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Small Talk

Seldom-used tax credits bring cash to businesses

Rick Desloge

When Joshua Chen and Jessica "ZJ" Zhao searched for a new site for their Cybercon.com Internet data center in 2000, a downtown St. Louis location remained on their radar in part because their small company would be eligible for \$75,000 a year in tax credits.

Chen and Zhao linked the tax incentive, known as Missouri's Rebuilding Communities Tax Credit, with another that allows qualified employees to receive a Missouri tax credit on their salaries.

"It helped to retain our existing people, then when we needed more staff, it helped to attract people to the company," Zhao said of the employee credit.

The expanding Cybercon now has a staff of 20 and handles Internet data for companies around the country and for some foreign governments, all from offices in the Bandwidth Exchange Building at 210 N. Tucker.

In the same building, the Rebuilding Communities Tax Credit placed needed cash in another technology startup, Matthew Kulig's Global Velocity. The company sold its tax credits to help pay for \$600,000 in services and equipment to launch its business, detecting security violations. Global Velocity received the maximum credit, \$75,000 a year, for the last two years. As a startup, Global Velocity didn't need a \$75,000 tax break but was able to sell each of its tax credits for \$65,000. "One of the reasons I moved to this building was the Rebuilding Communities tax credits."

The Rebuilding Communities incentive is one of the few tax credits practical for small businesses. The state will allow a maximum of \$10 million a year in Rebuilding Communities credits, but the Missouri Department of Economic Development said businesses redeemed only \$1 million of the credits last year and projects \$2.5 million of credits will redeem in 2005.

"They have not been nearly as well known, but they are an extraordinarily powerful tool, for small, high-growth businesses to either startup or grow," Jerry Schlichter said of the Rebuilding Communities credits.

Schlichter is a St. Louis attorney who drafted the law on the state's tax credits for historic renovation and rebuilding distressed areas. About 80 companies have taken advantage of the Rebuilding Communities program, which is open to software, biomedical, manufacturing, technology and professional firms that make significant investments in economically distressed neighborhoods.

The nuts and bolts of Rebuilding Communities are straightforward. New and relocating businesses with 100 employees or less in designated industries have to move or expand in designated distressed areas, as defined by census data. Those areas include the entire city of St. Louis; parts of St. Louis County's inner suburbs including Kinloch, Maplewood, University City and Wellston; and assorted other pockets in the state, including parts of St. Charles County.

Companies that purchase qualifying equipment and services can receive a tax credit equal to 40 percent of their investment, up to a maximum of \$75,000 a year, for four years. Qualifying employees at those companies receive a 1.5 percent credit against their gross salary on their Missouri income tax for three years. "It more than offsets the 1 percent earnings tax employees have in St. Louis city," said Schlichter.

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