

# **Tax and Other Incentives for Businesses Located on Indian Reservations**

The following incentives are potentially available to businesses start-ups, or relocating to the White Earth Reservation, including the incorporated communities of Callaway, Ogema, Waubun and Mahnomen, with the exception of the JOBZ incentive in which only the City of Mahnomen is participating:

## **Business Tax Incentives**

- New Markets Credit (Federal - IRS)
- Depreciation of Property Used on Indian Reservations (Federal – IRS)
- Indian Employment Credit (Federal – IRS)
- Work Opportunity Credit (Federal – IRS)
- Welfare to Work Credit (Federal – IRS)

HUBZone - Business Procurement Incentive (Federal - Small Business Administration)

Job Opportunity Building Zones (JOBZ) (State of Minnesota)

These programs are further described below. Consult IRS regulations and seek professional financial advice as to how each may apply to your business plans.

## **New Markets Credit (Federal)**

- Provides tax credit for a qualified equity investments in a qualified community development entity (CDE)
- Purpose is stimulation of community development entity investment in businesses in low income communities to generate increased employment
- A CDE will seek taxpayers to make qualifying equity investments in the CDE. The CDE will be required to use substantially all the qualified equity investments to make qualified low-income community investments in qualified active low-income community businesses
- Credit is available up to 39% of investment over a 7-year period
- Midwest Minnesota Community Development Corporation MMCDC, Detroit Lakes, is authorized to implement the New Market Credit program for reservation and adjacent areas meeting “low income community” eligibility threshold
- “Low income community” defined as any census tract with a poverty rate of at least 20% or where the median family income is not more than 80% of statewide median family income
- Specific allocation of credits for individual investments are made from allotment given to MMCDC

## **Depreciation of Property Used on Indian Reservations (Federal)**

- Allows for shorter recovery periods to figure depreciation deduction for qualified property
- Applies to qualified property placed on service on Indian Reservation after 1993 and before 2005
- Shorter recovery period – property and nonresidential real property
- Property must be used predominantly in active conduct of trade/business within Indian Reservation
- Real property rented to others also eligible

## **Indian Employment Credit (Federal)**

- Provides businesses with an incentive to hire certain individuals who live on or near an Indian Reservation
- Qualified employee:
  - Enrolled member of an Indian Tribe or spouse of enrolled member

- Employee performs substantially all his/her services for you within Indian Reservation
- While performing those services, employee has his/her main home on or near that reservation
- More than 50% of wages paid during year must be for services performed in your trade/business
- Not compensation at over \$35,000 annual rate (as adjusted)
- Related taxpayers, dependents, 5% owners not eligible
- Qualified wages include employee health insurance cost paid
- Total qualified wages cannot be more than \$20,000/employee/tax year
- Credit 20% of the excess of qualified current year wages and health insurance over that during calendar year 1993
- Employee must have work for full year in order to claim credit unless voluntarily quit, terminated for misconduct or becomes disabled.

#### Work Opportunity Credit (Federal)

- Provides businesses with an incentive to hire individuals from groups that have a particularly high unemployment rate or other special employment need
- Targeted group employee must be certified by state employment security agency as:
  - AFDC or TANF recipient
  - Veteran
  - Ex-felon
  - High-risk youth
  - Vocational rehabilitation referral
  - Summer youth employee
  - Food stamp recipient
  - SSI recipient
- Must be certified by day employee begins work or forms submitted within 21 days of start of work
- Qualified wages are not more than \$6,000 per tax year per employee
- Applies only to first year wages
- Can not be relative, dependent, rehire if not targeted group member earlier, must work for at least 120 hours
- Credit 40% if at least 400 hours on \$6,000\* or less wages = \$2,400 max
- Credit 25% if less than 400 but greater than 120 hours on \$6,000\* or less wages = \$1,500 max
- \*\$3,000 for a summer youth employee

#### Welfare to Work Credit (Federal)

- Provides businesses with an incentive to hire long-term family assistance recipients
- Long-term family assistance recipient – certified by state employment security agency as a member of a family that:
  - Has received assistance payments from AFDC or TANF for at least 18 consecutive months ending on the hiring date
- Must be certified by day employee begins work or forms submitted within 21 days of start of work
- Qualified wages are not more than \$10,000 per tax year per employee; can include other qualified health/accident, dependent care, educational training assistance expenses.
- Applies only to first two year's wages
- Can not be relative, dependent, rehire if not qualified earlier, must work for at least 180 days, complete at least 400 hours of service
- Credit 35% first year wages of \$10,000\* or less wages = \$3,500 max
- Credit 50% second year wages of \$10,000 or less wages = \$5,000 max

## HUBZone (Federal)

- Provides federal contracting opportunities for qualified small businesses located in distressed areas
- U.S. Small Business Administration (SBA) certifies firms for eligibility and maintains a listing of qualified HUBZone small businesses federal agencies can use to locate prospective vendors
- Historically underutilized business zones – “HUBZones”
- Eligibility - A small business –
  - Must be located in a historically underutilized business zone
  - Must be owned and controlled by one or more U.S. Citizens
  - At least 35% of its employees must reside in a HUBZone
- A HUBZone is an area located in one or more of the following:
  - A qualified census tract
  - A qualified non-metropolitan county with a median household income of less than 80 percent of the State median household income or with an unemployment rate of not less than 140 percent of the statewide average, based on U.S. Dept. of Labor recent data
  - Lands within the boundaries of federally recognized Indian reservations
- Competitive, sole source, full and open competition contract advantages
- Government wide procurement goal for small business
- Applies to procurement of Federal agencies: DOD, USDA, HHS, DOT, DOE, HUD, EPA, NASA, GSA, VA.

## Job Opportunity Building Zones (JOBZ)

- Tax incentives:
  - Corporate Taxes (income tax, alternative minimum tax, minimum fee)
  - Individual Taxes (income tax on investment income, alternative minimum tax)
  - Sales and Use Taxes
  - Most Property Taxes (except for land, general obligation bonds and school operating levies in place prior to zone designation)
  - Wind Energy Production Tax
- Tax Credit:
  - Job Creation Credit
- To qualify for the tax exemptions the business must start-up, relocate from outside the zone or expand
- Companies relocating from another Minnesota site qualify by increasing employment by 20 percent within first year or making capital investment of at least 10 percent of gross revenues plus also meet local business assistance goals to qualify for tax exemptions
- Exemptions available for up to 12 years beginning in January 2004.
- JOBZ-rated information is available at [positivelyminnesota.com](http://positivelyminnesota.com).