# Employment Wage Credit

Effective January 1, 2002 through December 31,2009

## Scenario: 5 eligible employees earning an average $7 per hour

| | |
|---|---|
| Gross annual salary of each eligible employee (2,080 hours) | $ 14,560 |
| Maximum amount allowed for calculation | $ 10,000 |
| Number of employees | 5 |
| | $ 50,000 |
| Allowable percentage | 15% |
| Credit available for use | **$ 7,500** |
| * Use of the $7,500 credit reduces the amount allowed as a deduction for salaries | |
| Total gross annual salary for all employees ($14,560 x 5) | $ 72,800 |
| Less: credits utilized | 7,500 |
| Deduction allowed against income | **$ 65,300** |
| | |
| Credit available for use | $ 7,500 |
| Less: loss of deduction at an estimated 15% income tax rate | 1,125 |
| Actual benefit recognized | **$ 6,375** |

**Note: The above information is for discussion purposes only. Please consult your accountant for additional information which may be pertinent to your specific situation.**

Information provided by Julie Smith, LeMasters and Daniels

# Increased Section 179 Deduction

Effective January 1, 2002

**Scenario: $200,000 of machinery is purchased in 2002 within a qualified business**

| | |
|---|---|
| Section 179 (base allowance before renewal community addition) | $ 24,000 |
| Additional 30% deduction | 52,800 |
| Regular depreciation on remaining balance (assuming 7-year property) | 17,600 |
| Estimated annual depreciation without additional Section 179 | **$ 94,400** |
| Section 179 (base allowance before renewal community addition) | $ 24,000 |
| Section 179 (additional allowance for renewal community property) | 35,000 |
| Additional 30% deduction | 42,300 |
| Regular depreciation on remaining balance (assuming 7-year property) | 14,100 |
| Estimated annual depreciation with additional Section 179 | **$ 115,400** |
| Additional depreciation allowed within a renewal community | $ 21,000 |
| Estimated income tax rate | 15% |
| Additional tax savings in first year of depreciation | **$ 3,150** |

**Note: The above information is for discussion purposes only. Please consult your accountant for additional information which may be pertinent to your specific situation.**

Information provided by Julie Smith, LeMasters and Daniels

# Commercial Revitalization Deduction

Effective January 1, 2002 through December 31, 2009

**Scenario: Construction of a $2 million dollar commercial building in a renewal community**

| | |
|---|---|
| Construction costs (does not include cost of land or land improvements) | $ 2,000,000 |
| Estimated allocation of CRE's by an assigned agency | 1,500,000 |
| Remaining cost of building available for depreciation | **$ 500,000** |

**Option 1: Deduct one-half the CRE's in the current year**

| | |
|---|---|
| One-half of the allocated $1.5 million | $750,000 |
| Regular depreciation on $1,250,00 over 39.5 years | 31,646 |
| Estimated annual deduction in the first year | **$781,646** |
| Regular depreciation on $2,000,000 over 39.5 years | $ 50,633 |
| Additional deduction in the first year due to allocation of CRE's | $731,013 |
| Estimated income tax rate | 15% |
| Additional tax savings in first year of allocation | **$109,652** |

**Option 2: Amortize CRE's over 120 months**

| | |
|---|---|
| One-tenth of the allocated $1.5 million | $150,000 |
| Regular depreciation on $500,000 over 39.5 years | 2,776 |
| Estimated annual deduction in the first year | **$152,776** |
| Regular depreciation on $2,000,000 over 39.5 years | 50,633 |
| Additional deduction in the first year due to allocation of CRE's | $102,143 |
| Estimated income tax rate | 15% |
| Additional tax savings in first year of allocation (and each of the next 9 years | **$ 15,321** |

**Note: The above information is for discussion purposes only. Please consult your accountant for additional information which may be pertinent to your specific situation.**

Information provided by Julie Smith, LeMasters and Daniels

# Zero-Percent Capital Gains

Effective January 1, 2002 through December 31, 2009 (2014)

**Scenario: Sale of a $2 million dollar commercial building in a renewal community**

| | |
|---|---|
| Original cost of construction (built in 2002) | $2,000,000 |
| Accumulated depreciation (including CRE deductions) over 10 years | $1,066,460 |
| Adjusted basis of building (book value) | **$ 933,540** |
| Sales price of building | $2,500,000 |
| Adjusted basis | 933,540 |
| Gain on sale | **$1,566,460** |
| Estimated income tax savings at the individual level (25%) | **$ 391,615** |
| Estimated income tax savings at the corporate level (no maximum capital gain rate, assumed 34%) | **$ 532,596** |

There may be certain issues as to whether the 25% capital gain rate attributable to IRC Section 1250 property is subject to ordinary income recapture rules. Your accountant will be able to advise you regarding tax planning.

**Note: The above information is for discussion purposes only. Please consult your accountant for additional information which may be pertinent to your specific situation.**

Information provided by Julie Smith, LeMasters and Daniels