

- b) Collectibles not held primarily for sale to customers.

Also, a business that would qualify if it were separately incorporated is treated as a qualified active low-income community business.

Qualified business. This is generally any trade or business except one that consists primarily of developing or holding intangibles for sale or license. However, the rental to others of real property located in a low-income community is a qualified business only if there are substantial improvements located on the property. Also, a qualified business does not include any business listed earlier in item (5) or item (6) under *Nonqualified employees* in the *Empowerment Zone Employment Credit* section.

Low-income community. A low-income community generally means any population census tract if any of the following apply.

- The poverty rate is at least 20%.
- If the tract is not located within a metropolitan area, the median family income is not more than 80% of statewide median family income.
- If the tract is located within a metropolitan area, the median family income is not more than 80% of the greater of the statewide median family income or the metropolitan area median family income.

Recapture. The credit is recaptured if, within the 7-year credit period, the community development entity is no longer qualified, substantially all of the proceeds of the investment are no longer used for a qualifying purpose, or the investment is redeemed.

More information. For more information about the new markets credit, see section 45D of the Internal Revenue Code.

Environmental Cleanup Cost Deduction

This deduction provides businesses with an incentive to clean up certain sites that are contaminated with hazardous substances. Your business does not have to be in an empowerment zone, enterprise community, or renewal community to qualify for this deduction.

You can choose to deduct “qualified environmental cleanup costs” in the tax year you pay or incur the cost. You can do this instead of adding the cost to the basis of your property (and, if the property is depreciable, recovering the cost by taking depreciation deductions over a specified recovery period).

This special tax treatment is generally available for qualified environmental cleanup costs you pay or incur after August 5, 1997, and before January 1, 2004.

Qualified environmental cleanup costs. Qualified environmental cleanup costs are generally costs you pay or incur to abate or control a hazardous substance (as defined by Internal Revenue Code section 198(d)) at a “qualified contaminated site.”

Qualified contaminated site. A qualified contaminated site must meet both of the following requirements.

- 1) You hold it for use in a trade or business, for the production of income, or as inventory.
- 2) There has been a release, threat of release, or disposal of a hazardous substance at or on the site.

You must get a statement from the designated state environmental agency that the site meets requirement (2).

A site is not eligible if it is on, or proposed for, the national priorities list under section 105(a)(8)(B) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980. To find out if a site is on the national priorities list, contact the U.S. Environmental Protection Agency.

Recapture. This deduction may have to be recaptured as ordinary income under section 1245 when you sell or otherwise dispose of the property that would have received an addition to basis if you had not elected this deduction.

More information. For more information about the environmental cleanup cost deduction, see section 198 of the Internal Revenue Code.

Qualified Zone Academy Bonds

Beginning in 1998, state or local governments can issue qualified zone academy bonds to raise funds for the use of a “qualified zone academy.” However, these bonds require a private business contribution. Certain banks, insurance companies, and corporations actively engaged in the business of lending money can receive a tax credit as an incentive to hold these bonds. For more information about claiming the credit, see **Form 8860**.



Contact the appropriate state or local government agency to find out if qualified zone academy bonds are available in your area.

Qualified zone academy. A qualified zone academy is a public school (or academic program within a public school) at the secondary level or below that meets certain requirements. It must be located in either an empowerment zone or an enterprise community, or there must be a reasonable expectation when the bonds are issued that at least 35% of the school's students (or program's participants) will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act. A qualified zone academy must also meet other requirements.

Private business contribution requirement. Before qualified zone academy bonds can be issued, the local educational agency (as defined in section 14101 of the Elementary and Secondary Education Act of 1965) must obtain written commitments from private entities