



# Instructions for Form IT-604

## Claim for QEZE Credit for Real Property Taxes and QEZE Tax Reduction Credit

### General information

For tax years beginning on or after January 1, 2001, the Empire Zones Program Act provides tax credits for a qualified empire zone enterprise (QEZE): the QEZE credit for real property taxes and the QEZE tax reduction credit. The credits are available to a sole proprietor of a QEZE, a shareholder of an S corporation that is a QEZE, or a member of a partnership that is a QEZE, including members of a LLC if the LLC is treated as a partnership for federal tax purposes, and is subject to tax under Article 22.

### Eligibility

A business enterprise that had been certified as eligible to receive benefits under Article 18-B of the General Municipal Law prior to July 1, 2005, is a QEZE for each of the 14 tax years following its test year, if in those tax years the business enterprise meets the annual employment test. To meet the employment test, the business enterprise's average full-time employment for the tax year, both within the empire zone (EZ) and in New York State outside the EZ must equal or exceed the average full-time employment determined for the base period.

### QEZE credit for real property taxes

The QEZE credit for real property taxes is allowed for taxes paid or incurred on real property owned by the QEZE and located in the EZ. The amount of the credit is the product of (1) the benefit period factor; (2) the employment increase factor; and (3) the eligible real property taxes paid or incurred by the QEZE during the current tax year.

Any amount of the QEZE credit for real property taxes not deductible in the current tax year may be refunded without interest.

### QEZE tax reduction credit

The QEZE tax reduction credit is allowed against the income tax imposed under Article 22, and is the product of (1) the benefit period factor; (2) the employment increase factor; (3) the zone allocation factor; and (4) the tax factor.

The QEZE tax reduction credit is not refundable and any amount not deductible in the current tax year may not be credited or refunded to the taxpayer.

### Definitions

A *Qualified Empire Zone Enterprise (QEZE)* is a business enterprise that is certified as eligible to receive benefits under Article 18-B of the General Municipal Law prior to July 1, 2005, and that annually meets the employment test.

The *employment test* will be met for a tax year if (1) the business enterprise's employment number in the EZ in which the enterprise is certified equals or exceeds its employment

number in the EZ for the base period, and (2) the business enterprises's employment in New York State outside of the EZ for the tax year equals or exceeds its employment number in New York State outside the EZ for the base period.

*Tax year* means the tax year of the business enterprise under Article 22 of the Tax Law.

*Employment number* means the average number of individuals employed full-time by the business enterprise for at least one-half of the taxable year.

*Full-time employment* means a job consisting of at least 35 hours per week, or two or more jobs that together constitute the equivalent of a job of at least 35 hours per week. A seasonal job that meets these requirements constitutes full-time employment if the job is continuous for at least three months.

*Test date* is the later of July 1, 2000, or the date prior to July 1, 2005, on which your business enterprise was certified under Article 18-B of the General Municipal Law.

*Test year* is your last tax year ending on or before the test date.

*Base period* is the five tax years immediately preceding the test year. If your QEZE has fewer than five preceding years, then your base period is the smaller set of years. If you are a new business enterprise that is first doing business and creating jobs in New York State, your base period average is zero.

*Employment increase factor* (see Schedule C) is an amount which cannot exceed 1, but that is the greater of the following:

- (1) the excess of your employment number in the EZ in which you are certified for the current tax year over your test year employment in the EZ, divided by your test year employment number in the EZ; or
- (2) the excess of your employment number in the EZ in which you are certified for the current tax year over your test year employment in the EZ, divided by 100.

*Benefit period factor* is a number between zero and one, based on the tax year of the benefit period, and designed to phase out the benefit in the last five years of the benefit period. (See the *benefit period factor table* on page 4 of Form IT-604.)

*Zone allocation factor* (see Schedule D) is a percentage that represents your presence in the EZ for which you are certified. It is used only for computing the tax reduction credit; see Schedule G.

*Value of real and tangible personal property* is the federal adjusted basis of your property (except that the value of rental property shall be 8 times the gross rents payable for the rental property for the taxable year.) However, you may use fair market value when computing your QEZE property factor if you made a one-time revocable election to use fair market value as the value of all your real and tangible personal property for purposes of the property factor of the business allocation percentage and that election has not been revoked.

*Eligible real property taxes* are the taxes for the current tax year imposed on your real property that is connected to a business located in the EZ for which you are certified.

*Tax factor* (see Schedule E) is the portion of the tax due under Article 22 of the Tax Law that is attributable to the income of the QEZE. The tax factor is used only for computing the tax reduction credit (see Schedule G).

### Specific instructions

**Sole Proprietors:** Complete Schedules A through G.

**Partnerships:** Complete Schedules A, B, C, D, and F. A partnership does not compute the QEZE tax reduction credit (Schedule G). The individual partners may claim this credit on their personal income tax return. Therefore, the partnership must provide each partner with the benefit period factor (see table on page 4 of Form IT-604), the employment increase factor (Schedule C), and the zone allocation factor (Schedule D).

**Fiduciaries:** Complete Schedules A through H.

#### Partners in a partnership, shareholders in a New York S corporation, and beneficiaries of an estate or trust:

Enter the employer identification number of the QEZE business, the name of the business, the name of the empire zone and the date of certification on the front of Form IT-604. This information can be obtained from your partnership, New York S corporation, or the fiduciary of the estate or trust. Complete Schedules E, F, and G.

#### Schedule A — Eligibility requirements

To qualify for the QEZE real property tax and QEZE tax reduction credits, you must be certified under Article 18-B of the General Municipal law prior to July 1, 2005, and you must meet an annual employment test. Complete Schedule A to determine if you meet the annual employment test. If you answer *No* on either line 3 or line 6, you do **not** qualify for the QEZE credit for real property taxes or the QEZE tax reduction credit for the current tax year. Do not file this form.

**Part I — EZ employees** - Computation of average number of full-time employees within the EZ for the current tax year and the five-year base period.

**Line 1** - Enter for each date specified of the current tax year, the number of full-time employees who are located in the EZ. Divide the total number of full-time EZ employees for the current tax year by the number of such dates occurring during the current year (even if you had no employees on those dates) to obtain the average number of full-time EZ

employees for the current tax year. Make no entries for any dates that did not occur during your tax year. Do not include those dates in the calculation.

**Line 2** - Enter for each date specified of the base period, the number of full-time employees who are located in the EZ. Divide the total number of full-time EZ employees for each date specified of the five year base period by the number of dates occurring (even if you had no employees on those dates) to obtain the average number of full-time EZ employees for the base period. Make no entries for any dates prior to your beginning business date. Do not include those dates in the calculation.

*Example: A QEZE, a calendar-year filer begins business in New York January 1, 1999 and is certified on January 1, 2001. The QEZE's test date is January 1, 2001. The test year is the tax year ending December 31, 2000. The base period is January 1, 1999 - December 31, 1999. The QEZE will compute its total number of full-time EZ employees for the base period as follows:*

Base period - number of full-time EZ employees	March 31	June 30	September 30	December 31	Total
Number in base year one	0	3	4	5	12
Number in base year two					
Number in base year three					
Number in base year four					
Number in base year five					
Total full-time employees within the EZ in the base period					12

2. Average number of full-time employees within the EZ in the base period .. (12 divided by 4) ..... 3\*

\* The QEZE will divide the total number of full-time EZ employees by the number of dates that occurred during the QEZE's base period. The base period in this instance was only one year.

**Line 3** - The average number of full-time EZ employees for the current year (line 1) must equal or exceed the average number of full-time EZ employees for the base year (line 2) to qualify for the QEZE credit for real property taxes or the QEZE tax reduction credit. If you check *No*, you do **not** qualify for either credit. Do not complete the rest of this form.

#### Part II - New York State employment outside the EZ

Complete Part II in the same manner as you completed Part 1; however, include only those employees who are not located in the EZ, but who are located within New York State.

**Line 6** - The average number of full-time employees in New York State and outside the EZ for the current year (line 4) must equal or exceed the average number of full-time employees in New York State and outside the EZ, for the base year (line 5) to qualify for the QEZE credit for real property taxes or the QEZE tax reduction credit. If you check *No*, you do **not** qualify for either credit. Do **not** complete the rest of this form.

### **Schedule B — Computation of average number of full-time EZ employees for the test year**

**Line 7** - Divide the total number of full-time EZ employees for your test year by the number of such dates occurring during such year (even if you had no employees on those dates) to obtain the average number of full-time EZ employees for your test year. Make no entries for any dates that did not occur during your test year. Those dates are not included in the calculation.

### **Schedule C — Employment increase factor**

The employment increase factor (see *Definitions*) cannot exceed 1.0. If your test year employment number is zero, your employment increase factor shall be 1.0.

### **Schedule D — Zone allocation factor**

This factor represents your economic presence in an EZ. The *zone allocation factor* is a percentage computed using two factors: a property factor and a payroll factor. The percentage is calculated by adding the two percentages determined on lines 16 and 17 and then dividing the result by 2. If you have only one percentage, use that percentage as your zone allocation factor.

**Line 14, Column A** - Enter your average value of real and tangible personal property (see *Definitions*), whether owned or rented to you, that is located within the EZ in your current tax year.

**Line 14, Column B** - Enter your average value of real and tangible property (see *Definitions*) located within New York State in your current tax year.

**Line 15, Column A** - Enter the wages paid to your full-time EZ employees in the current tax year (see *Definitions*).

**Line 15, Column B** - Enter the wages paid to your full-time employees located within New York State for the current tax year (see *Definitions*).

### **Schedule E — Tax factor**

**Line 21**- This is the amount of income from the QEZE that you included in your New York adjusted gross income that is attributable to New York sources. The amount attributable to New York sources can be obtained from the QEZE.

**Line 23** - Divide the amount on line 21 by the amount from line 22 (carry result to four decimal places). If you are a partner in a partnership this amount cannot exceed 1.

### **Schedule F — QEZE credit for real property taxes computation**

**Line 27** – See page 2 for a definition of eligible real property taxes.

**Line 29 - Partners, shareholders, and beneficiaries** - If you were a partner in a partnership, a shareholder of a New York S corporation, or a beneficiary of an estate or trust and received a share of the QEZE credit for real property taxes from that entity, enter your share of the credit on line 29. This information can be obtained from your partnership, New York S corporation or the fiduciary of the estate or trust. If you belong to more than one partnership, New York S corporation, or estate or trust enter the total of all your shares of the credit on line 29.

### **Schedule G — QEZE tax-reduction credit computation**

**Partners and shareholders** - Complete all of Schedule G. The amounts to be entered on lines 31, 32, and 33 can be obtained from your partnership or New York S corporation. If you belong to more than one partnership or New York S corporation, a separate schedule G must be completed for each entity. Transfer the total of all schedules as instructed below line 37.

**Line 36 - Beneficiaries of estates and trusts** - Enter your share of the estate's or trust's tax reduction credit. This amount can be obtained from the fiduciary of the estate or trust. If you belong to more than one estate or trust, enter the total of all your shares of the credit on line 36.

**Schedule H - Beneficiary's and fiduciary's share of credit** - An estate or trust must complete Schedule H. If an estate or trust allocates or assigns the credits to its beneficiaries, base the division on each beneficiary's proportionate share of the income of the estate or trust. Transfer the amount from the Fiduciary line of Schedule H, column C to Form IT-205, line 33. Transfer the amount from the Fiduciary line of Schedule H, Column D to Form IT-205, line 10.

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