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**From:**
**Sent:** Thursday, May 27, 2010 9:03:44 AM
**To:**
**Cc:**
**Subject:** RE: EZ/RC Zone question

Hi . The 35% rule is one of the requirements to be a renewal community business --at least 35 percent of the employees must be residents of the renewal community.

The renewal community capital gain exclusion applies to any qualified capital gain from the sale or exchange of a qualified community asset held for more than 5 years. If the qualified community asset is stock or a partnership interest, the corporation or partnership, respectively, has to be a renewal community business. If the qualified community asset is business property, it has to be substantially used by the taxpayer in a renewal community business. The term "renewal community business" is defined in IRC section 1400G as any entity or proprietorship that would be a qualified business entity or qualified proprietorship under IRC section 1397C if references to renewal communities were substituted for references to empowerment zones in IRC section 1397C. One of the requirements to be a qualified business entity or qualified proprietorship is that at least 35 percent of its employees are residents of a renewal community. See IRC section 1397C(b)(6) or (c)(5).

If you have any further questions regarding this matter, please let me know.