



Instructions for Form CT-604

Claim for QEZE Tax Reduction Credit

CT-604-I

New for 2005

Form CT-604 has been revised due to recent law changes. Complete Form CT-604 only if you are claiming the qualified empire zone enterprise (QEZE) tax reduction credit. If you are claiming the QEZE credit for real property taxes, you must file new Form CT-606, *Claim for QEZE Credit for Real Property Taxes*.

Form CT-604 is divided into two sections. It is very important that you only complete the appropriate section.

- Only QEZEs **first certified** prior to April 1, 2005, file Section I, Schedules A through G.
- Only QEZEs **first certified** on or after April 1, 2005, file Section II, Schedules H through M.

Note: If you are certified in multiple zones, you must file **only** Section I (pages 1 through 4) **or** Section II (pages 5 through 8) based on the effective date of the first *Certificate of Eligibility* issued by Empire State Development (ESD). **Do not file both.**

Example: Corporation A was certified in the Albany County Empire Zone on February 1, 2001. On October 15, 2005, the corporation was also certified in the Buffalo Empire Zone. Because Corporation A was first certified on February 1, 2001, it must complete **only** Section I to compute its QEZE tax reduction credit.

General information for all QEZEs

For tax years beginning on or after January 1, 2001, the Empire Zones Program Act provides for the QEZE tax reduction credit. The credit is available to taxpayers subject to tax under Tax Law Article 9-A (general business corporations); Article 22 (personal income tax, see Form IT-604, *Claim for QEZE Tax Reduction Credit*); Article 32 (banking corporations); and Article 33 (insurance corporations). Taxpayers who are not subject to tax under these articles are not eligible to claim the QEZE tax reduction credit. The credit may not be applied against the metropolitan transportation business tax (MTA surcharge) or Article 13 (unrelated business income tax).

The QEZE tax reduction credit is the product of

- the benefit period factor,
- the employment increase factor,
- the zone allocation factor, and
- the tax factor.

The QEZE tax reduction credit may not reduce the tax to less than

- the fixed dollar minimum tax under Article 9-A (however, a QEZE that has a zone allocation factor of 100% is not subject to this limitation and may reduce the tax to zero); **or**
- \$250 for Article 32 or 33 filers.

The QEZE tax reduction credit is not refundable. Any amount not deductible in the current tax year may not be refunded, carried forward, or applied as an overpayment against the tax liability for the next tax year.

If your business wants to make purchases **exempt from sales tax** under the QEZE program, you must file Form DTF-80, *Application for Qualified Empire Zone Enterprise (QEZE) Sales Tax Certification*. This application is available on our Web site (see *Need help?* on page 6).

Definitions for all QEZEs

A *qualified empire zone enterprise (QEZE)* is a business enterprise that is certified as eligible to receive benefits under the General Municipal Law Article 18-B prior to July 1, 2011, and that annually meets the employment test.

Tax year means the tax year of the business enterprise under Tax Law, Article 9, section 183, 184, 185, or former section 186; or Article 9-A, 22, 32, or 33.

Employment number means the average number of individuals, excluding general executive officers, employed full-time by the business enterprise for at least one-half of the tax year. For tax years beginning on or after January 1, 2005, all QEZEs will exclude from the employment number any individual employed within New York State in the immediately preceding 60 months by a related person to the QEZE (as related person is defined in Internal Revenue Code (IRC) section 465(b)(3)(C)). For tax years beginning on or after January 1, 2002, but prior to January 1, 2005, QEZEs are required to exclude all employees as described above, whether they were employed within or outside New York State.

The information below represents the Internal Revenue Service (IRS) interpretation of the definition of related persons in the IRC, section 465(b)(3)(C) as contained in IRS Publication 925, *Passive Activity and At-Risk Rules*. When preparing your tax return, you should refer to section 465(b)(3)(C) to see if the definition of related persons has been amended.

Related persons include the following:

- Members of a family, but only an individual's brothers and sisters, half-brothers and half-sisters, a spouse, ancestors (parents, grandparents, etc.), and lineal 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 whose family controls it)
- A corporation and an individual who owns 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 persons 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 persons own more than 10% in value of the outstanding stock of each corporation
- An S corporation and a regular corporation if the same persons own more than 10% in value of the outstanding stock of each corporation
- A partnership and a person who owns directly or indirectly more than 10% of the capital or profits of the partnership
- Two partnerships if the same persons directly or indirectly own more than 10% of the capital or profits of each
- Two persons who are engaged in business under common control
- An executor of an estate and a beneficiary of that estate

To determine the direct or indirect ownership of the outstanding stock of a corporation, apply the following rules:

1. Stock owned directly or indirectly by or for a corporation, partnership, estate, or trust is considered owned proportionately by or for its shareholders, partners, or beneficiaries.
2. Stock owned directly or indirectly by or for an individual's family is considered owned by the individual. The family of an individual includes only brothers and sisters, half-brothers and half-sisters, a spouse, ancestors, and lineal descendants.

3. Any stock in a corporation owned by an individual (other than by applying rule 2) is considered owned directly or indirectly by the individual's partner.

When applying rule 1, 2, or 3, stock considered owned by a person under rule 1 is treated as actually owned by that person. However, if a person constructively owns stock because of rule 2 or 3, he or she does not own the stock for purposes of applying either rule 2 or 3 to make another person the constructive owner of the same stock.

General executive officers are the chairman, president, vice president, secretary, assistant secretary, treasurer, assistant treasurer, comptroller, and any other officer charged with the general affairs of the corporation. A *general executive officer* is, therefore, an appointed or elected officer of the corporation having company-wide authority with respect to assigned functions or responsibility for an entire division of the company.

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 business (a business that regularly operates for less than an entire tax year, such as a ski resort) that employs individuals full-time for at least three months of continuous duration may include these individuals in the employment number if they are working in a job consisting of at least 35 hours per week.

Test date is the later of July 1, 2000, or the date prior to July 1, 2011, on which the business enterprise was **first** certified under General Municipal Law Article 18-B. Subsequent certifications will not change the test date.

Test year is the last tax year **ending before the test date**. If a business enterprise does not have a tax year that ends before the test date, the enterprise will be deemed to have a test year that will be either the last calendar year ending before its test date, or, if the enterprise is a fiscal filer, the test year will be the fiscal year ending before its test date.

Employment increase factor is an amount that cannot exceed 1.0, but that is the greater of the excess of the QEZE's employment number in EZs in which the QEZE is certified for the current tax year over the QEZE's test year employment number in those zones divided by

- the QEZE's test year employment number in those zones, **or**
- 100.

Zone allocation factor is a percentage that represents your economic presence in the EZs in which you are certified.

Value of real and tangible personal property is the federal adjusted basis of your property (except rental property, which is eight times your gross yearly rent). However, Article 9-A taxpayers 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.

Tax factor is the tax calculated under each applicable article of the Tax Law that is based on income. If an article provides for two tax measures based on income, the greater of the two is the tax factor. For more information, see TSB-M-03(4)C, *Qualified Empire Zone Enterprise (QEZE) Tax Credits*.

Instructions for corporations (other than New York S corporations)

If you are a corporation (other than a New York S corporation) that is eligible for the QEZE tax reduction credit, and you are not claiming any other QEZE tax credits from pass-through entities (such as partnerships), complete Section I if first certified prior to April 1, 2005, or Section II if first certified on or after April 1, 2005, and transfer the amount of credit to your corporation franchise tax return.

If you are a corporation that is a QEZE and eligible for the credit, and you also have QEZE credits from a partnership that is a QEZE,

complete Form CT-604 as instructed above, and complete Form CT-604-CP, *Claim for QEZE Credit for Real Property Taxes and QEZE Tax Reduction Credit for Corporate Partners*, to compute the credits from the partnership. Add the totals from both forms, and enter the result in the appropriate credit box on your franchise tax return.

Instructions for corporate partners

Use Form CT-604-CP if you are receiving pass-through credits from a partnership. Your partnership will provide you with the information you need to calculate these credits.

Instructions for New York S corporations

If you are a New York S corporation, compute three of the four factors used to compute the QEZE tax reduction credit:

- the benefit period factor,
- the employment increase factor, and
- the zone allocation factor.

Provide your shareholder(s) with each of these three factors. The shareholder(s) will use these three factors to calculate the tax reduction credit on Form IT-604, *Claim for QEZE Tax Reduction Credit*, for personal income tax. The fourth factor, the tax factor, is computed by the shareholder(s) on Form IT-604, which is filed with personal income tax returns.

Complete Form CT-604 as follows:

1. Complete **either** Section I (Schedules A, B, C, and D) **or** Section II (Schedules H, I, J, and K).
2. Transfer the employment increase factor, the zone allocation factor, and the benefit period factor calculated on this form to Form CT-34-SH, *New York S Corporation Shareholders' Information Schedule*.
Provide the shareholders with these three factors so they may calculate their credit on Form IT-604. Do not prorate these factors.
3. Complete Section I (Schedules F and G) **or** Section II (Schedule M).

Instructions for shareholders of New York S corporations

Shareholders of New York S corporations: **Do not** complete this form. Use Form IT-604 to claim your credit if you are an individual, estate, or trust. Your S corporation will provide you with your pro rata share of the three factors you need to compute your tax reduction credit on Form IT-604. Compute the fourth factor (tax factor) on Form IT-604.

Section I — For QEZEs first certified prior to April 1, 2005

Complete Section I **only** if the QEZE was first certified **prior to April 1, 2005**. Do not complete Section II.

Eligibility for QEZEs first certified prior to April 1, 2005

A business enterprise that is first certified as eligible to receive benefits under General Municipal Law Article 18-B **prior to April 1, 2005**, is a QEZE for each of the 15 tax years during its business tax benefit period if in those tax years the business enterprise meets the annual employment test.

Schedule A — Employment test for QEZEs first certified prior to April 1, 2005

Complete Schedule A to determine if you meet the annual employment test. If you marked *No* on either line 3 or line 6, **stop**; you **do not** qualify for the QEZE tax reduction credit for the current tax year.

Refer to *Definitions for all QEZEs* on the front page when computing the employment test.

The *employment test* will be met for a tax year if the business enterprise's employment number in all EZs, whether the business enterprise is certified there or not, equals or exceeds its employment

number in all EZs in the base period; and the business enterprise's employment number in New York State outside all EZs for the tax year equals or exceeds its employment number in New York State outside all EZs in the base period. For information as to whether your business enterprise has employees in an EZ in which your business enterprise is not certified, you may contact ESD.

Additional employment test requirements for businesses with a base period of zero years or zero employment in the base period

For a business enterprise first **certified prior to August 1, 2002**, if the base period is zero years or the base period employment is zero, and the enterprise is substantially similar in ownership and operation to an existing or previously existing taxpayer, it can continue to access QEZE benefits only if the enterprise was formed for a valid business purpose and not solely to gain empire zone benefits.

Valid business purpose means one or more business purposes, other than the avoidance or reduction of taxation, which alone or combined are the primary motivation for some business activity or transaction that changes the economic position of the taxpayer in a meaningful way (apart from tax effects). The economic position of the taxpayer includes an increase in the market share of the taxpayer, or the entry by the taxpayer into new business markets.

For a business enterprise first **certified on or after August 1, 2002, and before April 1, 2005**, if the base period is zero years and the employment number in the zone is greater than zero in a tax year, then the enterprise meets the employment test **only** if it qualifies as a new business.

New business means any business entity, except one that is substantially similar in operation and in ownership to a business entity taxable, or previously taxable, under Tax Law, Article 9, section 183, 184, 185, or 186; Article 9-A, 32, or 33; Article 23 (or that would have been subject to Article 23 as this article was in effect January 1, 1980); or the income (or losses) of which is (or was) included under Article 22.

For tax years beginning on or after January 1, 2005, a business that is identical in ownership and operation to an existing taxpayer will meet the new business test if the businesses are operating in different counties in the state. The new business **must use the remaining business tax benefit period** of the existing identical taxpayer.

If there is a change in zone boundaries or if the QEZE is in a newly designated zone, the QEZE will compute its employment test as if the boundaries of the revised or newly designated zone existed during its base period and test year. If a business moves to a location that later becomes part of an EZ, the employment number is computed as if the business was located in the zone during its base period and test year.

If a business relocates to an EZ from a business incubator facility operated by a municipality or by a public or private not-for-profit entity, the QEZE will compute its employment test as if it were located in the EZ during the base period. A *business incubator facility* provides business support services or space, or both, to newly established enterprises.

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

Business tax benefit period means either the first 15 tax years beginning on or after January 1, 2001 (if your test date occurred on or before December 31, 2001), or the 15 tax years after your test year (if your test date occurred on or after January 1, 2002, but prior to April 1, 2005).

Benefit period factor is a number from zero to one, based on the tax year of the business tax benefit period, that is designed to phase out

the benefit in the last five years of the business tax benefit period. (See Form CT-604, page 3, *Benefit period factor table*.)

Part 1 — Empire zone (EZ) employment — Compute your employment number within all EZs, whether certified in all zones or not, for the current tax year and the five-year base period. When computing this number, exclude all employees who were not employed by the QEZE for at least one-half of the tax year.

Line 1 — For each date specified of the current tax year, enter the number of full-time employees, excluding general executive officers, located within any EZ whether the QEZE is certified in the EZ or not. Divide the total number of full-time EZ employees for the current tax year by the number of the dates occurring during the current tax year (even if you had no employees on those dates) to obtain the employment number 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 — For each date specified in the base period, enter the number of full-time employees, excluding general executive officers, located within any EZ whether the QEZE is certified in the EZ or not. 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 during the five-year base period (even if you had no employees on those dates) to obtain the employment number for the base period. Make no entries for any dates prior to the date you began business in New York, and do not include those dates in the calculation.

Example: *A QEZE that is a calendar-year filer begins business in New York on May 1, 2001, and is first certified on January 1, 2003. The QEZE's test date is January 1, 2003. The test year is the tax year ending December 31, 2002. The base period is May 1, 2001 - December 31, 2001, a short tax year. Since March 31, 2001, does not occur during this enterprise's base period, no entry is made for this date. The QEZE has no employees on June 30, 2001. It hires three employees on July 1, 2001. The QEZE will compute its total number of full-time employees within all EZs in the base period as follows:*

Base period employment number	Tax year ending (mm/yy)	Mar 31	June 30	Sept 30	Dec 31	Total
a	Number in base year 1	12/01	0	3	3	6
b	Number in base year 2					
c	Number in base year 3					
d	Number in base year 4					
e	Number in base year 5					
f	Total number of full-time employees within all EZs in the base period					6

In this example, the employment number within all EZs in the base period is 2 (six divided by three) because the QEZE divides the total number of full-time EZ employees by the number of dates that occurred in the QEZE's base period. The base period in this instance was one short tax year.

Line 3 — The EZ employment number for the current tax year (line 1) must equal or exceed the EZ employment number in the base period (line 2) to qualify for the QEZE tax reduction credit. If you marked *No*, stop; you do **not** qualify for this credit.

Part 2 — New York State employment outside all EZs

Complete Part 2 in the same manner as you completed Part 1; however, include only those employees who are located outside all EZs but within New York State. When computing this number, first exclude all employees who were not employed by the QEZE for at least one-half of the tax year.

Line 6 — The employment number in New York State outside all EZs for the current tax year (line 4) must equal or exceed the employment number in New York State outside all EZs in the base period (line 5) to

qualify for the QEZE tax reduction credit. If you marked *No*, **stop**; you **do not** qualify for this credit.

Schedule B — Computation of employment number within the EZs in which you are certified for the test year

Line 7 — Divide the total number of full-time employees within the EZs for your test year by the number of the dates occurring during the year (even if you had no employees on those dates) to obtain your employment number for your test year. Make no entries for any dates that did not occur during your test year. Do not include those dates in the calculation. Include only the employees working within EZs in which you are certified that were employed by the QEZE for at least one-half of the tax year.

Schedule C — Employment increase factor

The employment increase factor (see *Definitions for all QEZEs* on the front page) cannot exceed 1.0. If your test year employment number is zero, and your current tax year employment number is greater than zero, your employment increase factor is 1.0.

Line 8 — Include on this line the current tax year employment number in the EZs in which you are certified.

Note: If you have employment in an EZ in which you are not certified, your current tax year employment number will not be the same as the number computed on line 1. For purposes of this calculation, you will include only those employees working in EZs in which you are certified that were employed by the QEZE for at least one-half of the tax year.

Schedule D — Zone allocation factor

This factor represents the economic presence of the QEZE 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 15 and 17 and then dividing the result by two.

Line 14, column A — Enter the QEZE's average value of real and tangible personal property (see *Definitions for all QEZEs* on the front page), whether owned or rented, that is located within the EZs in which you are certified under General Municipal Law Article 18-B in your current tax year.

Line 14, column B — Enter the QEZE's average value of real and tangible personal property (see *Definitions for all QEZEs* on the front page) located within New York State in your current tax year.

Line 16, column A — Enter the wages paid or accrued by the QEZE to its employees in EZs in which you are certified under General Municipal Law Article 18-B in the current tax year. Exclude wages paid to general executive officers.

Line 16, column B — Enter the wages paid or accrued by the QEZE to its employees located within New York State for the current tax year. Exclude wages paid to general executive officers.

Schedule E — QEZE tax reduction credit

New York S corporations: **Do not** calculate the QEZE tax reduction credit on this form. Transfer the employment increase factor, zone allocation factor, and benefit period factor to Form CT-34-SH and provide your shareholders with these factors. The shareholders will calculate the QEZE tax reduction credit on Form IT-604.

Part 1 — Computation of QEZE tax reduction credit

Line 23 — Tax factor

Article 9-A filers — Enter the greater of the tax on the entire net income (ENI) base or the tax on the minimum taxable income (MTI) base from Form CT-3, *General Business Corporation Franchise Tax Return*. **Do not** enter your tax on capital or your fixed dollar minimum tax.

Article 32 filers — Enter the greater of the ENI base tax or the alternative ENI base tax from Form CT-32, *Banking Corporation Franchise Tax Return*.

Article 33 Life insurance corporation filers — Enter the greater of the tax on the ENI base or the tax on the ENI plus compensation base from Form CT-33, *Life Insurance Corporation Franchise Tax Return*.

Article 33 Nonlife insurance corporation filers — To claim the QEZE tax reduction credit you must calculate a tax factor for the tax year by preparing a pro-forma tax return calculating a tax on income for the year the credit is claimed.

Prepare Form CT-33 to calculate the tax on ENI and the tax on ENI plus compensation. Attach the pro-forma tax return to this form. Enter the greater of these tax amounts on line 23.

Article 9-A Combined filers — Multiply your combined tax (the greater of tax on ENI or MTI base) by the ratio of the QEZE's income allocated to New York State divided by the combined group's income allocated to New York State. Do not include in the numerator or the denominator any member's losses included in the combined group's income. Enter the result on line 23. This ratio may not exceed 1.0.

Part 2 — Application of QEZE tax reduction credit

Note: This credit **cannot** be refunded or carried forward. Any amount not deductible in the current tax year is lost.

Line 26 — If you are applying multiple credits, see your franchise tax return instructions to determine the order in which the credits should be applied. Article 9-A taxpayers may also refer to Form CT-600-I, *Instructions for Form CT-600, Ordering of Corporation Tax Credits*, to determine the proper order of application for the tax credits claimed. Life insurance corporations do not include EZ wage tax credit, EZ capital tax credit, or zone equivalent area (ZEA) wage tax credit on this line.

Schedule G — Valid business purpose for QEZEs first certified prior to August 1, 2002

If the QEZE was first certified prior to August 1, 2002, and the base period is zero years or the employment for your base period is zero, and the QEZE is similar in operation and ownership to a business entity (or entities) taxable or previously taxable, then the enterprise must have been formed for a valid business purpose and not solely to gain EZ benefits in order to continue to claim the QEZE tax reduction credit. See additional employment test requirements on page 3. Mark an **X** in the box if you meet the valid business purpose test as defined on page 3, and attach a notarized statement describing in detail how the QEZE meets this test.

Section II - For QEZEs first certified on or after April 1, 2005

Complete Section II **only** if the QEZE was first certified **on or after April 1, 2005**. Do not complete Section I.

Eligibility for QEZEs first certified on or after April 1, 2005

A business enterprise that is first certified as eligible to receive benefits under General Municipal Law Article 18-B **on or after** April 1, 2005, and prior to July 1, 2011, is a QEZE for each of the 10 tax years during its business tax benefit period if in those tax years the business enterprise meets the annual employment test.

Schedule H — Employment test for QEZEs first certified on or after April 1, 2005

Complete Schedule H to determine if you meet the annual employment test. If you marked *No* on either line 33 or line 36, **stop**; you **do not** qualify for the QEZE tax reduction credit for the current tax year.

Refer to *Definitions for all QEZEs* on the front page when computing the employment test.

The *employment test* will be met for a tax year if the business enterprise's employment number in all EZs, whether the business enterprise is certified there or not, exceeds its employment number in all EZs in the base period; and the business enterprise's employment number in New York State, including employment in any EZs, for the tax year exceeds its employment number in New York State, including employment in any EZs, in the base period. For information as to whether your business enterprise has employees in an EZ in which your business enterprise is not certified, you may contact ESD.

Additional employment test requirements for businesses with a base period of zero years or zero employment in the base period

For a business enterprise first **certified on or after April 1, 2005**, if the base period is zero years or the base period employment is zero and the employment number in the zone is greater than zero in a tax year, the enterprise meets the employment test **only** if the enterprise qualifies as a new business.

New business means any business entity, except one that is substantially similar in operation and in ownership to a business entity taxable, or previously taxable, under Tax Law, Article 9, section 183, 184, 185, or 186; Article 9-A, 32, or 33; Article 23 (or that would have been subject to Article 23 as this article was in effect January 1, 1980); or the income (or losses) of which is (or was) included under Article 22.

For tax years beginning on or after January 1, 2005, a business that is identical in ownership and operation to an existing taxpayer will meet the new business test if the businesses are operating in different counties in the state. The new business **must use the remaining business tax benefit period** of the existing identical taxpayer.

If there is a change in zone boundaries or if the QEZE is in a newly designated zone, the QEZE will compute its employment test as if the boundaries of the revised or newly designated zone existed during its base period and test year. If a business moves to a location that later becomes part of an EZ, the employment number is computed as if the business was located in the zone during its base period and test year.

If a business relocates to an EZ from a business incubator facility operated by a municipality or by a public or private not-for-profit entity, the QEZE will compute its employment test as if it were located in the EZ during the base period. A *business incubator facility* provides business support services or space, or both, to newly established enterprises.

Base period is the four tax years immediately preceding the tax year that you are first certified for QEZEs first certified on or after April 1, 2005. If your QEZE has fewer than four years preceding the tax year in which you are first certified, then your base period is the smaller set of years. If you are a business enterprise in your first tax year of doing business in New York State, your base period is zero years.

Business tax benefit period is the 10 tax years beginning with the tax year the QEZE is first certified (see new business definition above for exception for QEZEs that are identical in ownership and operation).

Benefit period factor is 1.0.

Part 1 — Empire zone (EZ) employment — Compute your employment number within all EZs, whether certified in all zones or not, for the current tax year and the four-year base period. When computing this number, exclude all employees who were not employed by the QEZE for at least one-half of the tax year.

For purposes of these instructions, all references to *current tax year* mean the tax year covered by this claim.

Line 31 — For each date specified of the current tax year, enter the number of full-time employees, excluding general executive officers, located within any EZ whether the QEZE is certified in the EZ or

not. Divide the total number of full-time EZ employees for the current tax year by the number of the dates occurring during the current tax year (even if you had no employees on those dates) to obtain the employment number 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 32 — For each date specified of the base period, enter the number of full-time employees, excluding general executive officers, located within any EZ whether the QEZE is certified in the EZ or not. Divide the total number of full-time EZ employees for each date specified in the four-year base period by the number of dates occurring during the four-year base period (even if you had no employees on those dates) to obtain the employment number in the base period. Make no entries for any dates prior to the date you began business in New York, and do not include those dates in the calculation.

For QEZEs that are first certified on or after April 1, 2005, if the base period is zero years (there are no dates occurring during your base period) or the base period employment is zero and your employment number in EZs is greater than zero during the current tax year, the employment test will be met only if the enterprise qualifies as a new business, as defined above.

Example: A QEZE that is a calendar-year filer begins business in New York on April 1, 2004, and is first certified on April 1, 2005. The base period is April 1, 2004 - December 31, 2004, a short tax year. Since March 31, 2004, does not occur during this enterprise's base period, no entry is made for this date. The QEZE has no employees on June 30, 2004. It hires three employees on July 1, 2004. The QEZE will compute its total number of full-time employees within all EZs in the base period as follows:

Base period employment number	Tax year ending (mm/yy)	Mar 31	June 30	Sept 30	Dec 31	Total
a	Number in base year 1	12/04	0	3	3	6
b	Number in base year 2					
c	Number in base year 3					
d	Number in base year 4					
e	Total number of full-time employees within all EZs in the base period					6

In this example, the employment number within all EZs in the base period is 2 (six divided by three) because the QEZE divides the total number of full-time EZ employees by the number of dates that occurred in the QEZE's base period. The base period in this instance was one short tax year.

Line 33 — The EZ employment number for the current tax year (line 31) must exceed the EZ employment number in the base period (line 32) to qualify for the QEZE tax reduction credit. If you marked *No*, **stop**; you **do not** qualify for this credit.

Part 2 — New York State employment

Complete Part 2 in the same manner as you completed Part 1; however, include all employees who are located within New York State. When computing this number, first exclude all employees who were not employed by the QEZE for at least one-half of the tax year.

Line 36 — The employment number in New York State for the current tax year (line 34) must exceed the employment number in New York State in the base period (line 35) to qualify for the QEZE tax reduction credit. If you marked *No*, **stop**; you **do not** qualify for this credit.

Schedule I — Computation of employment number within the EZs in which you are certified in the test year

Line 37 — Divide the total number of full-time employees within the EZs in your test year by the number of the dates occurring during the year (even if you had no employees on those dates) to obtain your employment number in your test year. Make no entries for any dates

that did not occur during your test year. Do not include those dates in the calculation. Include only the employees working within EZs in which you are certified.

Schedule J — Employment increase factor

The employment increase factor (see *Definitions for all QEZEs* on the front page) cannot exceed 1.0. If your test year employment number is zero, and your current tax year employment number is greater than zero, your employment increase factor is 1.0.

Line 38 — Include on this line the current tax year employment number in the EZs in which you are certified.

Note: If you have employment in an EZ in which you are not certified, your current tax year employment number will not be the same as the number computed on line 31. For purposes of this calculation, you will include only those employees working in EZs in which you are certified that were employed by the QEZE for at least half of the tax year.

Schedule K — Zone allocation factor

This factor represents the economic presence of the QEZE 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 45 and 47 and then dividing the result by two.

Line 44, column A — Enter the QEZE's average value of real and tangible personal property (see *Definitions for all QEZEs* on the front page), whether owned or rented, that is located within the EZs in which you are certified under General Municipal Law Article 18-B in your current tax year.

Line 44, column B — Enter the QEZE's average value of real and tangible personal property (see *Definitions for all QEZEs* on the front page) located within New York State in your current tax year.

Line 46, column A — Enter the wages paid or accrued by the QEZE to its employees in EZs in which you are certified under General Municipal Law Article 18-B in the current tax year. Exclude wages paid to general executive officers.

Line 46, column B — Enter the wages paid or accrued by the QEZE to its employees located within New York State for the current tax year. Exclude wages paid to general executive officers.

Schedule L — QEZE tax reduction credit

New York S corporations: **Do not** calculate the QEZE tax reduction credit on this form. Transfer the employment increase factor, zone allocation factor, and benefit period factor to Form CT-34-SH and provide your shareholders with these factors. The shareholders will calculate the QEZE tax reduction credit on Form IT-604.

Part 1 — Computation of QEZE tax reduction credit

Line 53 — Tax factor

Article 9-A filers — Enter the greater of the tax on the entire net income (ENI) base or the tax on the minimum taxable income (MTI) base from Form CT-3, *General Business Corporation Franchise Tax Return*. **Do not** enter your tax on capital or your fixed dollar minimum tax.

Article 32 filers — Enter the greater of the ENI base tax or the alternative ENI base tax from Form CT-32, *Banking Corporation Franchise Tax Return*.

Article 33 Life insurance corporation filers — Enter the greater of the tax on the ENI base or the tax on the ENI plus compensation base from Form CT-33, *Life Insurance Corporation Franchise Tax Return*.

Article 33 Nonlife insurance corporation filers — To claim the QEZE tax reduction credit you must calculate a tax factor for the tax year by preparing a pro-forma tax return calculating a tax on income for the year the credit is claimed.

Prepare Form CT-33 to calculate the tax on ENI and the tax on ENI plus compensation. Attach the pro-forma tax return to this form. Enter the greater of these tax amounts on line 53.

Article 9-A Combined filers — Multiply your combined tax (the greater of tax on ENI or MTI base) by the ratio of the QEZE's income allocated to New York State divided by the combined group's income allocated to New York State. Do not include in the numerator or the denominator any member's losses included in the combined group's income. Enter the result on line 53. This ratio may not exceed 1.0.

Part 2 — Application of QEZE tax reduction credit

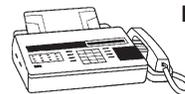
This credit **cannot** be refunded or carried forward. Any amount not deductible in the current tax year is lost.

Line 56 — If you are applying multiple credits, see your franchise tax return instructions to determine the order in which the credits should be applied. Article 9-A taxpayers may also refer to Form CT-600-I, *Instructions for Form CT-600, Ordering of Corporation Tax Credits*, to determine the proper order of application for the tax credits claimed. Life insurance corporations: **Do not** include EZ wage tax credit, EZ capital tax credit, or zone equivalent area (ZEA) wage tax credit on this line.

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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.

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