

# Tax Credits Available In Historic Downtown Sedalia

Tax credits reduce the amount of income tax owed to the federal and state governments. Credits are generally designed to encourage or reward certain types of investment that are considered beneficial or to further any other purpose the government deems important. In most cases, credits cover expenses you pay during a given year and have requirements you must satisfy before you can claim them.

## How tax credits work

A tax credit is a **dollar-for-dollar reduction of the income tax you owe**. For example, if you owe \$1,000 in federal taxes but are eligible for a \$1,000 tax credit, your net liability drops to zero. Historic tax credits, applicable to buildings in Sedalia's Historic Downtown Commercial District, are structured this way.



## Comparing credits to deductions

**Tax credits generally save you more in taxes than deductions.** Deductions only reduce the amount of your income that is subject to tax, whereas, credits directly reduce your tax bill. To illustrate, suppose your taxable income is \$100,000 and you have \$10,000 in deductions, which reduces your taxable income to \$90,000. If that \$10,000 would have been taxed at a rate of 25 percent, then the deduction saves you \$2,500 in tax. If the \$10,000 was a tax credit instead, your tax savings is \$10,000.

<b>Tax Deduction:</b>		<b>Tax Credit:</b>	
Taxable Income	\$100,000	Taxable Income:	\$100,000
Less Deduction	<u>-\$10,000</u>	Tax Owed (25%)	\$25,000
Adj. Taxable Income	\$90,000	Less Tax Credit	<u>-\$10,000</u>
Adjusted Tax Owed (25%)	\$22,500	Adjusted Tax Owed	\$15,000

## Transferability

A state tax credit has value only to the extent that the credit holder has sufficient state tax liability to offset the applicable tax credit amount. Although state tax rates vary, they are far lower than federal income tax rates. As a consequence, an apparently valuable state tax credit may wind up in the hands of a party unable to use it. In Missouri, the party that earns the credit is permitted to sell it outright to a third party with adequate tax liability to use it.

Also, Missouri allows a tax credit not fully usable in the current year to be carried back to offset previously paid taxes for **up to three prior tax years OR forward for up to 10 years**. The federal tax credits can be carried back one year and forward 20 years or until the credit is exhausted. NOTE: federal tax credits can NOT be sold.

## Available Properties

Over 100 buildings included in Downtown Sedalia's Historic Commercial District could be eligible for historic tax credits. For more information, contact Sedalia Downtown Development Inc. at 660-287-6659. More info about historic tax credits is available at [DowntownSedalia.com](http://DowntownSedalia.com).