 credits

Investment credit (Form 3468)

The investment tax credit, claimed on Form 3468, consists of the rehabilitation credit, the energy credit, and the reforestation credit.

Caution: A business can't claim both the energy credit and the renewable electricity production

credit (see below) in the same taxable year.

Rehabilitation credit

The rehabilitation credit is for expenses incurred in rehabilitating certain older buildings. Generally, the credit is for 20 percent of those expenses that you incur to rehabilitate a certified historic structure for either residential or nonresidential use. If you rehabilitate a qualified building other than a certified historic structure for nonresidential use, you may take a credit of 10 percent of the qualified expenses of doing so. For more information, see Credit for Qualified Rehabilitation Expenditures.

Energy credit

The energy credit is available to the owner of energy property, which is certain depreciable or amortizable equipment that uses solar or geothermal energy. The credit is for 10 percent of the basis of each energy property placed in service prior to January 1, 2006, and 30 percent for property placed in service after December 31, 2005 and before January 1, 2009. To qualify for the credit, the equipment must meet certain performance and quality standards. In addition, the taxpayer must complete the construction, reconstruction, or erection of the energy property or, if the property is acquired, the taxpayer must be the first person to use it.

Reforestation credit

The reforestation credit is available to the owner of qualified timber property, which is a commercial woodlot or some other site located in the United States that is held by the taxpayer for planting, cultivating, tending, and cutting trees for sale or use in the production of timber products. The credit equals 10 percent of the amortizable basis of qualified timber property acquired during the year. Only direct costs for planting and seeding can be amortized.

Work opportunity credit (Form 5884)

The purpose of the work opportunity credit, claimed on Form 5884, is to encourage businesses to hire persons from certain disadvantaged groups (referred to as targeted groups) prone to high unemployment rates. There are eight targeted groups:

- Families eligible to receive benefits under the Temporary Assistance to Needy Families (TANF) Program
- Designated community residents (formerly called high-risk youth)
- Qualified ex-felons
- Vocational rehabilitation referrals
- Qualified summer youth employees
- Qualified veterans
- Families receiving food stamps
- Certain Supplemental Security Income (SSI) benefit recipients

Generally, the credit equals 40 percent of qualified wages paid during the one-year period beginning the day after the individual started work for the employer (i.e., new hires only). For employment of less than 400 hours (but at least 120 hours), the credit equals 25 percent of wages.

The maximum credit per employee is \$2,400 (40 percent of the first \$6,000 of qualified first-year wages). For employees working fewer than 400 hours but at least 120, the maximum credit is \$1,500 per employee.

Tip: The Job Creation and Worker Assistance Act of 2002 created a ninth target group. The credit for this target group is called the New York Liberty Zone employment credit, which can be claimed on Form 8884 (see below for more information).

Caution: You cannot claim both the work opportunity credit and the welfare-to-work credit for wages paid to the same individual. Further, your deduction for wages must be reduced by the amount of the credit.

Tip: For the period beginning January 1, 2007 and ending December 31, 2007, the Tax Relief and Health Care Act of 2006 combines the work opportunity credit with the welfare-to-work credit (discussed below), and expands eligibility.

Tip: The Katrina Emergency Tax Relief Act of 2005 designated qualified Hurricane Katrina employees as an additional target group for purposes of the work opportunity tax credit. General certification requirements and other restrictions are waived for this group.

Technical Note: A qualified Hurricane Katrina employee is (1) an individual who on August 28, 2005 had a principal place of abode in the core disaster area and is hired during the two-year period beginning on such date for a position, the principal place of employment of which is located in the core disaster area and (2) an individual who on August 28, 2005 had a principal place of abode in the core disaster area, who was displaced from such abode by reason of Hurricane Katrina, and is hired during the period beginning on such date and ending on December 31, 2005 without regard to whether the new principal place of employment is in the core disaster area.

Welfare-to-work credit (Form 8861)

The welfare-to-work credit, claimed on Form 8861, is available for the first two years after a business has hired certain qualified long-term family assistance (Aid to Families with Dependent Children or TANF Program) recipients. The maximum credit is \$3,500 per qualified employee in the first year, and \$5,000 for the second year. You calculate the credit by taking 35 percent of the first \$10,000 of first-year wages, and 50 percent of the first \$10,000 of second-year wages paid to each qualified employee.

The credit applies to wages paid to (or accrued for) a qualified individual who begins work for an employer before January 1, 2008.

Caution: You cannot claim both the work opportunity credit and the welfare-to-work credit for wages paid to the same individual. Further, your deduction for wages must be reduced by the amount of the credit.

Alcohol fuels credit (Form 6478)

The credit for alcohol used as a fuel, claimed on Form 6478, applies to certain types of alcohol you sold or used as fuel. For purposes of this credit, eligible alcohol includes ethanol and methanol, but does not include alcohol produced from petroleum, natural gas, coal, or peat. The amount of the credit is based on "cents per gallon" used or sold and depends on the type of alcohol fuel employed. Alcohol of less than 150 proof does not qualify for the credit.

Research expense credit (Form 6765)

The credit for increasing research activities, claimed on Form 6765, is designed to encourage businesses to increase the amounts they spend on research and experimental activities. It also includes payments to universities for contract research. The research must be undertaken to discover information that is technological in nature and intended to be useful in the development of a new or improved business component. Further, the research must relate to a new or improved function, performance, reliability, or quality. The credit amount is 20 percent of qualifying expenses that exceed a specified base amount. (The base amount is computed based on the taxpayer's prior qualified expenditures and gross receipts.)

Caution: Special tests apply to research costs of software developed for the taxpayer's internal use.

Tip: The Energy Tax Incentives Act of 2005 modified the research expense credit to include qualified energy research undertaken by an energy research consortium. This modification is effective for taxable years beginning after August 8, 2005.

Low-income housing credit (Form 8586)

The low-income housing credit is available for certain low-income housing units bought, built, or rehabilitated after 1986. The housing project must have a certain percentage of units occupied by low-income tenants.

State and local housing credit agencies authorize and monitor eligibility of low-income housing projects. The amount of the credit is based on a percentage of the housing project's eligible basis and is taken over a 10-year period. If the project isn't federally subsidized, a 70 percent rate is used to calculate the maximum credit for new construction or rehabilitation. If the project is federally subsidized or is a rehabilitation of an existing building, a 30 percent rate is used. This latter rate also applies to the purchase of existing housing.

To receive the credit authorization, you must enter into a binding contract with the local housing credit agency, agreeing to maintain the units as low-income housing for at least 30 years. The units must actually maintain low-income status for at least 15 years; otherwise, a portion of the credit you have already taken may have to be recaptured.

To claim this credit, file Form 8586, along with a copy of Form 8609 filled out by the state or local housing credit agency.

Tip: Under the Gulf Opportunity Zone Act of 2005, buildings in the Gulf Opportunity (GO) Zone, Rita GO Zone, and Wilma GO Zone are eligible for an enhanced low-income housing credit. Under the enhanced credit, the 70 percent rate and the 30 percent rate are increased to 91 percent and 39 percent, respectively. This provision is effective for buildings placed in service during 2006, 2007, and 2008. The Small Business and Work Opportunity Act of 2007 extended this provision through 2010.

Enhanced oil recovery credit (Form 8830)

The enhanced oil recovery credit, claimed on Form 8830, is available to owners of operating mineral interests who incur qualified enhanced oil recovery costs (such as depreciable tangible property costs). The credit equals 15 percent of those qualified costs for the current tax year, but is phased out when the average unregulated price of a barrel of domestic crude oil exceeds \$28 (adjusted for inflation).

Disabled access credit (Form 8826)

To encourage small businesses to comply with the Americans with Disabilities Act of 1990, a tax credit is provided for expenses incurred in making a business accessible to disabled individuals. You can claim a credit of 50 percent of your business's eligible expenses in excess \$250 but less than \$10,250. The maximum amount of the credit for any tax year is \$5,000 (50 percent of \$10,250 minus \$250).

Your business can claim the credit if, in the previous tax year, it had gross receipts of less than \$1 million or not more than 30 full-time employees.

You claim the credit on Form 8826.

Tip: In addition to the tax credit, your business can take a current tax deduction of up to \$15,000 per year for expenses incurred in removing qualified architectural and transportation barriers. However, you can't claim a deduction and a credit for the same expense.

Renewable electricity production credit (Form 8835, Section A)

If you produce and sell electricity from renewable resources such as wind or biomass (plant matter), you may be able to take this credit. Based on the amount of kilowatt-hours of electricity produced from these resources and sold to unrelated persons, this credit is available during the 10-year period after the generating facility is placed in service. Generally, the credit is 1.9 cents per kilowatt-hour (adjusted for inflation). Generally, qualified facilities

must be placed in service before January 1, 2009. Facilities that produce electricity from poultry waste are also eligible for this credit.

Caution: A business can't claim both the renewable electricity production credit and the energy credit (see above) in the same taxable year.

You use Form 8835 to claim this credit.

Indian employment credit (Form 8845)

The Indian employment credit, claimed on Form 8845, is available to certain business owners for wages and health insurance costs paid to or incurred for an enrolled Native American tribe member (or spouse) for services performed within an Indian reservation. The qualified employee must have his or her principal residence on or near the reservation and be employed in an activity other than gambling. The amount of wages a qualified employee can receive is limited.

This credit applies to the part of the qualified wages and health insurance costs (up to \$20,000 per employee) you paid or incurred during a tax year that is greater than the sum of the comparable costs you paid during calendar year 1993. The credit is equal to 20 percent of this excess amount. Several requirements apply.

This credit expires on December 31, 2007.

FICA tip credit (Form 8846)

If your business is a food and beverage establishment, you may claim a credit for the employer portion of FICA (i.e., Social Security and Medicare taxes) you paid on certain employee tips. As long as tipping your employees is customary, this credit is valid whether the food is consumed on or off your business premises. It's also available whether or not the employee for whom you take the credit reported the tips to the IRS.

Technical Note: If you pay an hourly wage below the federal minimum wage, though, you may not take a credit on the amount of tips necessary to bring the employee's hourly wage up to the minimum wage.

Tip: The Small Business and Work Opportunity Tax Act of 2007 increased the minimum wage. However, the FICA tip calculation ignores this increase and will continue use the old minimum wage of \$5.15 per hour.

You claim the credit on Form 8846.

Caution: You may not take a deduction for the amount you claim as a credit.

Orphan drug credit (Form 8820)

The orphan drug credit, claimed on Form 8820, is for qualified expenses incurred during the testing of certain drugs for rare diseases or conditions. The credit equals 50 percent of the expenses of human clinical tests allowed under the Federal Food, Drug, and Cosmetic Act.

New markets credit (Form 8874)

The new markets credit, claimed on Form 8874, exists for investments made to acquire stock in a community development entity (CDE). A CDE is a domestic corporation or partnership whose primary mission is serving or providing investment capital for low-income persons or communities. A CDE must be accountable to the residents of the low-income communities, and must be certified by the Treasury Department.

Unlike community renewal and empowerment zone tax breaks, the new markets credit may be taken directly by passive investors as well as by active businesses. The investor is allowed a 5 percent credit for the year in which the equity interest (e.g., stock) is purchased from the CDE and for the first two anniversary dates after the purchase. The investor is also entitled to a 6 percent credit on each anniversary date thereafter for the next four years. As a result, the credit totals 39 percent of your investment over a seven-year period.

Small employer pension plan start-up credit (Form 8881)

If you're an employer who begins a new pension plan for your employees, you may be eligible to receive a tax credit of 50 percent of the first \$1,000 of qualified start-up costs of the plan. An eligible employer is one that had 100 or fewer employees who received at least \$5,000 of compensation during the previous tax year. Types of plans eligible for this credit include defined benefit and defined contribution plans (including 401(k) plans), SIMPLE plans, and simplified employee pensions. The credit, claimed on Form 8881, is available for each of the first three years of a plan established after 2001.

Qualified start-up costs are any ordinary and necessary expenses you pay to:

- Begin or administer an eligible employer plan, or
- Educate your employees about the plan

Caution: You can't carry back unused portions of this credit to tax years beginning before 2002. Also, you can't deduct that portion of the qualified start-up costs you paid or incurred during the year that is equal to the credit you take for that year.

Credit for employer-provided child care (Form 8882)

You can receive a tax credit of 25 percent of the qualified expenses you paid for employee child care, and 10 percent of the qualified expenses you paid for child-care resource and referral services. This credit, claimed on Form 8882, cannot exceed \$150,000 per year, and several requirements apply.

Expenses that qualify for this credit include the following:

- Expenses to acquire, construct, rehabilitate, or expand depreciable property for use as a qualified child-care facility
- Expenses to operate a qualified child-care facility
- Expenses paid to a qualified child-care facility under contract to provide child-care services to your employees

Biodiesel fuels credit (Form 8864)

The American Jobs Creation Act of 2004 created a credit for biodiesel fuels, which is a combination of the biodiesel mixture credit and the biodiesel credit:

- Biodiesel Mixture Credit--The taxpayer may claim a credit of 50 cents for each gallon of biodiesel fuel utilized when producing a qualified biodiesel mixture to be used or sold in the taxpayer's trade or business.
- Biodiesel Credit--The taxpayer may claim a credit of 50 cents for each gallon of biodiesel fuel that is not in a mixture with diesel fuel. The biodiesel fuel must be used or sold in the taxpayer's trade or business.

In the case of agri-biodiesel fuels, both credits are increased to \$1 for each gallon.

Biodiesel fuels are a mixture of animal fats or vegetable oils, and diesel. Agri-biodiesel fuels are a type of biodiesel mixture derived from virgin vegetable oils and animal fats. The taxpayer must obtain certification specifying the percentage of biodiesel and agri-biodiesel in the product.

The credit, claimed on Form 8864, applies to fuels produced, and used or sold, after December 31, 2004 and

expires after December 31, 2006.

Tip: The Energy Tax Incentives Act of 2005 adds a small agri-biodiesel fuel producer credit to the biodiesel fuels credit. The credit is 10 cents per gallon for up to 15 million gallons of agri-biodiesel fuel produced by small producers. Small producers are defined as persons with a production capacity that does not exceed 60 million gallons a year. This credit is available for tax years ending on or after August 8, 2005 and before January 1, 2009.

Low sulfur diesel fuel production credit (Form 8896)

The American Jobs Creation Act of 2004 created a credit for the production of low sulfur diesel fuel. The credit is generally five cents for every gallon of low sulfur diesel fuel produced by a qualified small business during the tax year. The credit is allowed for expenses paid or incurred after 2002. The credit cannot be carried back to a tax year ending before 2003. You claim this credit on Form 8896.

Community development corporation (CDC) credit (Form 8847)

CDCs provide employment and business opportunities to low-income individuals. To encourage taxpayers to make gifts or long-term loans to CDCs, a tax credit was created. You can claim this credit for qualified cash contributions (including loans and investments) you made on or before June 30, 1999, to CDCs in selected geographic areas. The tax credit equals 5 percent of the amount you contributed, and you can claim it for each of 10 years beginning with the year you made the contribution. As a result, you can claim a total of 50 percent of your contribution during the 10-year credit period.

Trans-Alaska pipeline liability fund credit (separate schedule)

The trans-Alaska pipeline liability fund credit is for costs associated with payments to the liability fund.

Nuclear power production credit

The Energy Tax Incentives Act of 2005 created a credit for the production of electricity at a qualifying advanced nuclear power facility. The credit is generally 1.8 cents (indexed for inflation) per kilowatt hour of electricity produced over an 8-year period starting when the facility is placed in service. A taxpayer can claim no more than \$125 million in tax credits per 1,000 megawatts of allocated capacity in any one taxable year of the 8-year period. Other limits may apply to certain producers.

An advanced nuclear facility is any nuclear facility for the production of electricity, the reactor design for which was approved after 1993 by the Nuclear Regulatory Commission.

This credit applies to electricity produced in taxable years beginning after August 8, 2005 and before January 1, 2021.

Clean-fuel vehicle refueling property credit (Form 8911)

The Energy Tax Incentives Act of 2005 created a 30 percent credit for the cost of installing clean-fuel vehicle refueling property to be used in a trade or business of the taxpayer (up to \$30,000) or installed at the principal residence of the taxpayer (up to \$1,000).

Clean fuels are any fuels at least 85 percent of the volume of which consists of ethanol, natural gas, compressed natural gas, liquefied natural gas, or hydrogen and any mixture of diesel fuel and biodiesel fuel containing at least 20 percent biodiesel.

This credit is effective for property placed in service after December 31, 2005 and before January 1, 2008. Any unused credit can be carried forward for 20 years.

Caution: Only the portion of the credit attributable to property subject to depreciation is treated as part of the general business credit. However, the remainder of the credit is allowable to the extent of the excess of the regular tax (reduced by certain other credits) over the alternative minimum tax (AMT).

Energy-efficient new home construction credit (Form 8908)

The Energy Tax Incentives Act of 2005 created a \$2,000 credit to eligible contractors and manufacturers of qualified new energy-efficient single-family homes. To qualify as an energy-efficient home, it must be:

- A dwelling located in the United States
- Substantially completed after December 31, 2005
- Certified to have a projected level of annual heating and cooling energy consumption that meets the standards for a 50 percent reduction in energy usage, compared to a comparable dwelling that meets the standards of the 2003 International Energy Conservation Code

Manufactured homes may be eligible for a \$1,000 credit if the home is:

- Located in the United States
- Substantially completed after December 31, 2005
- Certified to have a projected level of annual heating and cooling energy consumption that meets the standards for a 30 percent reduction in energy usage, compared to a comparable dwelling that meets the standards of the 2003 International Energy Conservation Code

This credit applies to homes substantially completed after December 31, 2005, and purchased after December 31, 2005 and before January 1, 2009.

Caution: This credit can't be carried back to any taxable year ending on or before January 1, 2006.

Energy-efficient home appliance production credit

The Energy Tax Incentives Act of 2005 created a credit for the eligible production of certain energy-efficient dishwashers, clothes washers, and refrigerators.

The credit ranges from \$50 to \$175 for each appliance. Manufacturers can claim up to \$75,000 in credits for all taxable years. Other limits apply. This credit is available for appliances produced after December 31, 2005 and before January 1, 2008.

Indian coal credit

The Energy Tax Incentives Act of 2005 established a credit for Indian coal sold to an unrelated person. Indian coal is defined as coal produced from coal reserves that were owned by a federally-recognized Indian tribe on June 14, 2005, or are held in trust by the United States for a tribe or its members. The credit is \$1.50 (indexed for inflation) per ton for coal sold in 2006 through 2009, and \$2.00 (indexed for inflation) per ton for coal sold after 2009 and before January 1, 2013.

Tip: The Indian coal credit is allowed against the regular tax and the alternative minimum tax (AMT).

Fuel cell and micro-turbine power plant credit

The Energy Tax Incentives Act of 2005 established a 30 percent credit for the purchase of qualified fuel cell power plants for businesses, and a 10 percent credit for the purchase of qualifying stationary micro-turbine power plants.

A qualified fuel cell power plant is an integrated system composed of a fuel cell stack assembly and components that (1) convert fuel to electricity using electrochemical means, and (2) has an electricity-only generation

efficiency of greater than 30 percent, and (3) generates at least .5 kilowatts of electricity. The credit for any fuel cell may not exceed \$500 for each .5 kilowatts of capacity.

A qualified stationary micro-turbine power plant is a system comprised of a gas turbine engine, a combustor, a recuperator or regenerator, a generator or alternator, and other components that convert fuel into electricity and thermal energy. The system must have an electricity-only generation efficiency of not less than 26 percent at International Standard Organization conditions and a capacity of less than 2,000 kilowatts. The credit may not exceed \$200 for each kilowatt of capacity.

The credit applies to property placed in service after December 31, 2005 and before January 1, 2009.

Alternative fuel (or clean-fuel) vehicle credit (Form 8910)

The Energy Tax Incentives Act of 2005 created this tax credit, which is actually a combination of four credits: (1) the hybrid vehicle credit, (2) the advanced lean-burn technology vehicle credit, (3) the alternative fuel (or clean-fuel) vehicle credit, and (4) the credit for vehicles powered by fuel cells. The amount of the credit depends on many factors. For more information, see Tax Incentives for Motor Vehicles.

Caution: This credit replaces the deduction for clean-fuel vehicles, which is repealed as of January 1, 2006.

Caution: Only the portion of the credit attributable to property subject to depreciation is treated as part of the general business credit. However, the remainder of the credit is allowable to the extent of the excess of the regular tax (reduced by certain other credits) over the alternative minimum tax (AMT).

Distilled spirits wholesalers credit (Form 8906)

The Safe, Accountable, Flexible, Efficient Transportation Equity Act of 2005 created a credit for the average carrying costs of the excise tax on distilled spirits. This credit is available to importers, wholesalers, and distillers. The credit is for tax years beginning after September 30, 2005.

Empowerment zone and renewal community employment credit (Form 8844)

The empowerment zone and renewal community employment credit is a component of the general business credit. It is claimed on Form 8844 but not carried over to Form 3800. This credit has two parts: (1) the empowerment zone employment credit, and (2) the renewal community employment credit. See IRS Publication 954 for more information on this credit.

Empowerment zone employment credit

If you locate your business in a qualified federal "empowerment zone" and hire residents of that zone to work within it, you may be eligible to claim a tax credit. The tax credit can be 20 percent of the first \$15,000 of wages that you paid each qualified zone employee (i.e., a maximum credit of \$3,000 per employee each year). Qualified empowerment zones are those designated by the Secretary of Housing and Urban Development (HUD). To find out whether your area has been designated as an empowerment zone, go to HUD's website (www.hud.gov) or (<http://hud.esri.com/egis>).

Caution: Certain types of businesses, including liquor stores, aren't eligible for this credit.

Caution: You may not deduct, as a business expense, wages that you take into account in computing the empowerment zone employment credit.

Tip: Other tax incentives are provided for businesses that operate in empowerment zones. If your business also qualifies as an enterprise zone business, it may be eligible for an extra \$35,000 Section 179 deduction for the expense of equipment and machinery placed in service after 2001.

This amount is in addition to the Section 179 deduction of \$125,000 for tax years beginning in 2007 (indexed for inflation) that is available to all businesses.

Renewal community employment credit

Congress created the renewal community employment credit to attract business investment and create employment opportunities in certain communities with high poverty and unemployment rates. Your business may take a 15 percent wage credit for the first \$10,000 of wages paid to each employee who is a resident of a designated renewal community and performs substantially all of his or her work within that community. As a result, the credit can be as much as \$1,500 (15 percent of \$10,000) per qualified employee each year. This credit is for wages paid or incurred after 2001. To find out whether your area has been designated as a renewal community, call HUD at 1-800-998-9999 or go to HUD's website (www.hud.gov).

Tip: Other tax incentives are provided to businesses that operate in renewal communities, including an increased Section 179 deduction. If your business qualifies as a renewal community business, it may be eligible for an extra \$35,000 Section 179 deduction for the expense of equipment and machinery placed in service after 2001. This amount is in addition to the Section 179 deduction of \$125,000 for tax years beginning in 2007 (\$indexed for inflation) that is available to all businesses.

The New York Liberty Zone employee credit (Form 8835)

The New York Liberty Zone employee credit is actually part of the work opportunity credit but is claimed separately on Form 8884 and is not carried over to Form 3800. The Job Creation and Worker Assistance Act of 2002 created this credit, which creates a new target group in addition to the eight target groups listed under the work opportunity credit. The new targeted group consists of employers with an average of 200 employees or less who perform substantially all of their services from a workplace within the New York Liberty Zone (the area of Manhattan 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) and employers who have moved their workplace elsewhere in New York City due to the physical damage or destruction of their workplace within the New York Liberty Zone caused by the terrorist attacks that occurred on September 11, 2001. Qualified wages for the purposes of this targeted group are wages paid for (or accrued for) work performed after December 31, 2001, and before January 1, 2006. For this group only, qualified employees include both new hires and existing employees (though, for employers who have moved their workplace elsewhere in New York City, the total number of eligible employees may not exceed the number existing on September 11, 2001). For credit amounts, see the work opportunity credit discussion above. The credit for this group is also allowed against the alternative minimum tax.

Tip: Other tax incentives are provided to businesses that operate in the New York Liberty Zone, including an increased Section 179 deduction. If your business qualifies as a renewal community business, it may be eligible for an extra \$35,000 Section 179 deduction for the expense of equipment and machinery placed in service after 2001. This amount is in addition to the Section 179 deduction of \$125,000 for tax years beginning in 2007 (indexed for inflation) that is available to all businesses.

(Hurricane Katrina) employee retention credit

The Katrina Emergency Tax Relief Act of 2005 created a new business credit equal to 40 percent of the qualified wages (up to a maximum of \$6,000 in qualified wages per employee) paid by an eligible employer to an eligible employee.

Technical Note: An eligible employer is any employer that conducted an active trade or business on August 28, 2005 in the core Hurricane Katrina disaster area that was inoperable on any day after August 28, 2005 and before January 1, 2006 as a result of damage caused by Hurricane Katrina.

Technical Note: An eligible employee is an employee whose principal place of employment on August 28, 2005 with the eligible employer was in a core Hurricane Katrina disaster area.

Technical Note: Qualified wages are wages (as defined in IRC Section 51(c)(1), but without regard to IRC Section 3306(b)(2)(B)) paid or incurred by an eligible employer with respect to an eligible employee on any day after August 28, 2005 and before January 1, 2006 during the period (1) beginning on the date on which the trade or business first became inoperable at the principal place of employment of the employee immediately before Hurricane Katrina, and (2) ending on the date on which such trade or business has resumed significant operations at such principal place of employment. Qualified wages include wages paid without regard to whether the employee performs no services, performs services at a different place of employment than such principal place of employment, or performs services at such principal place of employment before significant operations have resumed.

Tip: The Gulf Opportunity Zone Act of 2005 expands the employee retention credit to employers affected by Hurricanes Rita and Wilma.

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