

## **Rural Zone Program Frequently Asked Questions:**

**1. What is a tax credit?**

A tax credit is a dollar-for-dollar reduction of the income tax owed. Tax credits generally save the taxpayer more in taxes than deductions. Deductions only reduce the amount of one's income that is subject to tax, whereas, credits directly reduce one's tax bill.

**2. How can the credits be used?**

RURAL Zone tax credits can only be used against Georgia income tax and cannot be used against payroll withholdings.

**4. What are full-time equivalents (FTEs)?**

FTE means an aggregate of employee hours worked totaling 40 hours per week, the equivalent of one full-time job.

**5. Are these tax credits sellable or transferable?**

No, they are not.

**6. Can I combine this job tax credit with other job tax credits like the Tier credits, Military Zone credits or Opportunity Zone credits?**

A business cannot COMBINE the job tax credits. However, if the new jobs are located within a designated Opportunity Zone/Military Zone, the business can decide which tax credit is the most beneficial to the business. The business will have to meet the requirements of any of the programs they choose to use (i.e. minimum hours worked, minimum pay requirements, offer health insurance under the traditional Job Tax Credit Program.)

**7. If the investor or business cannot use all its tax credits, can it receive a refund?**

According to the Statute: "In no event shall the amount of the tax credits allowed by O.C.G.A. §48-7-40.32 for a taxable year exceed a certified entity's or certified investor's state income tax liability. Any credit claimed under O.C.G.A. §48-7-40.32 by a certified entity or certified investor but not used in any taxable year may be carried forward for ten years from the close of the taxable year in which the credit is claimed. No such credit shall be allowed by the taxpayer against prior years' tax liability."

**8. If the business's number of employees fall below the required two FTE jobs, what happens?**

According to the Statute: "This income tax credit shall not be allowed during a year if the net employment increase falls below the number required." However, the tax credits generated and utilized in years prior to the year in which the net employment increase falls below 2 FTEs will not be affected. Also, if the employees increase back to 2 FTEs in a year before the 5-year window has lapsed, then the employer will be allowed to take the tax credit again.

**9. If there are 2 businesses located within the investor property and one business employs 1 FTE and the other business employs 1 FTE, can the investor take the investment and/or rehabilitation tax credit?**

Yes, since 2 FTEs were created within the building, this is allowed. However, the businesses individually are not eligible to take the job tax credit because they have not each created 2 FTEs.

**10. Can the community reapply for designation after 5 years?**

Only, in extremely extenuating circumstances would the community be redesignated.

**11. Can an investor continue to take the investment or rehabilitation tax credit if the business(es) located within the investment property do not maintain the required 2 FTEs?**

No. (Also, see #8)

**12. Can rehabilitation tax credits be used to pay for the demolition of a deteriorated building?**

Only in extenuating circumstances. (Discuss details with DCA.)

**13. What type of expenditures qualify for the rehabilitation tax credit?**

Only those costs associated with labor and materials are eligible.

**14. Can the lessee/tenant take rehab tax credits for leasehold improvements?**

Yes.

**15. Does infill construction qualify for the rehab tax credit?**

No, it doesn't.

**16. Can a person who purchased and rehabbed a building, but does not receive a W-2, qualify as a new job?**

No, the person cannot count themselves as an employee if a W-2 isn't received.

**17. If 2 owners of the building start the management company that will be doing the build out, can the owners be the 2 employees required for the first year until other positions are created?**

They cannot be the jobs created. The business(es) in the purchased and or renovated spaces would create the jobs.

**18. How would the tax credits apply in a scenario where a corporate office is housed in the Rural Zone, but auxiliary space (think warehouse, etc.) is outside the zone. Can the jobs from the corporation that operate out of a RZ location be counted for the credit?**

The corporate office would be able to take the RZ. The auxiliary space would not be able to take the RZ. However, the auxiliary space is not precluded from taking the traditional Job Tax Credit if all requirements of that Program are met.

**19. Could owner's labor count towards the Qualified Rehabilitation Expenditures, which include labor and materials?**

Only if the labor associated with the rehabilitation can be capitalized for federal income tax purposes.

**20. Does a lease purchase, like-kind exchange, or an installment sales agreement constitute an acquisition for purposes of the RURAL Zone?**

No, these agreements would not be considered acquisition since title of the real estate has not actually been transferred to the investor.

**21. If the owner sells the property, would they be penalized for previous tax credits used? Would they owe anything back?**

No, each tax year stands alone, there will not be any claw back on prior years filed. Also, moving forward their RURAL Zone credits would end once ownership changed.