

Name(s) shown on return

Identifying number

Part I Tentative Empowerment Zone Employment (EZE) Credit

Table with 10 rows for EZE credit calculation. Includes instructions for entering wages, current year credit, and adjustments for passive activities.

Part II EZE Credit Limit Based on Amount of Tax

Table with 23 rows for EZE credit limit calculation. Includes instructions for regular tax, alternative minimum tax, and net income tax.

Paperwork Reduction Act Notice

Section references are to the Internal Revenue Code.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping 8 hr., 8 min.

Learning about the law or the form 1 hr., 12 min.

Preparing and sending the form to the IRS 1 hr., 22 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the IRS at the address listed in the instructions for the tax return with which this form is filed.

General Instructions

Purpose of Form

Use Form 8844 to claim the empowerment zone employment (EZE) credit. The credit is 20% of an employer's current year qualified wages and certain training and educational expenses paid or incurred on behalf of qualified zone employees.

Although the EZE credit is a component of the general business credit, a special tax liability limit applies to this credit. The credit is, therefore, figured separately and is never carried to **Form 3800**, General Business Credit.

Definitions

Empowerment zones are the nine areas designated from qualifying areas nominated by state and local governments. The Secretary of Housing and Urban Development (HUD) designated portions of the following cities as urban empowerment zones:

- Atlanta, GA (9.29 square miles);

- Baltimore, MD (6.8 square miles);
- Chicago, IL (14.33 square miles);
- Detroit, MI (18.3 square miles);
- New York, NY (Manhattan and the Bronx) (7.6 square miles); and
- Philadelphia, PA/Camden, NJ (4.4 square miles).

For the geographic boundaries of the zones, contact the local and state governments that submitted the zone application to HUD.

The Secretary of Agriculture (USDA) designated the following rural empowerment zones, which include portions of the counties listed:

- Kentucky Highlands (Counties of Clinton, Jackson, and Wayne), KY;
- Mid-Delta (Counties of Bolivar, Sunflower, Leflore, Washington, Humphreys, and Holmes), MS; and
- Rio Grande Valley (Counties of Starr, Cameron, Hidalgo, and Willacy), TX.

For the geographic boundaries of the zones, contact the local and state governments that submitted the zone application to USDA.

Each designation remains in effect until the earliest of:

1. December 31, 2004,
2. The termination date designated by the state and local governments in their zone application, or
3. The date HUD or USDA revokes a designation.

Qualified zone wages means any wages paid or incurred by an employer for services performed by an employee while the employee is a qualified zone employee (see below). Wages have the same meaning as given in section 51, and are generally defined as those wages subject to the Federal Unemployment Tax Act without regard to the dollar limitation. For each qualified zone employee, the amount of qualified zone wages that may be taken into account for a calendar year is limited to the first \$15,000. Wages **do not** include any amount taken into account in figuring the work opportunity credit on Form 5884. The \$15,000 limit is reduced by the amount of wages paid or incurred during the year that are used in figuring the work opportunity credit for that employee.

Also treated as wages paid to an employee are:

- Amounts paid or incurred by the employer as educational assistance payments excludable from the employee's gross income under section 127, but only if paid or incurred to a person who is not related to the employer. For this purpose, a person is related to the employer only if that person has a relationship to the

employer described in section 267(b) or 707(b)(1) (substituting "10 percent" where "50 percent" appears in these sections), or the employer and that person are engaged in trades or businesses under common control (within the meaning of subsections (a) and (b) of section 52).

- Amounts paid or incurred by the employer on behalf of an employee under age 19 for a youth training program operated by that employer in conjunction with local education officials.

Qualified zone employee means any employee of the employer who **(a)** performs substantially all of the services for that employer within an empowerment zone in the employer's trade or business and **(b)** has his or her principal residence within that empowerment zone while performing these services. Both full-time and part-time employees may qualify.

The following are **not** qualified zone employees:

- Any relative of the employer described in sections 152(a)(1) through 152(a)(8).
- A dependent of the employer described in section 152(a)(9).
- If the employer is a corporation, any individual who bears any of the relationships described in sections 152(a)(1) through 152(a)(8) to, or is a dependent described in section 152(a)(9) of, an individual who owns (or is considered to own under section 267(c)) more than 50% in value of the outstanding stock of the corporation.
- If the employer is an entity other than a corporation, any individual who owns directly or indirectly more than 50% of the capital and profits interest, including constructive ownership, in the entity.
- If the employer is an estate or trust, any individual who is a grantor, beneficiary, or fiduciary of the estate or trust (or a dependent, as described in section 152(a)(9), of that individual), or any individual who is a relative, as described in sections 152(a)(1) through 152(a)(8), of the grantor, beneficiary, or fiduciary of the estate or trust.
- Any person who owns (or is considered to own under section 318) more than 5% of the outstanding or voting stock of the employer, or if not a corporate employer, more than 5% of the capital or profits interest in the employer.
- Any individual employed by the employer for less than 90 days. For exceptions, see **Early Termination of Employee** below.
- Any individual employed by the employer at any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility,

racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.

- Any individual employed by the employer in a trade or business, the principal activity of which is farming (within the meaning of section 2032A(e)(5)(A) or (B)), if at the close of the tax year the sum of the following amounts exceeds \$500,000:

1. The larger of the unadjusted bases or fair market value of the farm assets owned by the employer, and
2. The value of the farm assets leased by the employer.

Early Termination of Employee

Generally, an individual is not a qualified zone employee unless employed for at least 90 days. The 90-day requirement does not apply in the following situations:

- The employee is terminated because of misconduct as determined under the applicable state unemployment compensation law.
- The employee becomes disabled before the 90th day. However, if the disability ends before the 90th day, the employer must offer to reemploy the former employee.

An employee is not treated as terminated if the corporate employer is acquired by another corporation under section 381(a) and the employee continues to be employed by the acquiring corporation. Nor is a mere change in the form of conducting the trade or business treated as a termination if the employee continues to be employed in such trade or business and the taxpayer retains a substantial interest therein.

Specific Instructions

Complete lines 1 and 2 to figure the current year credit for your trade or business. Skip lines 1 and 2 if you are claiming only a credit that was allocated to you from a flow-through entity. The following rules apply to lines 1 and 2:

- The qualified zone employee may earn more than \$15,000, but only the first \$15,000 of qualified zone wages paid or incurred during the calendar year that ends with or within the tax year (reduced by wages used to figure the work opportunity credit) is taken into account for the credit.

- Members of a controlled group of corporations and businesses under common control are treated as a single employer in determining the credit. The members share the credit in the same proportion that they paid or incurred qualifying wages.

Line 2.—In general, you must reduce your deduction on your return for salaries and wages and certain educational and training costs by the line 2 credit amount. You must make this reduction even if you cannot take the full credit this year because of the tax liability limit. If you capitalized any costs on which you figured the credit, reduce the depreciable basis by the amount of the credit attributable to these costs.

Line 5.—Enter the amount included on line 4 that is from a passive activity. Generally, a passive activity is a trade or business in which you did not materially participate. Rental activities are generally considered passive activities, whether or not you materially participate. For details, see **Form 8582-CR**, Passive Activity Credit Limitations (for individuals, trusts, and estates), or **Form 8810**, Corporate Passive Activity Loss and Credit Limitations (for corporations).

Line 7.—Enter the passive activity credit allowed for the 1996 EZE credit from Form 8582-CR or Form 8810. See the instructions for the applicable form for details.

Line 8.—Enter the amount of the EZE credit you carried forward from 1995.

Line 9.—Use only if you amend your 1996 return to carry back unused EZE credits from future tax years.

Line 10.—Flow-through entities allocate the credit as follows:

S corporations and partnerships.—Allocate the line 10 credit among the shareholders or partners. Attach Form 8844 to the return and show the credit for each shareholder or partner on Schedule K-1.

Estates and trusts.—The line 10 credit is allocated between the estate or trust and the beneficiaries in proportion to the income allocable to each. On the dotted line to the left of the amount on line 10, the estate or trust should enter its part of the total credit. Label it "1041 PORTION" and use this amount in Part II to figure the credit to claim on **Form 1041**, U.S. Income Tax Return for Estates and Trusts.

Cooperatives.—Most tax-exempt organizations cannot take the EZE credit, but a cooperative described in section 1381(a) takes the credit to the extent of its tax liability. Allocate the credit in excess of the tax liability limit to the patrons of the cooperative.

Line 12.—The credits listed on lines 12a through line 12h reduce your regular tax before the EZE credit. This includes all other allowed credits that make up the general business credit. If you filed Form 3800, enter on line 12h the credit from line 17 of Form 3800. If you had only a single separate general business credit form, enter on line 12h the credit from the last line of the credit form (e.g., line 17 of **Form 8586**, Low-Income Housing Credit).

Line 16.—Enter the tentative minimum tax (TMT) that was figured on the appropriate alternative minimum tax (AMT) form or schedule. Although you may not owe AMT, you must still compute the TMT to figure your credit.

Line 18.—See section 38(c)(3) for special rules that apply to married individuals filing separate returns, controlled groups, regulated investment companies, real estate investment trusts, and estates and trusts.

Line 21.—Because the EZE credit is allowed against both the regular tax and AMT, you must distribute the credit between the two taxes by completing lines 22 and 23.

If you cannot use part of the credit because of the tax liability limit (line 21 is smaller than line 10), generally carry it back 3 years and then forward for 15 years. However, no carryback is allowed to any tax year ending before January 1, 1994.

Line 23.—Reduce the amount of AMT that you figured on Form 6251, Form 4626, or Form 1041, Schedule I, by the line 23 amount and enter the reduced AMT amount on your income tax return (Form 1040, line 46; Form 1120, Schedule J, line 9; Form 1120-A, Part I, line 6; or Form 1041, Schedule G, line 6). On the dotted line to the left of the AMT entry, write "EZE" and the line 23 dollar amount.

