

This article, written by two partners in TaxBreak LLC, demonstrates that there are a number of federal and state tax incentives that can produce attractive savings for you. While you are probably already aware of the special exemptions for graphic arts companies which exist as a result of PAF's legislative victories, you may not be aware of the other tax savings reviewed here that are available to you.

If you would like to pursue these savings, we recommend that you contact Debbie Fowler of TaxBreak LLC at (954) 224-1949. TaxBreak's services are on a contingency basis; compensation is derived only from the savings obtained for your company. What's more, you'll enjoy a reduced, flat-fee contingency rate of only 20% of the savings that TaxBreak generates for you as a result of a beneficial arrangement PAF has developed with TaxBreak. This compares to TaxBreak's usual contingency percentage of 25% of the credits obtained and 33.3% of the refunds from prior years.

These tax savings can be quite important, especially during these challenging times.



EZ MONEY

**by Debbie Fowler, CPA
and Mary Kossack, CPA**

The Federal Government has established a number of tax credit programs that could provide substantial refunds or credits toward printing companies' federal tax liabilities. Many of these programs began in the early 1990s to encourage self-sustaining, long-term development in distressed rural and urban areas throughout the nation. These zone programs require communities to work hand in hand with the Federal Government to develop and implement strategic plans for revitalization, and are referred to as Empowerment Zones ("EZ"), Enterprise Communities ("EC"), and Renewal Communities ("RC").

The benefits of these programs can be quite substantial. Companies located in EZs can take a federal income tax credit of up to \$3,000 each year per employee who lives and works in the zone for as long as the program is in effect. RCs provide \$1,500 each year per

employee. Even if the employer is not in a zone, if certain summer employees live in an EZ, EC, or RC, the employer can take up to \$2,400 in federal tax credits per new summer hire.

The Federal ECs in Florida are located in Jackson County, Miami/Dade County, Southwest Florida, and Tampa. The EZs are located in Jacksonville and Miami/Dade County. There are no Renewal Communities designated in Florida.

Federal Zone credits are awarded based on the location of the company and or the address of the employee. In addition, however, there are several tax credits available that are based on characteristics of the employee. For the most part these credits fall under the Work Opportunity (WOTC) or Welfare to Work Programs (WtW). These programs are incentives to hire certain individuals; therefore, WOTC credits are generally for the year of hire only

and WtW credits are given for the first 2 years of employment.

The WOTC credits are geared to hiring groups that have high unemployment rates or that have special employment needs. Some examples of types of employees that qualify a company for a credit of up to \$2,400 per new hire are: recipients of temporary assistance for needy families, food stamps, or aid to families with dependent children; recipients of vocational rehabilitation; and ex-felons.

The WtW credit is a 2-year credit for hiring long-term family assistance recipients. The credit is up to \$3,500 for the first year and \$5,000 for the second year for each new hire that qualifies.

The Indian Employment Credit is often overlooked. This credit is calculated on wages, including employee health insurance costs of up to \$20,000, for each qualified

employee who is an enrolled member of an Indian tribe or spouse of such a member. To qualify, the employee must live on or near an Indian reservation, and can be a current employee as well as a new hire.

Federal Zone credits can be applied for on forms attached to the company's or individual's federal tax returns. WOTC and WtW credits must be approved in advance by the State Employment Services Agency.

Federal credits must be applied against federal income tax, but can be carried back one year and forward 20 years if the company is not currently in a taxable position. Shareholders of pass through entities can use these federal credits on their federal tax returns.

In addition to the Federal Zones, the State of Florida established an Enterprise Zone (FLEZ) program that is designed to provide economic revitalization to certain targeted areas of the state. The purpose of this program is to encourage private investment in these areas for the growth of businesses and the startup of new businesses that would locate there. Like the federal employment incentives, Florida's zone incentives also help to enhance the lives of the residents who benefit from the creation of new jobs.

The FLEZ credits require qualification and filing procedures, but can add up to thousands of dollars annually for qualifying businesses.

An Economic Development board administers each of the 51 FLEZs located throughout the state. The incentives offered by this program are mainly in the form of tax credits, refunds of sales and use tax, and refunds of Florida corporate income tax. Following are tax credits available under Chapter 212, of the Florida Statutes.

Jobs Tax Credit Against Sales and Use Tax

Businesses located in a FLEZ that pay sales and use tax may claim a monthly credit equal to, but not more than, the tax due on each sales tax return. The credit may be allowed for up to 12 months per new employee. If less than 20% of employees live in the zone, the tax credit will be 10% of monthly wages, or if more than 20%,

the credit will be 15% of the monthly wages (up to \$1,500) paid to the new employees. An increased credit is available for rural enterprise zones.

Refund for Sales or Use Tax Paid on Business Machinery and Equipment Used in a FLEZ

A five to ten thousand dollar refund of sales or use tax is available on purchases of certain business property used exclusively in a FLEZ. The application for refund must be submitted to the Department of Revenue within 6 months after the property is placed into service. This credit may be used multiple times during the year as business property is purchased.

Building Materials Used in the Rehabilitation of Real Property Located in a FLEZ

Building materials could be exempt from the sales and use tax imposed upon showing that the items have been used for the rehabilitation of real property located in an EZ. If 20% or more of the permanent, full-time employees of the business are residents of an EZ, the refund will be no more than the lesser of \$10,000 or 97% of the tax paid per parcel.

An application for refund of these taxes must be submitted to the Department of Revenue within 6 months after the rehabilitation of the property is deemed substantially completed by the local building code inspector or within 90 days after the rehabilitated property is first subject to assessment. No more than one exemption through a refund of previously paid taxes for the rehabilitation of real property shall be permitted for any one parcel of real property.

Sales Tax Exemption for Electrical Energy Used in a FLEZ

A 50% sales tax exemption is available to businesses located in a FLEZ on the purchase of electrical energy. If 20% or more of the permanent, full-time employees are residents of a FLEZ, the exemption is 100% of the sales tax. This exemption

is only available if the municipality in which the business is located has passed an ordinance to exempt FLEZ businesses from 50% of the municipal utility tax. The exemption is available for up to five years.

Under Chapter 220 of the Florida Statutes the following credits are available.

FLEZ Jobs Credit Against Florida Corporate Income Tax

This credit is available to any business located in a FLEZ that demonstrates to the Department of Revenue that the total number of full-time jobs has increased from the average of the previous 12 months. The calculation of the percentage of wages that may be taken as a credit is the same one that is used for the sales and use tax jobs credit. If this credit cannot be used in the year it is granted because of income tax limitation, it may be carried forward for five years.

FLEZ Property Tax Credit

There is a credit allowed against the Florida corporate income tax to any business that establishes a new business, expands an existing business, or rebuilds an existing business in the state. The amount of the credit shall not exceed \$25,000, or, if no less than 20% of the employees of the business are residents of an FLEZ, excluding temporary employees, the amount shall not exceed \$50,000. The credit shall be available to a new or expanded business for a period not to exceed the year in which ad valorem taxes are first levied against the business and the 4 years immediately thereafter.

To be eligible for a FLEZ property tax credit, a new, expanded, or rebuilt business must file a notice with the property appraiser of the county in which the business property is located or to be located no later than April 1 of the year in which the applicable property is acquired.

Florida statutes also provide authorization for localities to offer various other incentives such as reductions in license and development fees and building permits as well as

additional ad valorem tax benefits.

In addition to the credits and incentives mentioned above, there are sales tax incentives specifically geared to printers that do not require location in a Florida Enterprise Zone. Some of these exemptions are as follows:

New Printing Companies

Any machinery and equipment purchased by a new business or one expanding into a new product line can be purchased exempt from sales tax. Printers expanding their capacity can buy machinery and equipment exempt from sales tax, but only if they can prove production increased by 10% in a 12 month period after the new equipment is placed in service.

Repair of Printing Equipment

Effective July 2002 the entire cost of machinery and equipment parts and repairs are exempt from sales tax.

Electricity and Other Fuels

If at least 50% of a facility's energy usage is in the printing process, 50% of the electricity, natural gas, and other fuels used in the printing process qualify to be purchased exempt from sales tax. If 75% or greater of the energy usage is in the printing process, then 100% of the cost qualifies for exemption from sales tax.

Printers are also exempt from sales tax on purchases of film, photographic paper, dyes used in embossing and

engraving, artwork, typography, lithographic plates, and negatives.

Some exemptions require application for certification by the DOR and specific procedures must be followed when purchases are made. In most cases, if a company did not know of the incentive at the time of purchase, it can apply for a refund within 3 years of the purchase.

There are extensive credits and incentives available to printers both from the Federal Government and the State of Florida. Although businesses located in Federal and Florida zones may be eligible for a wider array of benefits, there are quite a number of credits and incentives available that are often overlooked. Is your company leaving EZ money on the table?

This article originally appeared in the August 2003 issue of *Graphics Update*, the official magazine of the Printing Association of Florida, Inc. *Graphics Update* is made possible by the support of these fine advertisers:

Spinola Printers Supply

Mac Papers

International Printing Aids

Genesis Press

Flap & Seal

H.S. Boyd

Plasti-Card Corporation

David Ashkenaz

PAF Benefits Network

Printing Technology Services

And our many directory advertisers

Call 800-749-4855 x 17 to receive your complimentary copy of *Graphics Update* today!