



# Instructions for Form CT-603

## Claim for EZ Investment Tax Credit and EZ Employment Incentive Credit

# CT-603-I

(formerly DTF-603-I)

### New for 2001

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

For tax years beginning on or after January 1, 2001, the EZ employment incentive credit may be used to reduce your tax liability to the fixed dollar minimum.

Also, 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, and their instructions, previously numbered with a "DTF" 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.

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 compute their pro rata share of the credits, carryforwards, and refunds of 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
Claim for EZ Wage Tax Credit Form DTF-601	CT-601	IT-601
Claim for ZEA Wage Tax Credit Form DTF-601.1	CT-601.1	IT-601.1
Claim for EZ Capital Tax Credit Form DTF-602	CT-602	IT-602
Claim for EZ Investment Tax Credit and EZ Employment Incentive Credit Form DTF-603	CT-603	IT-603
Claim for EZ Investment Tax Credit and EZ Employment Incentive Credit for the Financial Services Industry Form DTF-605	CT-605	IT-605

### General information

The Tax Law allows an EZ investment tax credit for New York C corporations against the tax imposed under Article 9-A (corporation franchise tax), and for shareholders of New York S corporations against the tax imposed under Article 22 (personal income tax). The credit is allowed for the tax year during which qualified property is placed in service in an EZ designated as such under Article 18-B of the General Municipal Law. Please see the section of these instructions titled *Qualified property* for a description of property eligible for this credit. The corporation claiming the credit must also be certified under Article 18-B of the General Municipal Law. Include a copy of the documentation or certificate establishing that certification with Form CT-603. General business corporations compute their EZ investment tax credit on Form CT-603 by multiplying the cost (or other federal basis) of qualified property by 10%. New York S corporations compute their EZ investment tax credit on Form CT-603 by multiplying the cost (or other federal basis) of qualified property by 8%. Individual shareholders of a New York S corporation include their pro rata share of the EZ investment tax credit on Form IT-603.

In addition, an EZ employment incentive credit for increasing employment is allowed. See the instructions for completing Schedule D, Parts I and II.

The EZ investment tax credit computed may not reduce the corporation franchise tax liability to an amount less than the higher of the tax on minimum taxable income or the fixed dollar minimum tax.

The EZ employment incentive credit used may reduce your franchise tax liability to the fixed dollar minimum.

Any portion of EZ investment tax credit or EZ employment incentive credit that cannot be used to reduce the current year tax liability may be carried over to the following year or years until it is used up. However, a taxpayer who has been decertified may carry forward the EZ investment tax credit for only 7 years.

These credits may not be applied against the MTA surcharge.

### Qualified property

*Qualified property* means tangible personal property and other tangible property, including buildings and structural components of buildings, that:

- was acquired, constructed, reconstructed or erected by the taxpayer on or after the date of designation of the empire zone and before the expiration of such designation;
- is depreciable under section 167 of the Internal Revenue Code (IRC);
- has a useful life of four years or more;
- was acquired by the taxpayer by purchase under section 179(d) of the IRC;
- is located in an EZ; and
  - is principally used by the taxpayer in the production of goods by manufacturing, processing, assembling, refining, mining, extracting, farming, agriculture, horticulture, floriculture, viticulture, or commercial fishing; or
  - is an industrial waste treatment facility or air pollution control facility, used in the taxpayer's trade or business; or
  - is research and development property.

Types of property that do not qualify for this EZ investment tax credit are:

- property leased to others;
- retail equipment, office furniture and office equipment;
- excavating and road building equipment;
- public warehouse used to store the taxpayer's goods; and
- electricity generating equipment.

When an acquisition, construction, reconstruction or erection is started during the period of designation and completed after the expiration of such period, the credit is computed based on the expenditures paid or incurred during the period of designation. Expenditures paid or incurred after the designated period may qualify for the investment tax credit under section 210.12 of the Tax Law.

The lessee/user in a safe harbor lease is allowed an EZ investment tax credit if the property otherwise qualifies.

A recapture of EZ investment tax credits and employment incentive credits previously allowed must be computed on Schedule E if the property is disposed of or ceases to be in qualified use prior to the end of its useful life.

If qualified property is acquired to replace other insured property that was stolen or destroyed by fire, storm, shipwreck or other casualty, the basis of the replacement property is its cost reduced by any amount of gain not recognized for federal income tax purposes because the insurance proceeds were invested in the replacement.

You may elect to take the EZ investment tax credit on qualified property in lieu of the investment tax credit.

## Definitions

*Manufacturing* means the process of working raw materials into wares suitable for use or giving new shapes, new quality or new combination to matter that already has gone through some artificial process by the use of machinery, tools, appliances and other similar equipment.

*Property used in the production of goods* includes machinery, equipment or other tangible property that is principally used in the repair and service of other machinery; equipment or other tangible property used principally in the production of goods; and all facilities used in the production operation, including storage of material to be used in production and the products that are produced.

*Industrial waste treatment facilities* are facilities for the treatment, neutralization or stabilization of industrial waste and other wastes (as the terms *industrial waste* and *other wastes* are defined in section 17-0105 of the Environmental Conservation Law) from a point immediately preceding such treatment, neutralization or stabilization to the point of disposal. Such property includes the necessary pumping and transmitting facilities, but excludes facilities installed for the primary purpose of salvaging materials that are usable in the manufacturing process or are otherwise marketable. Attach the certificate of compliance concerning industrial waste treatment facilities and industrial waste treatment controlled process facilities (section 17-0707 of the Environmental Conservation Law).

*Air pollution control facilities* are facilities that remove, reduce, or render less noxious air contaminants emitted from an air contamination source (as the terms *air contaminant* and *air contamination source* are defined in section 19-0107 of the Environmental Conservation Law) from a point immediately preceding such removal, reduction or rendering to the point of discharge of air meeting emission standards as established by the Department of Environmental Conservation. The term also includes flue gas desulfurization equipment and attendant sludge disposal facilities, fluidized bed boilers, precombustion coal cleaning facilities or other facilities. It does not include facilities installed primarily to salvage materials that are usable in the manufacturing process or are marketable, or that rely for their efficacy on dilution, dispersion or assimilation of air contaminants in the ambient air after emission. Attach the certificate of compliance concerning air pollution control facilities and air pollution controlled process facilities (section 19-0309 of the Environmental Conservation Law).

*Research and development property* is property used for research and development in the experimental or laboratory sense, but not for the ordinary testing or inspection of materials or products for quality control, efficiency surveys, management studies, consumer surveys, advertising, promotions, or research in connection with literary, historical or similar projects.

## Line instructions

**New York C corporations:** complete all applicable schedules.

**New York S corporations:** do not complete Schedule B.

### Schedule A - Part I

#### Computation of EZ investment tax credit

**Line 5 — New York C corporations:** If the amount on line 3 is greater than the amount on line 4, subtract line 4 from line 3. This is the amount of your EZ investment tax credit. If the amount on line 4 is greater than the amount on line 3, you have a net recaptured EZ investment tax credit; subtract line 3 from line 4. Add this recaptured credit amount back to the tax due on your franchise tax return.

**New York S corporations:** If the amount on line 3 is greater than the amount on line 4, subtract line 4 from line 3. This is the amount of your EZ investment tax credit. Include that amount on Form CT-34-SH, line 16. If the amount on line 4 is greater than the amount on line 3, you have a net EZ investment tax credit recapture; subtract line 3 from line 4. Include that amount on Form CT-34-SH, line 18.

### Schedule A - Part II

#### Computation of EZ employment incentive credit

**Line 10 — New York C corporations:** If the amount on line 8 is greater than the amount on line 9, subtract line 9 from line 8. This is the amount of your EZ employment incentive credit. If the amount on line 9 is greater than the amount on line 8, you have a net recaptured EZ employment incentive credit; subtract line 8 from line 9. Add this recaptured credit amount back to the tax due on your franchise tax return.

**New York S corporations:** If the amount on line 8 is greater than the amount on line 9, subtract line 9 from line 8. This is the amount of your EZ employment incentive credit. Include that amount on Form CT-34-SH, line 16. If the amount on line 9 is greater than the amount on line 8, you have a net EZ employment incentive credit recapture; subtract line 8 from line 9. Include that amount on Form CT-34-SH, line 18.

### Schedule B - Part I

#### Computation of EZ employment incentive credit and EZ investment tax credit used (New York C corporations only)

**Use Column A** to determine the amount of EZ employment incentive credit that may be applied in the current period.

**Use Column B** to determine the amount of EZ investment tax credit that may be applied in the current period.

**Line 11, Column A** — Enter your franchise tax from Form CT-3, line 78, or CT-3-A, line 77, less the total amount of any tax credits you are claiming before the EZ employment incentive credit. If you wish to apply the EZ investment tax credit before the EZ employment incentive credit, be sure to also subtract the EZ investment tax credit used this period (shown on line 15, Column B). Certain credits must be applied before the EZ employment incentive credit. Refer to the instructions of your franchise tax return to determine the order of credits that applies.

**Line 11, Column B** — Enter your franchise tax from Form CT-3, line 78, or CT-3-A, line 77, less the total amount of any tax credits you are claiming before the EZ investment tax credit. If you wish to apply the EZ employment incentive credit before the EZ investment tax credit, be sure to also subtract the EZ employment incentive credit used this period (shown on line 15, column A). Certain credits must be applied before the EZ investment tax credit. Refer to the instructions of your franchise tax return to determine the order of credits that applies.

## Schedule B - Part II

### Credits available for refund or carryforward (New York C corporations only)

**Line 20** — A new business may elect to treat 50% of the current year EZ investment tax credit available to be carried forward as an overpayment of tax to be refunded. The election applies to an EZ investment tax credit computed for a tax year beginning on or after January 1, 1994. Any EZ investment tax credit to be carried forward from a tax year beginning before January 1, 1994, does not qualify to be refunded.

*New business* under Article 9-A, section 210.12(j), means any corporation **except**:

- 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
- a corporation 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 of the Tax Law, or that would have been subject to tax under Article 23, as such article was in effect on January 1, 1980; or the income or losses are or were includable under Article 22 of the Tax Law, whereby the intent and purpose of section 210.12-B concerning refunding of credit to new businesses would be evaded; or
- a corporation that has been subject to tax under Article 9-A for more than four tax years (excluding short periods) before each tax year during which the taxpayer became eligible for the EZ investment tax credit (that is, the year for which the credit is allowed).

Enter the lesser of 50% of line 1, or 50% of line 19 and then enter the line 20 amount on Form CT-3, line 99 or Form CT-3-A, line 100.

**Lines 21 and 24** — Keep these amounts in your records. You will need to refer to these figures when completing your 2002 Form CT-603.

## Schedule C

### EZ investment tax credit

Columns A and B - List in these columns a clear description of qualified property placed in service during this tax period and the principal manufacturing or productive use of each item of property. List individual items of machinery and equipment separately and do not show them as one general category such as *machinery*. Describe the property in terms a layman can understand. Attach additional pages if necessary.

## Schedule D

### EZ employment incentive credit

If you acquire, construct, reconstruct or erect property for which an EZ investment tax credit is allowed, an EZ employment incentive credit may be allowed in the following three years.

The amount of the EZ employment incentive credit allowed is 30% of the original tax credit for each of the three years following the year for which the original EZ investment tax credit was allowed. However, the credit is allowed only for those years during which your average number of employees (except general executive officers) in the EZ, is at least 101% of the average number of employees (except general executive officers) in the EZ, during the tax year immediately preceding the tax year for which the original EZ investment tax credit was allowed.

If you did not have a tax year for New York State immediately preceding the year in which the EZ investment tax credit is originally allowed, your average number of employees in the EZ in the tax year in which the EZ employment incentive credit is claimed must be at least 101% of your average number of employees in the EZ in the tax year in which the EZ investment tax credit was originally allowed.

**New York C corporations:** the EZ employment incentive credit can reduce the corporate tax liability to the fixed dollar minimum. Carry over any EZ employment incentive credit that cannot be used to reduce the current year's tax liability to the following year or years.

A corporation may not claim a refund of the EZ employment incentive credit.

### Schedule D, Part I – Eligibility for EZ employment incentive credit

Complete Part I to determine if you are eligible for the credit. If you are eligible, complete Part II.

**Column A** - Enter in column A the credit year and the base year. The credit year is the first tax year after the year in which you claimed the original EZ investment tax credit. The base year is the year preceding the year you claimed the original EZ investment tax credit. However, if your business was not in operation in New York State during that year, the base year is the year in which you claimed the EZ investment tax credit.

**Columns B, C, D and E** - Enter the total number of employees employed within the EZ on each of the dates listed that occur during your tax year.

**Example:** *A taxpayer filing for a fiscal year beginning September 1, 2001, and ending August 31, 2002, would enter the number of employees employed in the EZ on the following dates: September 30, 2001, December 31, 2001, March 31, 2002, and June 30, 2002.*

**Column G** - Unless you have a short tax year, divide the amount in Column F by four. If you have a short tax year (a tax year of less than 12 months), divide the amount in Column F by the number of dates shown in Columns B-E that occur during the short tax year.

**Column H** - Divide the average number of employees covered by this claim by the average number of employees in the base year (Column G), and carry the result to two decimal places. If the percentage in column H is at least 101% (1.01), complete Part II below. If the percentage in Column H is less than 101%, **stop**, you do not qualify for the employment incentive tax credit for this year.

### Schedule D, Part II – EZ employment incentive credit

Use Schedule D, Part II to determine the amount of the EZ employment incentive credit allowed for each year of eligibility listed in Schedule D, Part I.

#### Example

*A corporation acquired qualified property in 2000 at a cost of \$100,000.*

Year	Average number of EZ employees	EZ employment incentive tax credit available for use
1999	200	XXX
2000	not required	XXX
2001	202	\$ 3,000 (30% of \$ 10,000)
2002	199	-0-*
2003	205	\$ 3,000 (30% if \$ 10,000)

\* In 2002, the average number of EZ employees was less than 101% of the number employed in 1999.

**Schedule E**

**Computation of recapture of EZ investment tax credit and EZ employment incentive credit**

When property on which an EZ investment tax credit has been allowed is disposed of or ceases to be in qualified use before the end of its useful life, the difference between the credit taken and the credit allowed for actual use must be added back to the tax otherwise due in the year of disposition or disqualification. The decertification of a business enterprise in an EZ is a disposal or cessation of qualified use on the effective date of the decertification.

Section 210.12-B(f) provides different formulas to compute the recapture of EZ investment tax credit.

- (1) For property depreciated under section 167 of the IRC, the formula is:

$$\frac{\text{months of unused life}}{\text{months of useful life}} \times \text{original EZ investment tax credit allowed}$$

- (2) For three-year property depreciated under section 168 of the IRC, the formula is:

$$\frac{36 \text{ minus the number of months of qualified use}}{36} \times \text{original EZ investment tax credit allowed}$$

Recapture is only required if the property is disposed of or ceases to be in qualified use prior to the end of 36 months.

- (3) For other than three-year property or buildings or structural components of buildings depreciated under section 168 of the IRC, the formula is:

$$\frac{60 \text{ minus the number of months of qualified use}}{60} \times \text{original EZ investment tax credit allowed}$$

Recapture is only required if the property is disposed of or ceases to be in qualified use prior to the end of 60 months.

- (4) For recovery property that is a building or a structural component of a building and depreciated under section 168 of the IRC, the formula is:

$$\frac{\text{months of unused life}}{\text{number of months allowed by IRC and used by taxpayer}} \times \text{original EZ investment tax credit allowed}$$

If qualified property has a useful life of more than 12 years, no credit need be added back if it has been in use more than 12 consecutive years.

For purposes of the recapture, the termination or expiration of an EZ's designation as an EZ will not be considered a disposal or cessation of qualified use.

**Column G** — Enter the total amount of EZ investment tax credit allowed. Include the original EZ investment tax credit but not any EZ employment incentive credit allowed.

**Column I** — Multiply 30% of amount in column H by the number of years the EZ employment incentive credit was allowed. If the recapture of the EZ investment tax credit occurred in a prior year, enter 30% of the recaptured EZ investment tax credit.

**Line 29** — Only EZ corporations that have been decertified must compute the additional recapture. For details on computing the recapture, see TSB-M-86(13.3)C.