



Instructions for Form IT-603

Claim for EZ Investment Tax Credit and EZ Employment Incentive Credit

IT-603-I

(formerly DTF-603-I)

General instructions

The Tax Law allows an empire zone (EZ) investment tax credit against the tax imposed by Article 22, 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. The EZ investment tax credit (EZ-ITC) allowed under Article 22 is computed at the credit rate of 8%. The EZ-ITC is computed by multiplying the credit rate by the investment credit base of qualified property that was acquired, constructed, reconstructed or erected in an EZ after its date of designation and before its date of expiration as an EZ. The taxpayer claiming this credit must also be certified under Article 18-B of the General Municipal Law. A copy of the documentation or certificate proving certification must be submitted by the taxpayer when claiming this credit.

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 606(a) of the Tax Law.

In addition, an EZ employment incentive credit (EZ-EIC) for increasing employment is allowed. See the instructions for completing Schedules B and F.

The EZ-ITC and EZ-EIC computed may not reduce the income tax liability under Article 22 to less than zero.

Any portion of EZ-ITC or EZ-EIC 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.

Qualifying property

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

- (a) 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;
- (b) is depreciable under section 167 of the Internal Revenue Code (IRC);
- (c) has a useful life of four years or more;
- (d) was acquired by the taxpayer by purchase under section 179(d) of the IRC;
- (e) is located in an EZ; and
 - (1) 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
 - (2) is an industrial waste treatment facility or air pollution control facility, used in the taxpayer's trade or business; or
 - (3) is research and development property.

Types of property that do **not** qualify for this EZ-ITC are:

- (a) property leased to others;
- (b) retail equipment, office furniture and office equipment;

- (c) excavating and road building equipment;
- (d) public warehouse used to store the taxpayer's goods; and
- (e) electricity generating equipment.

The lessee/user in a safe harbor lease is allowed an EZ-ITC if the property otherwise qualifies.

A recapture of EZ-ITC and EZ-EIC previously allowed must be computed on Schedule F 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.

A taxpayer may elect to take the EZ-ITC on qualified property in lieu of the eligible business facility credit or the investment tax credit.

Definitions

Investment credit base means the cost or other basis of the qualified property for federal income tax purposes. Do not include any amount that was expensed under section 179(a) of the IRC. The basis of qualified property must include the remaining basis of other property exchanged or traded in for it. If a credit was previously allowed on the property exchanged or traded in, a disposition of property has occurred and you may have to figure an add back of credit on early dispositions. If the qualified property is purchased using nonqualified nonrecourse financing, the investment credit base must be reduced by the amount of financing that would be excludable from the credit base pursuant to section 49(a)(1) of the IRC. If, at the close of a tax year following the tax year in which the property was placed in service, there is a net decrease in the amount of nonqualified nonrecourse financing with respect to the property, the net decrease is to be treated as the cost or other basis of qualified property acquired, constructed, reconstructed, or erected during the year of the decrease.

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

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

Individuals and fiduciaries complete all applicable schedules. However, individuals and fiduciaries should not complete Schedule H unless you elect to claim the refund for new businesses. For the definition of an *owner of a new business*, see the instructions for line 26.

Partnerships complete all schedules except Schedule H.

Schedule A — 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.

Line 1 — Add column (e) to obtain the total cost or other basis of all property claimed in this schedule. Multiply this figure by the rate of 8% to arrive at the EZ investment tax credit.

Schedule B — EZ employment incentive credit

If you acquire, construct, reconstruct or erect property for which an EZ regular 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 regular investment tax credit was allowed. However, the credit is allowed only for those years during which your average number of employees in the EZ, is at least 101% of the average number of employees 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.

Personal income taxpayers (including shareholders of a New York S corporation, partners in a partnership and beneficiaries of an estate or trust) may claim an EZ employment incentive credit, applicable to any investment tax credit computed on property placed in service on or after January 1, 1997, whether or not deductible in that tax year.

Example:

A taxpayer files a personal income tax return using a fiscal year of February 1, 1999 - January 31, 2000, and reports a regular investment tax credit for property placed in service after January 1, 2000. The taxpayer should complete Schedule B for tax years February 1, 2000 - January 31, 2001, and February 1, 2001 - January 31, 2002, to determine if it is eligible for the EZ employment incentive credit.

Carry forward any excess EZ employment incentive credit that cannot be used to reduce a taxpayer's current year's tax liability.

A taxpayer that qualifies as an owner of a new business may elect to have 50% of the excess EZ employment incentive credit refunded. (A shareholder of an S corporation will be considered the owner of a new business if the S corporation, itself, qualifies as a new business under section 210.12(j) of the Tax Law.)

Schedule B, 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 credit. The base year is the year preceding the year you claimed the original EZ investment 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 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 through 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 B, Part II**Computation of EZ employment incentive credit**

Use Schedule B, Part II to determine the amount of the EZ employment incentive credit allowed for each year of eligibility listed in Schedule B, Part I. Taxpayers (including shareholders of S corporations) may not claim an EZ employment incentive credit related to an EZ investment tax credit computed on property placed in service before January 1, 1997. Also, they may not claim a credit if the EZ investment tax credit was earned as a C corporation.

Example

A taxpayer acquired qualified property in 1998 at a cost of \$100,000.

Year	Average number of EZ employees	EZ employment incentive tax credit available for use
1997	200	XXX
1998	not required	\$8,000 (8% of \$100,000)
1999	202	\$2,400 (30% of \$ 8,000)
2000	199	-0-*
2001	205	\$2,400 (30% of \$ 8,000)

* In 2000, the average number of EZ employees was less than 101% of the number employed in 1997.

Line 3 — Individuals and partnerships: enter the line 3 amount on Schedule G, line 13. Fiduciaries: transfer the line 3 amount to the total line of Schedule E, column C.

Schedule C — 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 EZ investment tax credit and EZ employment incentive credit. If you need more space, attach a separate schedule.

Schedule D — 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 4 - Enter your share of the partnership's EZ investment tax credit and EZ employment incentive 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 4.

S corporation shareholder

Line 5 - Enter your share of the S corporation's EZ investment tax credit and EZ employment incentive credit. This information should be provided to you by your S corporation. If you are claiming a credit from more than one S corporation, combine all amounts on line 5.

Beneficiary

Line 6 - Enter your share of the estate's or trust's EZ investment tax credit and EZ employment incentive 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 6.

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

An estate or trust must complete Schedule E. 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 F — Computation of recapture of EZ investment tax credit and EZ employment incentive credit

When property on which an EZ investment tax credit (EZ-ITC) 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 constitutes a disposal or cessation of qualified use on the effective date of the decertification.

Section 606(j)(6) provides different formulas to compute the amount of EZ investment tax credit required to be recaptured.

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

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

- For property depreciated under section 168 of the IRC other than three-year property or buildings or structural components of buildings, 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.

- For buildings or structural components of a buildings 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-ITC credit allowed. Include the original EZ-ITC but not any EZ-EIC allowed.

Column (i) — Multiply 30% of amount in column (h) by the number of years the EZ-EIC was allowed. If the recapture of the EZ-ITC occurred in a prior year, enter 30% of the recaptured EZ-ITC.

Line 10 — Only EZ businesses that have been decertified must compute the additional recapture. For details on computing the recapture, see TSB-M-86(13.3)C, (5.3)I.

Line 11 — Obtain your share of these add-backs from your partnership, S corporation, estate, or trust.

Schedule G — Computation of credit

Line 13 — Individuals and partnerships: enter the EZ investment tax credit computed for the current year as shown on line 3.

Line 14 — Partner in a partnership, New York S corporation shareholder, or a beneficiary of an estate or trust: enter your EZ investment tax credit and employment incentive credit as shown on Schedule D, line 7.

Line 15 — Fiduciary: enter the amount from Schedule E, fiduciary line, column C.

Line 17 — Enter the amount of the EZ investment tax credit and EZ employment incentive credit carryover(s) from the tax year immediately preceding the current tax year.

Line 20 — If line 18 is more than line 19, subtract line 19 from line 18. This is the amount of your credit. If you are not completing Schedule H, enter this amount on Form IT-201-ATT, line 48, Form IT-203-B, line 34, Form IT-204, line 32 or Form IT-205, line 10. If you are completing Schedule H, continue with line 21.

If line 19 is more than line 18, subtract line 18 from line 19. This is your add back of EZ investment tax credit and EZ employment incentive credit. Enter this amount on Form IT-201-ATT, line 21, Form IT-203-B, line 5, Form IT-204, line 35 or Form IT-205, line 12. Do not complete Schedule H.

Schedule H — Computation of refundable portion of EZ investment tax credit and EZ employment incentive credit

Line 21 — Enter the amount of EZ investment tax credit and EZ employment incentive credit computed for the current year from Schedule G, line 16.

Line 23 — Enter the total amount of all credits that you choose to apply against your tax except for the EZ investment tax credit and EZ employment incentive credit. For more information, see the instructions for Form IT-201-ATT, Part IV or Form IT-203-B, Part III.

Line 25 — Subtract line 24 from line 21. This is the amount of your EZ investment tax credit and EZ employment incentive credit available to be carried forward to future years.

Line 26 — A new business may elect to treat 50% of the current year EZ-ITC available to be carried forward as an overpayment of tax to be refunded. In addition, an Article 22 taxpayer that qualifies as a new business may elect to have 50% of any excess EZ-EIC refunded.

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

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 individual previously received a refund of an investment tax credit; or
- the individual operated the new business entity for more than four years before the beginning of the tax year during which the individual first became eligible for the investment tax credit for which the refund is claimed; or
- 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(j)(5) or section 606(k)(5) with respect to refunding of credit to new business would be evaded.

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

- the shareholder previously received a refund of any new business tax credits as a New York S corporation, shareholder.
- 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 for more than four years before the beginning of the tax year in which the S corporation shareholder first became eligible for the investment tax credit.


You must enter the lesser of a) 50% of line 21 or b) 50% of line 25.

Partners in a partnership, shareholders in a New York S corporation, beneficiaries of an estate or trust, or individuals: Enter the line 26 amount on Form IT-201-ATT, line 69 or Form IT-203-B, line 54.

Fiduciaries: enter the line 26 amount on Form IT-205, line 33.

Line 27 — Subtract the amount on line 26 from the amount on line 20. This is the amount of your EZ investment tax credit and EZ employment incentive credit that is not refundable. Enter this amount on Form IT-201-ATT, line 48, Form IT-203-B, line 34 or Form IT-205, line 10.

Need help?

 **Telephone assistance** is available from 8:30 a.m. to 4:25 p.m. (eastern time), Monday through Friday.

Tax information: 1 800 225-5829

Forms and publications: 1 800 462-8100

Refund status: Access our Web site or call 1 800 443-3200;

if electronically filed: 1 800 353-0708; direct deposit refunds: 1 800 321-3213

Automated service for refund status is available 24 hours a day, seven days a week.


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


Fax-on-demand forms (available 24 hours a day, seven days a week): 1 800 748-3676

Hearing and speech impaired (telecommunications device for the deaf (TDD) callers only): 1 800 634-2110 (8:30 a.m. to 4:25 p.m., eastern time)

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

Estimated tax: Access our Web site to check your balance and reconcile your account.

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 **If you need to write,** address your letter to: NYS Tax Department, Taxpayer Assistance Bureau, W A Harriman Campus, Albany NY 12227.