



Instructions for Form CT-602

Claim for EZ Capital Tax Credit

New for 2001

Empire zone (EZ) and zone equivalent area (ZEA) tax credit forms renumbered

Because of increased participation in the tax incentives established by the New York State Empire Zones Program Act, the Tax Department has improved the forms associated with EZ and ZEA credits by making them specific to either corporation franchise tax or personal income tax. For tax years beginning on or after January 1, 2001, Empire Zone credit forms previously numbered with a "DTF" form number prefix have been separated and renumbered into corporation tax forms (with a "CT" prefix) and income tax forms (with an "IT" prefix), as shown in the following table. The titles of the forms will remain unchanged.

Banking corporations, insurance corporations, general business corporations, and New York S corporations will compute their EZ and ZEA credits on the appropriate corporation tax forms. Shareholders of a New York S corporation will report their pro rata shares of the credits on the corresponding income tax forms.

Individuals, partnerships, estates, and trusts should compute their EZ and ZEA credits on the appropriate income tax forms.

Form title and previous form number	New form number	
	Corporation tax	Personal income tax
<i>Claim for EZ Wage Tax Credit</i> Form DTF-601	CT-601	IT-601
<i>Claim for ZEA Wage Tax Credit</i> Form DTF-601.1	CT-601.1	IT-601.1
<i>Claim for EZ Capital Tax Credit</i> Form DTF-602	CT-602	IT-602
<i>Claim for EZ Investment Tax Credit and EZ Employment Incentive Credit</i> Form DTF-603	CT-603	IT-603
<i>Claim for EZ Investment Tax Credit and EZ Employment Incentive Credit for the Financial Services Industry</i> Form DTF-605	CT-605	IT-605

General information

Sections 210.20, 1456(d) and 1511(h) of the Tax Law allow an EZ capital tax credit to be applied against the taxes imposed by Articles 9-A, 32, and 33.

The EZ capital tax credit is equal to 25% of the sum of the following investments and contributions made during the tax year that are certified by the Commissioner of Empire State Development:

- Qualified investments made in, or contributions in the form of donations made to, one or more empire zone capital corporations established pursuant to section 964 of the General Municipal Law;
- Qualified investments in certain certified empire zone businesses; and
- Contributions of money to community development projects as defined in regulations issued by the Commissioner of Empire State Development.

The term *qualified investment* means the contribution of property to a corporation in exchange for original issue capital stock or other ownership interest, the contribution of property to a partnership in exchange for an interest in the partnership, and similar contributions to a business entity not in a corporate or partnership form in exchange for an ownership interest in that entity.

Sections 210.20, 1456(d), and 1511(h) impose three limitations on the capital tax credit, as follows:

- The credit and carryover of such credit may not reduce the tax imposed by Article 9-A to less than the higher of the tax on minimum

taxable income or the fixed dollar minimum; the credit and carryover of the credit may not reduce the tax imposed by Articles 32 and 33 to less than the minimum tax of \$250;

- The total amount of credit allowable to a taxpayer for all years may not exceed \$300,000; and the total credit allowed for each of the three categories of qualified investments and contributions may not exceed \$100,000; and
- The credit and carryover of such credit may not exceed 50% of the tax imposed by section 209 of Article 9-A, section 1455 of Article 32, or sections 1501 and 1510 of Article 33, without regard to any credit.

This credit may not be deducted from the limitation on tax computed pursuant to section 1505 of Article 33.

This credit is not refundable; however, any amount of credit or carryover of credit not deductible in the current tax year may be carried over to be deducted from the tax for succeeding tax years.

Attachments required

Empire State Development Corporation issues Form Z10, *Eligibility to Apply for a Zone Capital Tax Credit*, to taxpayers. Form Z10 authorizes the taxpayer to receive an EZ capital tax credit against the taxpayer's New York State franchise tax. Therefore, attach Form Z10 to Form CT-602, *Claim for EZ Capital Tax Credit*, when applying for the EZ capital tax credit.

Line instructions

Corporations — Complete all schedules.

S corporations — Complete only Schedules A, B, C, and F.

Schedule A — Investments in and donations to EZ capital corporations

Line 1 — Enter the total consideration paid for original issue stock purchased during the tax year from one or more EZ capital corporations established pursuant to section 964 of the General Municipal Law.

Line 2 — Enter the donations made during the tax year to one or more EZ capital corporations established pursuant to section 964 of the General Municipal Law.

Line 5 — S corporations — transfer this amount to Form CT-34-SH, line 15a.

Line 6 — Enter the total of original issue stock purchased and donations that are itemized in Schedule A. Submit supporting documentation from the capital corporation indicating the name of the corporation, the dollar amount of the stock purchased, and a statement that the stock is original issue or the dollar amount of donations and the date received.

Schedule B — Investments in certified EZ businesses

Line 7 — Enter the amount of qualified investments made in certified EZ businesses during the tax year. A *certified EZ business* is one certified pursuant to Article 18-B of the General Municipal Law that, during the 12-month period immediately preceding the month of the investment, employed full time within the state an average of 250 or fewer individuals (excluding general executive officers). The average number of individuals is computed pursuant to section 210.19(b)(3), section 1456(e)(2)(C), or section 1511(g)(2)(C) of the Tax Law.

Qualified investments do not include investments made by or on behalf of an owner of the business, including but not limited to a stockholder, partner, sole proprietor, or any related person (as described in section 465(b)(3)(C) of the Internal Revenue Code (IRC)).

Line 9 — S corporations — transfer this amount to Form CT-34-SH, line 15b.

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Line 10 — Enter the total amount of qualified investments made in certified EZ businesses that are itemized in Schedule B. Submit supporting documentation from the certified EZ business indicating the name of the business and the dollar amount of the qualified investment.

Schedule C — Monetary contributions to EZ community development projects

Line 11 — Enter the amount of monetary contributions made to EZ community development projects. *Community development projects* will be defined in regulations issued by the Commissioner of Empire State Development.

Line 13 — S corporations — transfer this amount to Form CT-34-SH, line 15c.

Line 14 — Enter the total amount of monetary contributions made to EZ community development projects that are itemized in Schedule C. Submit supporting documentation indicating the name(s) of the community development project(s) and the amount of the monetary contributions.

Schedule D — Limitations of EZ capital tax credit

Line 15

- CT-3 — Enter the tax from line 78.
- CT-3-A — Enter the tax from line 77.
- CT-32 — Enter the tax from line 5.
- CT-32-A — Enter the tax from Schedule A, line 5.
- CT-33 — If a life insurance company, enter the lesser of line 9a or line 10a. If a non-life company, enter the lesser of line 9b or line 10b.
- CT-33-A — Enter the lesser of line 12a or line 15.

Line 18 — Enter the EZ capital tax credit that was allowed in previous tax years, less any recaptured credit.

Line 19 — Subtract line 18 from line 17. The result represents the amount of credit that may still be claimed in each of the categories.

Line 20 — For column A, enter the amount from line 19 or Schedule A, line 5, whichever is smaller.

For column B, enter the amount from line 19 or Schedule B, line 9, whichever is smaller.

For column C, enter the amount from line 19 or Schedule C, line 13, whichever is smaller.

Line 21 — Enter the tax from either Form CT-3, line 78; Form CT-3-A, line 77; Form CT-32, line 5; Form CT-32-A, Schedule A, line 5; Form CT-33, line 9a; or Form CT-33-A, line 12a.

Line 22 — If you are claiming more than one credit for this tax year, enter the amount of the credit(s) claimed before applying the EZ capital tax credit. Otherwise, enter "0."

Order of credits — You must apply certain credits before the EZ capital tax credit. Refer to the instructions of your franchise tax return to determine the correct order of credits.

Schedule E — Computation of EZ capital tax credit and carryover

Line 30 — If line 29 is greater than line 28, subtract line 28 from line 29. This is your net EZ capital tax credit recapture. Enter the amount here and add to the amount reported on Form CT-3, line 78; Form CT-3-A, line 77; Form CT-32, line 5; Form CT-32-A, Schedule A, line 5; Form CT-33, line 9c; or Form CT-33-A, line 12c. Do not complete lines 31 and 32 if you have a net EZ capital tax credit recapture.

Line 32 — Subtract line 31 from line 30 to arrive at your EZ capital tax credit to be carried forward to future years. You will need to refer to this figure when completing your Form CT-602 in 2002.

Schedule F — Recapture of EZ capital tax credit

If a taxpayer sells, transfers, or otherwise disposes of stock, a partnership interest, or other ownership interest arising from the making of a qualified investment, or if a contribution or investment is recovered by the taxpayer that was the basis for the allowance of the credit, and the disposal or recovery occurs during the tax year or within 36 months from the close of the tax year when the credit was allowed, the difference between the credit taken and the credit allowed must be added back.

Column C — For recapture purposes, the amount of the credit to be added back must be the portion of the credit attributable to the stock, or other ownership interest disposed of, or the payment or contribution recovered, multiplied by the following percentages:

- 100%, if the disposition or recovery occurs within the tax year or within 12 months of the close of the tax year in which the credit was allowed;
- 67%, if the disposition or recovery occurs more than 12 months, but not more than 24 months, after the end of the tax year in which the credit was allowed; **or**
- 33%, if the disposition or recovery occurs more than 24 months, but not more than 36 months, after the end of the tax year in which the credit was allowed.

Line 33 — Add column D amounts. Enter here and on line 29. S corporations include the total from line 33 on Form CT-34-SH, line 18, and provide shareholders with their share of the recaptured credit.

Note:

Corporations: When you compute your EZ Capital Tax Credit in *future* periods, you will use this line 33 amount to complete the appropriate columns of Form CT-602, Schedule D, Part II.

Shareholders of S corporations: When you compute your EZ Capital Tax Credit in *future* periods, you will use your share of this line 33 amount to complete the appropriate columns of Form IT-602, Schedule F, Part II.