



Instructions for Form IT-601.1

Claim for ZEA Wage Tax Credit

IT-601.1-I

General information

In order to claim the zone equivalent area (ZEA) wage tax credit, a taxpayer must be certified under Article 18-B of the General Municipal Law as eligible to receive the credit. A copy of the certification must be attached to Form IT-601.1 each year the credit (or carryforward of the credit) is being claimed. For information on certification, call Empire State Development at (518) 292-5240.

For tax years beginning on or after January 1, 2001, the ZEA wage tax credit will be allowed for up to five consecutive tax years, beginning in the first tax year in which all three eligibility requirements are met. Subsequent certification at the same or a different location in the same zone equivalent area or at a location in a different zone equivalent area shall not extend the five years that the credit is allowed. A taxpayer who first claimed the ZEA wage tax credit for calendar year 1998 will be eligible to claim the ZEA wage tax credit for calendar year 2002 (see *Example* below).

Example:

Taxpayer A is a calendar-year taxpayer certified under Article 18-B of the General Municipal Law as eligible to receive the ZEA wage tax credit. The taxpayer met all three eligibility requirements and first became eligible to claim the ZEA wage tax credit for calendar tax year 1998. Taxpayer A would be eligible to claim the ZEA wage tax credit for five consecutive tax years as follows:

- first tax year 1998;
- second tax year 1999;
- third tax year 2000 (the taxpayer is not eligible to claim the ZEA wage tax credit, except for a ZEA wage tax credit available as a carryforward);
- fourth tax year 2001;
- fifth tax year 2002.

Note that the ZEA wage tax credit cannot be claimed for calendar year 2000 but counts as part of the five consecutive tax years. After the fifth consecutive tax year 2002, the taxpayer would no longer be eligible to claim the ZEA wage tax credit on Form IT-601.1, except for a ZEA wage tax credit available as a carryforward.

Eligibility requirements

The ZEA wage tax credit must be claimed in the first tax year in which **all three** of the following eligibility requirements are met:

- empire zone (EZ) wages are paid;
- the average number of full-time employees in New York State for the current tax year (line 2) exceeds the average number of full-time employees in New York State during the four years immediately preceding the first tax year in which the ZEA wage tax credit is claimed (line 3); **and**
- the average number of full-time employees in the ZEA for the current year (line 5) exceeds the average number of full-time employees in the ZEA or area comprising the ZEA during the four years immediately preceding the first tax year in which the ZEA wage tax credit is claimed (line 6).

The average number of employees on line 3 and line 6, once computed, remains the same for each of the five tax years for which the credit may be claimed.

When completing this form, if line 2 exceeds line 3, continue with Part II. If line 2 is less than line 3, you cannot compute a credit for the current tax year. However, if you are claiming any available ZEA wage tax credit carryover from a preceding tax year, go to line 23 of Schedule E.

If line 5 exceeds line 6, complete Schedule A. If line 5 is less than line 6, you cannot compute a credit for the current tax year. However, if you are claiming any available ZEA wage tax credit carryover from a preceding tax year, go to line 23 of Schedule E.

Schedule A — Computation of ZEA wage tax credit for the current tax year

If you meet the three eligibility requirements, compute the ZEA wage tax credit in Schedule A, Part I and Part II.

The ZEA wage tax credit in Part I is \$3,000 multiplied by the average number of qualified employees on line 8.

The ZEA wage tax credit in Part II is \$1,500 multiplied by the average number of qualified employees on line 11.

A ZEA wage tax credit cannot be computed in Schedule A for any tax year unless all three eligibility requirements are met for that tax year.

Schedule E — Computation of the ZEA wage tax credit allowed for the current tax year

A taxpayer not allowed to compute a ZEA wage tax credit in Schedule A may claim any available ZEA wage tax credit carryforward from a preceding tax year in Schedule E. A ZEA wage tax credit carryforward in Schedule E is available until used.

The ZEA wage tax credit allowed in Schedule E (including any ZEA wage tax credit carryforward) is limited to 50% of the tax imposed under section 601 of Article 22, Personal Income Tax, before the allowance of any tax credits.

Any portion of the ZEA wage tax credit disallowed in Schedule E as a result of the above limitation may be carried forward on subsequent tax returns.

The ZEA wage tax credit must be deducted after any tax credit that cannot be carried forward and before any tax credit that can be carried forward.

Schedule F — Computation of refundable portion of ZEA wage tax credit

For tax years beginning on or after January 1, 1994, an Article 22 taxpayer qualifying as the owner of a new business under section 606(a)(10) may elect to treat 50% of the ZEA wage tax credit available as a carryforward to following years as an overpayment to be refunded without interest or applied as a payment against next year's tax.

Revocation of Article 18-B certification

Once certification under Article 18-B of the General Municipal Law is revoked, any wages paid by the taxpayer on or after the effective date of such revocation will not constitute EZ wages.

Definition of terms

A *zone equivalent area* (ZEA) is an area within New York State that has been designated as a ZEA under Article 18-B of the General Municipal Law, based on the following:

- a poverty rate of at least 20%; and
- an unemployment rate at least 1.25 times the statewide unemployment rate.

Empire zone (EZ) wages are wages paid by a certified taxpayer for full-time employment during the tax year in an area designated or previously designated as a ZEA, if such employment is in a job created in the ZEA during the ten-year period immediately following the date of designation as a ZEA. Wages paid to an individual employed on or after the effective date a taxpayer's certification under Article 18-B of the General Municipal Law is revoked do not qualify as EZ wages. Wages paid to individuals employed before a ZEA is designated do not qualify as EZ wages.

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.

A *targeted employee* is a New York State resident who received EZ wages during the current tax year and who is **one or more** of the following:

- an eligible individual under the provisions of the Work Opportunity Credit (IRC section 51); **or**
- an individual eligible for benefits under the provisions of the Job Training Partnership Act (Public Law 97-300, as amended); **or**
- a recipient of public assistance benefits at any time during the previous two years; **or**
- an individual whose income is below the most recently established poverty rate promulgated by the U.S. Department of Commerce, Bureau of Census; **or**

— a member of a family whose family income is below the most recently established poverty rate promulgated by the U.S. Department of Commerce, Bureau of Census.

The Department of Labor (DOL) is required to provide a certificate verifying the targeted status of an individual for use by an employer seeking wage tax credits under the ZEA program. The Tax Department will only recognize Form ES 450, issued by the DOL, and signed by a DOL representative as proof of targeted status under the Wage Tax Credit program.

Any employee who qualified as a targeted employee at the time of initial employment will qualify as a targeted employee for subsequent years as long as he or she continues to receive EZ wages and remains a resident of New York State.

Family means a group of two or more persons (one of whom is the householder) related by birth, marriage or adoption and residing together; all such persons (including related subfamily members) are considered members of the same family.

Related persons include:

- Members of a family, but only brothers and sisters, half-brothers and half-sisters, a spouse, ancestors (parents, grandparents, etc.), and linear descendants (children, grandchildren, etc.),
- Two corporations that are members of the same controlled group of corporations determined by applying a 10% ownership test,
- The fiduciaries of two different trusts, or the fiduciary and beneficiary of two different trusts, if the same person is the grantor of both trusts,
- A tax-exempt educational or charitable organization and a person who directly or indirectly controls it (or a member of the family that controls it),
- A corporation and individual who own directly or indirectly more than 10% of the value of the outstanding stock of the corporation,
- A trust fiduciary and a corporation of which more than 10% in value of the outstanding stock is owned directly or indirectly by (or for) the trust or by (or for) the grantor of the trust,
- The grantor and fiduciary, or the fiduciary and beneficiary of any trust,
- A corporation and a partnership if the same individuals own over 10% in value of the outstanding stock of the corporation and more than 10% of the capital interest or the profits interest in the partnership,
- Two S corporations if the same individuals own more than 10% of the outstanding stock of each corporation,
- An S corporation and a regular corporation if the same individuals own more than 10% in value of the outstanding stock of each corporation,
- A partnership and a person who own directly or indirectly more than 10% of the capital or profits of the partnership,
- Two partnerships if the same individuals directly or indirectly own more than 10% of the capital or profits of each,
- Two individuals who are engaged in business under common control, and
- An executor of an estate and a beneficiary of that estate.

Employment number means the average number of individuals employed full-time by the enterprise for at least one half of the tax year. Compute the average number by determining the number of individuals employed by the taxpayer on March 31, June 30, September 30, and December 31 during the tax year, adding the number of individuals employed on each of these dates and dividing the total by the number of dates occurring during the tax year. In determining the number of individuals employed on March 31, June 30, September 30, and December 31, do **not** include individuals employed within the preceding 60 months by a related person to the empire zone as the term related person is defined above, unless the related person was never allowed an empire zone wage tax credit or a zone equivalent area wage tax credit for such employee.

Owner of a new business under Article 22, section 606(a)10, means an individual who is either a sole proprietor or a member of a partnership **unless**:

- the business entity of which the individual is an owner is substantially similar in operation and in ownership to:

- a business entity taxable or previously taxable under Article 9-A; Article 9 section 183, 184, 185, or 186; Article 32; or Article 33 of the Tax Law; **or**
- a business entity that would have been subject to tax under Article 23 (as it was in effect on January 1, 1980); **or**
- a business entity with income or losses that are or were includable under Article 22 if the intent and purpose of section 606(k)(5) with respect to refunding of credit to new business would be evaded; **or**

— the individual operated the new business entity in New York State for more than five tax years (excluding short tax years of the business).

An *owner of a new business* under Article 22 also includes a shareholder of a New York S corporation, unless:

- The S corporation is a corporation:
 - in which over 50% of the number of shares of stock entitling their holders to vote for the election of directors or trustees is owned or controlled either directly or indirectly by a taxpayer subject to tax under Article 9-A; Article 9, section 183, 184, 185, or 186; Article 32; or Article 33 of the Tax Law; or
 - that is substantially similar in operation and in ownership to a business entity taxable, or previously taxable, under Article 9-A, Article 9, section 183, 184, 185, or 186; Article 32; Article 33; or Article 23 (the New York State unincorporated business tax as it was in effect on January 1, 1980); or that has income or losses that are or were includable under Article 22 of the Tax Law, whereby the intent and purposes of section 210.19(e) with respect to refunding of credit to new businesses would be evaded.
- The S corporation has been in operation in New York State for more than five tax years (excluding short tax years of the business).

Line instructions

Partners in a partnership, shareholders in a New York S corporation, and beneficiaries of an estate or trust: complete Schedule B, Schedule C and Schedule E, and if applicable, Schedule D and Schedule F.

Fiduciaries and individuals (including sole proprietor): complete line 1. If you checked the **Yes** box, complete Parts I and II. Then complete all applicable Schedules A through F. If you checked the **No** box, skip lines 2 through 7, and Schedule A. Then complete all applicable Schedules B through F. However, fiduciaries and individuals should not complete Schedule F unless you elect to claim the refund for new business. For a definition of a new business, see above.

Partnerships complete line 1. If you checked the **Yes** box, complete Part I and Part II. Then complete Schedule A. If you checked the **No** box at question 1, **STOP**, you cannot claim a ZEA wage tax credit for tax year 2002.

If, as a sole proprietor or partnership (or LLC that is treated as a sole proprietor or partnership for federal purposes), you are claiming the ZEA wage tax credit for more than one business, or you have employees in more than one zone, complete line 1, Parts I and II and Schedule A for each business or zone on separate Form(s) IT-601.1. Combine all Form IT-601.1 line 14 amounts on one Form IT-601.1, entering the total on line 19.

Eligibility requirements

Line 1— Check the **Yes** box if you paid EZ wages during the current tax year.

Check the **No** box if you did not pay EZ wages during the current tax year. You do **not** qualify to compute the ZEA wage tax credit in Schedule A for the current tax year. However, you may claim as a ZEA wage tax credit for the current tax year any ZEA wage tax credit carryforward from a preceding tax year in Schedule E.

Part I — Computation of average number of full-time employees in New York State for the current tax year and four-year test period

Enter for each date specified of the current tax year the number of full-time employees in New York State.

Line 2 — Add the number of these employees on each date for the current tax year in the table and divide by the number of such dates occurring during the current tax year to obtain the average number of full-time employees for the current tax year.

If the taxpayer provided full-time employment for only part of the current tax year, then the current tax year will be deemed to refer to that part.

Example:

Current tax year - 2002	March 31	June 30	Sept 30	Dec 31	Total
Number of full-time employees in New York State	0	100	125	175	400
2. Average number of full-time employees in New York State for current tax year (400 divided by 4)					2. • 100

Enter for each date specified of the four-year period immediately preceding the first tax year in which the ZEA wage tax credit is claimed (i.e., the four-year test period), the number of full-time employees in New York State.

Line 3 — Add the number of full-time employees on each date for the four-year test period in the table and divide by the number of such dates occurring during the four-year test period to obtain the average number of full-time employees for the four-year test period.

If the taxpayer provided full-time employment in New York State for only part of the four years immediately preceding the first year in which the ZEA wage tax credit is claimed, then the four-year period will be deemed to refer to that part.

If the taxpayer did not provide full-time employment in New York State in any of the four years immediately preceding the first year in which the ZEA wage tax credit is claimed, enter zero on line 3.

Example:

Number of full-time employees in New York State during four-year test period	March 31	June 30	September 30	December 31	Total
First year - 2001	100	100	100	100	400
Second year - 2000	50	75	75	100	300
Third year - 1999			40	50	90
Fourth year - 1998					
Total number of full-time employees in New York State for four-year test period					790
3. Average number of full-time employees in New York State for four-year test period ...					3. • 79*

The average number of full-time employees on line 2 must exceed the average number of full-time employees on line 3

* If the taxpayer began providing full-time employment in New York State on July 1, 1999, and had full-time employees in New York State for the dates September 30, 1999, through December 31, 2001, the taxpayer would make no entries for the dates prior to July 1, 1999. Thus, the taxpayer would divide 790 by 10 to obtain 79.

Line 4 — The average number of full-time employees in New York State for the current tax year (line 2) must exceed the average number of full-time employees in New York State for the four-year test period (line 3). If you answer *No*, you do **not** qualify to compute the ZEA wage tax credit in Schedule A for the current tax year. However, you may claim as a ZEA wage tax credit for the current tax year any ZEA wage tax credit carryforward from a preceding tax year in Schedule E.

Part II — Computation of average number of full-time employees in ZEA for the current tax year and four-year test period

Enter for each date specified of the current tax year the number of full-time employees in the ZEA.

Line 5 — Compute the average number of full-time employees for the current tax year in the table in the same manner as line 2.

Enter for each date specified of the four-year period immediately preceding the first tax year in which the ZEA wage tax credit is claimed (i.e., the four-year test period), the number of full-time employees in the area that currently constitutes the ZEA.

Line 6 — Compute the average number of such employees for the four-year test period in the table in the same manner as line 3.

Line 7 — The average number of full-time employees in the ZEA for the current tax year (line 5) must exceed the average number of full-time employees in the area that currently constitutes the ZEA for the four-year test period (line 6). If you answer *No*, you do **not** qualify to compute the ZEA wage tax credit in Schedule A for the current tax year. However, you may claim as a ZEA wage tax credit for the current tax year any ZEA wage tax credit carryforward from a preceding tax year in Schedule E.

Schedule A — Computation of ZEA wage tax credit for the current tax year

Part I — Computation of ZEA wage tax credit for targeted employees

Enter for each date specified of the current tax year the number of qualified employees who meet all three of the following requirements:

- were targeted employees; and
- received EZ wages for more than half of the current tax year (see *Example* below); and
- received an hourly wage that is at least 135% of the minimum wage specified in section 652 of the Labor Law for more than half of the employee's period of employment during the current tax year.

Line 8 — Add the number of qualified employees for the current tax year in the table and divide by the number of such dates (include "0" dates) occurring during the current tax year to obtain the average number of qualified employees for the current tax year (see the example at the line 2 instructions).

Example:

On March 1, 2002, a calendar-year taxpayer located in a ZEA applies for certification under Article 18-B of the General Municipal Law. The taxpayer is notified that such certification is effective September 1, 2002. For purposes of the ZEA wage tax credit, the taxpayer is deemed to have been certified as of January 1, 2002, the first day of the taxpayer's tax year in which the taxpayer applied for certification. The taxpayer files a tax return for the tax year January 1, 2002 - December 31, 2002. Assuming the taxpayer met the eligibility requirements, the taxpayer would include in Schedule A, Part I, line 8, and Part II, line 11, any qualified employees who received EZ wages for more than six months of the tax year January 1, 2002 - December 31, 2002. If the taxpayer filed a tax return for the short tax year September 1, 2002 - December 31, 2002, the taxpayer would include in Schedule A, Part I, line 8, and Part II, line 11, any qualified employees who received EZ wages for more than two months of the tax year September 1, 2002 - December 31, 2002.

Part II — Computation of ZEA wage tax credit for employees not included in Schedule A, Part I

Enter for each date specified of the current tax year the number of qualified employees who meet both of the following requirements:

- were not included in Schedule A, Part I, line 8; and
- received EZ wages for more than half of the current tax year (see *Example* at line 8 instructions above).

Line 11 — Add the number of qualified employees for the current tax year in the table and divide by the number of such dates (include "0" dates) occurring during the current tax year to obtain the average number of qualified employees for the current tax year (see the example at the line 2 instructions).

Part III — Computation of ZEA wage tax credit for the current year

Line 14 — Individuals: enter the line 14 amount on Schedule E, line 19.

Partnerships transfer the line 14 amount to Form IT-204, line 30.

Estates and trusts: transfer the line 14 amount to the total line of Schedule D.

All filers: If you computed a ZEA wage tax credit on line 14, you must complete the additional information requested in Parts IV and V of Schedule A.

Schedule B — Partnership, S corporation and estate and trust information

Enter the appropriate information for each partnership, S corporation, or estate or trust for which you receive a share of the ZEA wage tax credit. If you need more space, attach a separate schedule.

Schedule C — Partner's, shareholder's or beneficiary's share of credit

Enter your share of the total credit received from a partnership, New York S corporation, or an 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 on the appropriate line.

Partner

Line 15 — Enter your share of the partnership's ZEA wage tax credit. This information should be provided to you by the partnership. If you are claiming a credit from more than one partnership, combine all amounts on line 15.

S corporation shareholder

Line 16 — Enter your share of the S corporation's ZEA wage tax credit. This information should be provided to you by the S corporation. If you are claiming a credit from more than one S corporation, combine all amounts on line 16.

Beneficiary

Line 17 — Enter your share of the estate or trust's ZEA wage tax credit. This information should be provided to you by your fiduciary. If you are claiming a credit from more than one estate or trust, combine all amounts on line 17.

Schedule D — Beneficiary's and fiduciary's share of credit

An estate or trust must complete Schedule D. If an estate or trust allocates or assigns the credit to its beneficiaries, base the division on each beneficiary's proportionate share of the income of the estate or trust.

Schedule E — Computation of the ZEA wage tax credit allowed for the current tax year

Line 19 — Individuals: enter the ZEA wage tax credit computed for the current tax year as shown on line 14. Enter "0" if you did not compute a ZEA wage tax credit on Schedule A for the current tax year.

Line 20 — Partner in a partnership, New York S corporation shareholder or a beneficiary of an estate or trust: enter your ZEA wage tax credit as shown on Schedule C, line 18.

Line 23 — Enter the amount of the ZEA wage tax credit carryforward from the tax year immediately preceding the current tax year.

Line 25 — Enter the tax shown on Form IT-201, line 38, and Form IT-230-I, Worksheet A, line 1; or Form IT-203, line 44 and Form IT-203-B, line 1; or Form IT-205, line 8 if a resident, or line 9 if a nonresident or part-year resident.

Line 27 — Transfer the line 27 amount to Form IT-201-ATT, line 52; Form IT-203-B, line 38; or Form IT-205, line 10.

Line 28 — Subtract line 27 from line 24 to arrive at the unused ZEA wage tax credit available to be carried forward to future years. You will need to refer to this figure when completing your year 2003 Form IT-601.1. Any portion of the ZEA wage tax credit (including any wage tax credit carryforward from a preceding tax year) that is disallowed in the current tax year as a result of the limitation may be carried forward. If line 27 is larger than line 24, enter "0."

Schedule F — Computation of refundable portion of ZEA wage tax credit

Line 29 — Certain taxpayers may elect to treat a portion of the current year's ZEA wage tax credit available as a carryforward as an overpayment of tax to be refunded. The election applies to a ZEA wage tax credit computed for a current tax year beginning on or after January 1, 1994.

The election may be made by an Article 22 taxpayer qualifying as the owner of a new business under section 606(a)10.

Once made, the election may not be revoked. Interest will not be paid on any overpayment of tax refunded on line 31.

Line 31 — Enter the refundable ZEA wage tax credit on Form IT-201-ATT, line 74; Form IT-203-B, line 59; or Form IT-205, line 33.

Privacy notification

The Commissioner of Taxation and Finance may collect and maintain personal information pursuant to the New York State Tax Law, including but not limited to, sections 171, 171-a, 287, 308, 429, 475, 505, 697, 1096, 1142, and 1415 of that Law; and may require disclosure of social security numbers pursuant to 42 USC 405(c)(2)(C)(i).

This information will be used to determine and administer tax liabilities and, when authorized by law, for certain tax offset and exchange of tax information programs as well as for any other lawful purpose.

Information concerning quarterly wages paid to employees is provided to certain state agencies for purposes of fraud prevention, support enforcement, evaluation of the effectiveness of certain employment and training programs and other purposes authorized by law.

Failure to provide the required information may subject you to civil or criminal penalties, or both, under the Tax Law.

This information is maintained by the Director of Records Management and Data Entry, NYS Tax Department, W A Harriman Campus, Albany NY 12227; telephone 1 800 225-5829. From areas outside the United States and outside Canada, call (518) 485-6800.

Need help?



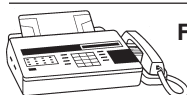
Telephone assistance is available from 8 a.m. to 5:55 p.m. (eastern time), Monday through Friday.

For business tax information, call the New York State Business Tax Information Center: 1 800 972-1233

For general information: 1 800 225-5829

To order forms and publications: 1 800 462-8100

From areas outside the U.S. and outside Canada: (518) 485-6800



Fax-on-demand forms: Forms are available 24 hours a day, 7 days a week. 1 800 748-3676



Internet access: www.tax.state.ny.us



Hotline for the hearing and speech impaired:

1 800 634-2110 from 8 a.m. to 5:55 p.m. (eastern time), Monday through Friday. If you do not own a telecommunications device for the deaf (TDD), check with independent living centers or community action programs to find out where machines are available for public use.



Persons with disabilities: In compliance with the Americans with Disabilities Act, we will ensure that our lobbies, offices, meeting rooms, and other facilities are accessible to persons with disabilities. If you have questions about special accommodations for persons with disabilities, please call 1 800 225-5829.



If you need to write, address your letter to:

NYS TAX DEPARTMENT
TAXPAYER CONTACT CENTER
W A HARRIMAN CAMPUS
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