



Financial Incentive Program Mobile, Alabama

1. **Gulf Opportunity Zone Act of 2005 (“GO Zone”)** tax incentives are detailed at www.house.gov/jct/x-88-05.pdf and should be utilized in conjunction with your financial advisors. The GO Zone incentives benefit 11 counties in Alabama **including Mobile and Baldwin Counties**. The incentives are summarized below:
 - a. **50% Depreciation benefit** taken in the 1st year placed in service
 - i. Includes personal property (depreciation recovery period of 20 years or less), site improvements, residential and non-residential real property,
 - ii. Must be used in the active conduct of a trade or business,
 - iii. The property must be acquired by the taxpayer on or after 8/28/2005 and be placed in service prior to 12/31/2008.
 - iv. May not be used with Tax Exempt Bonds, tax-exempt use property, and qualified revitalization buildings in the Renewal Community Program (Item 6 below).
 - b. **GO Zone Tax Exempt Bond** availability
 - i. \$2.1 billion private activity bonds
 - ii. Applications must be approved by the Governor,
 - iii. Issued between December 21, 2005 through January 1, 2011,
 - iv. At least 95% of the proceeds must fund qualified project costs.
 - v. **Bond financing may be used for:**
 1. income qualified *residential rental* minimum of either
 - a. 20% of units @ 60% of Area Median Gross Income (\$23,760/\$594 for a family of 2), or
 - b. 40% of units @70% of AMGI (\$27,720,\$693 for a family of 2)
 - c. For more info. see HUD limits & calculator at:
 - d. <http://www.novoco.com/products/rentincome.php>
 2. the acquisition, construction, reconstruction, and renovation of *non residential real property*
 3. must have rehabilitation costs in excess of 50% of the acquisition cost
 4. Mobile Downtown Redevelopment Authority may be bond issuer for projects within the Central Business District (“CBD”) and 3 miles out along major arteries. CBD boundaries are Water Street, St. Louis Street, Broad Street; Church Street.

- c. **New Markets Tax Credits** (“NMTC”) used for community development in areas plagued by economic blight. **Downtown Mobile qualifies for NMTC’s.**
 - i. **\$1 billion** increase (\$300 million in each of 2005 and 2006; \$400 million in 2007) in NMTC incentives
 - ii. Community Development Entities (“CDE”) solicit investors who provide a loan & get tax credits equating to 39% of their investment
 - iii. CDE’s use the proceeds to invest via loans or equity investments in Qualified Active Low –Income Community Businesses (“QALICBs”)
 - iv. Firms with 2006 NMTC allocations:
www.cdfifund.gov/docs/nmtc/2007/FINALQeiIssuanveReport.pdf

- d. **Low Income Housing Tax Credits** (“LIHTC”) allocated to Alabama which are used for the development of affordable/workforce rental housing,
 - i. Were increased for the years 2006, 2007, and 2008
 - ii. Administered and awarded by the Alabama Housing Finance Authority, www.ahfa.com
 - iii. LIHTC’s must be allocated in 2006, 2007; 2008
 - iv. Properties placed in service in the GO Zone in 2007, 2008, 2009; 2010 are considered Difficult to Develop Areas (“DDA’s”) and receive a 30% increase in eligible basis.
 - v. In some instances, CDBG funds may be combined with LIHTC

- e. **Historic Tax Credit** (“HTC”) increased to assist with rehabilitation of certified historic structures and buildings constructed prior to 1936. Administered by the Alabama Historical Commission www.preserveala.org
Local Contact: Mobile Historical Development Commission at (251) 208-7281
 - i. Must be qualified rehabilitation expenditures paid or incurred between 8/28/2005 and 12/31/2008.
 - ii. The applicable credit for certified historic structures & buildings was **increased to 26%** (from 20%)
 - iii. The applicable credit for buildings constructed prior to 1936 was **increased to 13%** (from 10%)

- f. **Cleanup costs and Environmental Remediation** tax incentives include:
 - i. 50% deduction for qualified GO Zone cleanup costs in the year they are incurred, for the period of 8/28/2005 through 12/31/2007.
 - ii. Must be held by the taxpayer for use in trade or business, for the production of income, or as inventory.
 - iii. For environmental remediation, the site must qualify as a contaminated site.

- g. **Carryback of Net Operating Loss**
 - i. A taxpayer can carry back qualified GO Zone losses for up to 5 years.

Summary: Layering of Tax Incentives for GO Zone Projects

	Tax Benefits						Tax-exempt Bonds
	26% HTC	70%PV 9% LIHTC	30%PV 4% LIHTC	DDA 130% adj.	NMTC	Bonus Depreciation	
Financing 1		X		X		X	
Financing 2	X	X		X		X	
Financing 3			X	X			X
Financing 4	X				X	X	X

Assumptions:

- Financing 1: LIHTC project claiming 9% LIHTC's with rehab costs offers the greatest combined benefit.
- Financing 2: LIHTC project claiming 9% credits with rehab costs & HTC's on rehab costs. HTC reduced LIHTC benefit.
- Financing 3: LIHTC project claiming 4% LIHTC's financed with Tax Exempt Bonds. Offers lower benefit.
- Financing 4: NMTC project with commercial business or residential rental project can be combined with all but LIHTC.

Notes:

- 1 You cannot combine Tax exempt bonds and bonus depreciation.
- 2 You cannot combine Tax exempt bonds and 9% LIHTC's.

The above information references information provided by Michael Novogradac, Nicolo Pinoli, and Molly O'Dell, all of Novogradac & Company LLP, CPA's at: www.novoco.com

Other Non-GO Zone benefits include:

2. Alabama Renewal Community Program 2002-2009 – Mobile/Pritchard Renewal Community Local Contact: South Alabama Regional Planning Commission

www.sarpc.org; for a detailed map see: <http://www.sarpc.org/events/renewalzone.pdf>

Call Diane Burnett and Chris Boutries at (251) 706-4679 or Obtain a location map

and program summary at: <http://www.adeca.alabama.gov/C15/RC/default.aspx>

<http://www.hud.gov/offices/cpd/economicdevelopment/programs/rc/index.cfm>

<http://www.hud.gov/offices/cpd/economicdevelopment/news/taxincentives051701.pdf>

f IRS reference material for Accountants: IRS Publication 954

- a. **The Renewal Community Program Area** was expanded by Act of Congress is 2005 to include most of Downtown Mobile's Business Improvement District ("BID"), and consists of Water Street on the east, St. Anthony Street on the north, Franklin Street on the west; Church Street on the south. The Business must be located in the Renewal Community. Benefits include:

- b. **Commercial Revitalization Deduction** of either:
 - i. **50% Depreciation** benefit taken in the 1st year placed in service, or
 - ii. **100% of the Depreciation can be taken over a 10 year period,**
 - iii. \$10 million annual allocation and a maximum \$10 million/project
 - iv. The property must be placed in service prior to 1/1/2010.
 - v. Benefits may not be used with GO Zone 50% depreciation or GO Zone tax exempt bonds, or residential property.

- vi. Does not have to be a “Renewal Community Business” as defined below.
 - vii. Deduction is applied for when placed in service.
 - c. **Wage credits** for employing renewal community residents of up to:
 - i. \$1,500 per employee for new and existing employees per year through 12/31/2009.
 - ii. \$2,400 for businesses hiring youths ages 18-24.
 - iii. \$1,000 for businesses with summer hires ages 16-17.
 - iv. These Wage Credits are retroactive to 2002.
 - v. Does not have to be a “Renewal Community Business”.
 - d. **Zero % Capital Gains Rate on the Sale or Exchange of an Asset** for business investors, owners, and stock holders, in a “Renewal Community Business”, that acquire or start a business between 2002 and 2009 and own it for at least 5 years.
 - e. In general, a **Renewal Community Business “RC Business”** is a corporation, partnership, or sole proprietorship that, for each taxable year, meets the following tests:
 - i. Except with respect to a sole proprietorship, every trade or business of the entity is actively conducted in a RC (legally separate entities are not aggregated with related entities for these tests).
 - ii. At least 50 percent of the total gross income of the entity is derived from the active conduct of business within a RC.
 - 1. A substantial portion of the use of the tangible property of the entity (whether owned or leased) is within a RC.
 - 2. A substantial portion of the intangible property of the business is used in the active conduct of the business.
 - 3. A substantial portion of the services performed for the employer by its employees occur within a RC.
 - 4. At least 35 percent of the employees reside in a RC.
 - 5. No more than 5 percent of the property is nonqualified financial property (such as debt, stock, and various financial instruments) except for reasonable amounts of working capital held in cash, cash equivalents, or debt instruments with a term of 18 months or less and certain accounts receivable arising from sales of inventory.
 - 6. No more than 5 percent of the property is works of art or other collectibles unless held for sale to customers.
 - f. **Increased equipment deduction** of up to \$35,000 for property acquired after 12/31/2001 (179 Deduction). Must be an RC Business.
 - g. **Environmental Cleanup (Brownfield) Deduction** for cleanup costs in the year the cost is incurred.
3. **Tax Increment Financing (“TIF”)** assistance in the form of a **grant or subsidy** is available for qualifying economic development and redevelopment projects. Awards of up to \$45,000 per project may be given to investors for reimbursement of costs associated with sidewalks and lighting. Applications are considered for approval by

the Board, as needed. For more information and an application call Barbara Malkove, City Finance Director, at (251) 208-7804.

4. **Main Street Mobile** offers a **Design Assistance Program** for new developments in the Business Improvement District. Main Street Mobile works in conjunction with local architects who provide drawings of facades, elevations, and renderings. For more information contact Main Street Mobile at (251) 434-8498.
5. **Mobile Historic Development Commission** (251) 208-7281 www.mobilehd.org
 - a. Façade easement property tax benefit of 10% to 15%
6. **Center for Entrepreneurial Excellence (CEE)**. www.ceebic.org The CEE is a Business Incubator offering entrepreneurial training and assistance programs since 1986. The CEE is sponsored by the City of Mobile, the County of Mobile and the Mobile Area Chamber of Commerce. The major objective of the Center for Entrepreneurial Excellence is as a national focal point for idea formulation and exchange concerned with economic development through entrepreneurial efforts.
7. **Southern Development Council (SDC) Loan and New Markets Tax Credits Programs**. http://www.sdcinc.org/504_program.html SDC is a CDC authorized by the SBA to package and service SBA 504 loans for Alabama. SDC works with the Community Reinvestment Fund in Minneapolis, MN who buys loans from SDC structured similarly to SBA 504 loans, provides New Markets Tax Credits, and increases the lending capacity of the SDC to \$4 million. **Contact Person: Beau Strong at (334) 318-1448**
8. **Community Equity Investments, Inc. (CEII)** is a 34 year old not-for-profit Community Development Corp. (CDC) whose primary mission is that of investing in business and housing enterprises. <http://www.ceii-cdc.org/contact.html> CEII is active in all phases of small and micro business lending as well as affordable rental and ownership housing. CEII offers secured loans to start-up and expanding business enterprises ranging from \$2,500 to \$150,000. CEII leverages their financing with funding from the Community Reinvestment Fund in Minneapolis, MN. CEII operates in the 30 Southern most counties of Alabama. **Contact person: Dan Horvath at (850) 595-6234** or <http://www.ots.treas.gov/docs/4/48049.pdf>
9. **Women’s Business Center** is a “technical provider” of loans up to \$50,000, through private banks with SBA support. Local Contact: Sylvia Browder at (251) 660-2725.
10. **South Alabama Regional Planning Commission** at www.sarpc.org administers: **Revolving Loan Fund** makes loans to small businesses and industries with a primary goal of job creation. Loan sizes: \$10,000 to \$125,000 with one job for every \$10,000. No more than 30% of a loan may be used for working capital. <http://www.sarpc.org/newsframe.htm> Local Contact: Terri Pringle at (251) 652-0585.

- 11. Mobile Area Chamber of Commerce.** A New Business Development Incentives Summary may be viewed at www.mobilechamber.com/incentives.asp
- 12. The Greater Mobile Development Corp.** is a Certified Development Company (“CDC”) and offers **Small Business Administration (“SBA”) Financial Assistance Programs for Alabama.** Local Contact: **Teresa Sands (251) 650-0826.** Programs include:
- a. SBA 7(a) Business Loans – for profit businesses needing loans for fixed assets, working capital or to finance start-ups. Guarantee up to 85% on loans below \$150,000. Loans over \$150,000 may be guaranteed up to 75%.
 - b. SBA (504) Loans – for profit businesses needing loans on fixed assets only. SBA lends up to 40% of cost with a maximum of \$1.5 million (in certain instances limit increased to \$2 million).
 - c. SBAExpress – maximum guarantee of 50% and maximum loan amount of \$2 million.
- 13. Mobile County Enterprise Zone.** Mobile County is an Alabama State Enterprise Zone whereby State Tax Incentives are available for businesses located or locating within the Boundaries of the Enterprise Zone. For an outline of the state tax incentives go to the Economic Development Partnership of Alabama website at: <http://www.edpa.org/docs/state-enterprise-zones.pdf> For more information contact Jessica Dent, Enterprise Zone Coordinator, Alabama Department of Economic & Community Affairs, at (334) 353-5682 or go to: www.adeca.alabama.gov Tab: Resources for Economic Assistance
- 14. Mobile U.S. Foreign Trade Zone No. 82.** Mobile, Alabama has a foreign trade zone. The Grantee is the City of Mobile and the Operator is the Mobile Airport Authority. The contact is Contact: Seth Morrison, Foreign-Trade Zone Corp. (251) 445-1367 or Greg Jones at (251) 471-6725 x-315 <http://www.ia.ita.doc.gov/ftzpage/letters/ftzlist.html> and <http://ia.ita.doc.gov/ftzpage/info/summary.html>

What are the benefits to a zone user?

- **Duty Exemption.** No duties on or quota charges on re-exports.
- **Duty Deferral.** Customs duties and federal excise tax deferred on imports.
- **Inverted Tariff.** In situations where zone manufacturing results in a finished product that has a lower duty rate than the rates on foreign inputs (inverted tariff), the finished products may be entered at the duty rate that applies to its condition as it leaves the zone -- subject to public interest considerations.
- **Logistical Benefits.** Companies using FTZ procedures may have access to streamlined customs procedures (e.g. "weekly entry" or "direct delivery").
- **Other Benefits.** Foreign goods and domestic goods held for export are exempt from state/local inventory taxes. FTZ status may also make a site eligible for state/local benefits which are unrelated to the FTZ Act.

What Activity is Permitted in Zones?

- Merchandise in a zone may be assembled, exhibited, cleaned, manipulated, manufactured, mixed, processed, relabeled, repackaged, repaired, salvaged, sampled, stored, tested, displayed and destroyed.
- Manufacturing, processing and any activity that results in a change of the tariff classification must be specifically approved by the FTZ Board.
- Retail trade is prohibited in zones.

15. Community & Economic Development programs including CDBG funds are administered by the Alabama Department of Economic and Community Affairs. For more information contact:

www.adeca.alabama.gov/Community%20Development%20Block%20Gr/default.aspx

16. Alabama CAPCO venture capital investment funds provide growth and expansion capital for businesses located in Alabama. \$100 million in Alabama state legislated tax credits were allocated to six Venture Capital firms who, in turn, sold the credits to insurance companies doing business in Alabama. The proceeds are being invested in Qualified Technology Businesses. For a list of CAPCO venture capital firms investing in Alabama businesses go to the Alabama Development Office (“ADO”) website at: www.ado.state.al.us. The program is administered through, and guidelines are available at, the ADO.

17. Alabama Economic Profile. There are many benefits associated with doing business in the State of Alabama. For additional information, see the Alabama Development Office website www.ado.state.al.us/Alabama%20Profile.htm

18. The Energy Policy Act of 2005 provides for **Federal Tax Incentives** available to businesses. For details see: Department of Energy – Homepage, Internal Revenue Service, www.energytaxincentives.org, or contact the Alabama Department of Economic and Community Affairs (ADECA) - Energy, Weatherization and Technology Division at (800) 392-8098. These tax credits are available **through 2007** and include:

- a. Credit for business installation of qualified fuel cells (30% tax credit on purchase price), qualified stationary micro-turbine power plants (10% tax credit), and qualified solar equipment (30% tax credit).
- b. **Business tax credit** for developer/contractors developing **qualified energy-efficient new homes that save 50%** on energy costs compared to the EPACT standard. Manufactured and other homes meeting Energy Star criteria saving 30% on energy costs, qualifies too.
- c. Tax deduction for **energy-efficient commercial buildings** that reduce annual energy and power consumption by 50% compared to the American Society of Heating, Refrigeration, and Air Conditioning Engineers (ASHRAE) 2001 standard. The tax deduction would equal the cost of energy-efficient property installed during construction, with a maximum deduction of \$1.80 per square

foot. Additionally, a partial deduction of 60 cents per square foot would be provided for building subsystems.

- 19.** In 2001, Alabama’s state legislature enacted the Alabama Land Recycling and Economic Redevelopment Act (“ALRERA”) giving a statutory framework for “non-responsible” prospective purchasers and “responsible” owners to voluntarily assess and remediate contaminated property, including Brownfield’s, with confidence that no further cleanup would be required later. A “Brownfield” property is one where expansion, redevelopment or reuse is complicated by the presence or potential presence of a hazardous substance, pollutant or contaminant, according to the U.S. EPA. To advance economic incentives, the **Alabama Brownfield Development Tax Abatement Act of 2004** enabled “private users” with approved voluntary cleanup plans to petition city or county government to abate non-educational city and county sales and use taxes and non-educational state, city and county property taxes for a period of up to 20 years. **Contact: Angela Till, Abatement Program Administrator with the Alabama Department of Revenue.**