

Indiana Schedule EZ 1, 2, 3 Instructions

For Tax Years 2008-2010

General Information

Taxpayers doing business within an enterprise zone and remaining in good standing with the Indiana Economic Development Corporation (IEDC) may qualify for an adjusted gross income or financial institution tax credit. Use EZ schedules to determine the amount of income tax liability credit for qualified employment expense.

Part 1 A & B - Taxpayers with any business activity or income derived from sources both within and outside an enterprise zone may be required to allocate and apportion their income. Use designated Part 1A of Schedule EZ to determine the apportionment percentage for enterprise zone income. **Note:** A taxpayer is exempt from the allocation and apportionment provision if it:

- (1) Does not own, rent, or lease real property outside of an enterprise zone that is an integral part of its trade or business; and
- (2) Is not owned or controlled directly or indirectly by a taxpayer that owns, rents, or leases real property outside of an enterprise zone.

In such cases the taxpayer will attribute all income to the zone.

Part 2 - Use Part 2 of Schedule EZ to determine the tax credit for qualified increased enterprise zone employment expenditures. If the calculated employment expense credit exceeds the qualified state tax liability, you also must complete Part 3.

Part 3 - Use Part 3 of Schedule EZ to claim a carryover of employment expense credit and to record the remaining amount of unused credit.

The certification at the bottom of Part 1B must be signed by any taxpayer using either Part 1 or Part 2 of the schedule. Taxpayers doing business in more than one enterprise zone should complete a separate schedule for each zone if there are different base years. Refer to the detailed instructions for each part. For more information, see Income Tax Information Bulletin #66.

Part 1A - Apportioned Enterprise Zone Adjusted Gross Income for Employment Expense Tax Credit

If the income of a taxpayer is derived from sources both within and outside an enterprise zone, the adjusted gross income attributed to the zone must be determined by use of an apportionment formula unless written permission from the Department of Revenue is granted or the statute exempts the taxpayer.

Line 1 (a)(b)(c)(d)(e) - Property Factor: The property factor is a fraction. The numerator is the average value during the tax year of real and tangible personal property within the zone (including rental property), and the denominator is the average value during the tax year of such property everywhere. Property owned by the taxpayer is valued at its original cost. Property rented by the taxpayer is valued at eight times the net annual rental rate, less any annual rental received by the taxpayer from sub-rentals. The average value of property will be determined by averaging the values of the beginning and the end of the tax period. If the values have fluctuated, the averaging of monthly values may be necessary to properly reflect the average value of the property factor for the tax period. Attach a schedule showing how these average values were computed.

Total Property Factor: Divide property value total of column A by column B and enter as a percent on line 1 of column C.

Line 2 - Payroll Factor: The payroll factor is a fraction. The numerator is the total wages, salaries, and other compensation paid to employees for services rendered the business in the zone, and the denominator is the total of such compensation for services rendered the business everywhere. Compensation is paid in a zone if (a) the individual's service is performed entirely within the zone; (b) the individual's service is performed both within and outside the zone, but the service performed outside the zone is incidental to the individual's service within the zone; (c) some of the service is performed in the zone and

- (1) The base of operations or, if there is no base of operations, the place from which the service is directed or controlled is in the enterprise zone, or
- (2) The individual's residence is in the enterprise zone. Payments to independent contractors and others not classified as employees are not included in the factor.

Total Payroll Value: Divide payroll value total of column A by column B and enter as a percent on line 2 of column C.

Line 3 (a) (b) (c) (d) - Receipts Factor: The gross receipt's factor is a fraction. The numerator is the total receipts of the taxpayer in the zone during the tax year, and the denominator is the total receipts of the taxpayer everywhere during the tax year. The numerator of the receipt's factor must include all sales made in the zone, sales made from the zone to the U.S. government, and sales made from the zone to a state that does not have jurisdiction to tax the activities of the seller.

For purposes of the employment expense credit, the numerator will also contain intangible income attributed to Indiana including interest from consumer and commercial loans, installment sales contracts, and credit/debit cards as prescribed under Indiana Code (IC) 6-3-2-2.2.

Total receipts include gross sales of real and tangible personal property less returns and allowances. Sales of tangible personal property are in a zone if the property is delivered or shipped to a purchaser within the zone regardless of the f.o.b. point or other conditions of sale or if the property is shipped from an office, store, warehouse, factory, or other place of storage in a zone and the taxpayer is not taxable in the state of the purchaser.

Sales or receipts not specifically assigned above will be assigned as follows:

- (1) Gross receipts from the sale, rental, or leases of real property are in a zone if the real property is in the zone;
- (2) Gross receipts from the rental, lease, or licensing the use of tangible personal property are in a zone if the property is in the zone. If the property was both within and outside the zone during the tax year, the gross receipts are considered in the zone to the extent the property was used in the zone;
- (3) Gross receipts from intangible personal property are in a zone if the taxpayer's commercial domicile is in the zone and such property has not acquired a business situs elsewhere; and
- (4) Gross receipts from the performance of services are in a zone if the services are performed in the zone. If such services are performed partly within and partly outside the zone, part of the gross receipts from the performance of the services will be attributed to the zone based upon the ratio of direct costs incurred in the zone to the total direct costs of the services, unless the taxpayer can directly attribute the service to the zone.

Sales to the United States Government: The United States government is the purchaser when it makes direct payment to the seller. A sale to the United States government of tangible personal property is in a zone if it is shipped from an office, store, warehouse, or other place of storage in the zone. Refer to the previous guidelines for sales other than tangible personal property if such sales are made to the United States government.

Total Receipts: Add receipts factor lines (a) through (d). Also enter receipts everywhere in column B.

Adjusted Receipts Percent Within Zone: Divide the receipt total in column A by the total from column B.

Enter the quotient in the space provided and multiply this amount by one of the following factor values that is in effect during the four-year phase-in period:

- Factor of **3** for taxable years beginning after December 31, 2006 and before January 1, 2008;
- Factor of **4.67** for taxable years beginning after December 31, 2007 and before January 1, 2009;
- Factor of **8** for taxable years beginning after December 31, 2008 and before January 1, 2010;
- Factor of **18** for taxable years beginning after December 31, 2009 and before January 1, 2011.

Enter the result in line 3 of column C.

Line 4 - Total Percent: Add entries from lines 1, 2, and 3 of column C. Enter the sum.

Line 5 - Apportionment Percentage: To determine the apportionment percentage of enterprise zone income, for purposes of the employment expense, the total value of the denominator for tax periods beginning after Dec. 31, 2006 varies according to the following phase-in schedule:

- For a tax period that begins in 2007, divide line 4 by **5**;
- For a tax period that begins in 2008, divide line 4 by **6.67**;
- For a tax period that begins in 2009, divide line 4 by **10**;
- For a tax period that begins in 2010, divide line 4 by **20**.

The payroll and property factors are each valued as a total factor of one in the apportionment formula. In instances in which there is a total absence of one of these factors (e.g., no payroll anywhere), divide the sum of the percentages by the number of the remaining factor values present in the apportionment formula.

Examples: In the case of a taxpayer who lacks either the payroll or property factor in the three-factor formula, the taxpayer's business income will be apportioned by using the remaining factor or factors. For 2009, divide line 4 by nine (9). The denominator is the remaining value of the payroll (1) or property (1) factor plus the value of the receipts (8) factor for 2009.

If both the payroll and property factors are absent, divide line 4 by eight (8) for 2009. This denominator is the value of the receipts factor.

If the receipts factor (line 3) is absent (e.g., for a start-up company), you must divide line 4 by two (2). The denominator is the total value of the payroll and property factors for 2009.

Part 1 B - Allocated Non-business Enterprise Zone Income for Employment Expense Tax Credit

Complete this part if you are apportioning gross receipts and are excluding any income that is considered non-business income.

Lines (1) and (2): Interest (long-term) and dividends from non-business sources are allocable to an enterprise zone if the taxpayer's commercial domicile is in the zone. Dividends from foreign sales corporations (FSC or DISC) are treated as business income and must be apportioned.

Line (3): Net capital gains or losses (sales price less acquisition cost) from the sale of non-business personal property are allocated to an enterprise zone if the property had its primary business location in the zone at the time of the sale or the taxpayer's commercial domicile is in the zone. Include net capital gain or loss from the sale or exchange of all real property located in an enterprise zone not used in the production of business income.

Line (4): Rents and royalties from tangible personal property are allocated to an enterprise zone if the property is located in the zone and is non-business related.

Gross rents and royalties from non-business-related tangible personal properties are allocated to an enterprise zone to the extent the property is located or utilized in the zone:

- (a) The extent of utilization is determined by multiplying the rents and royalties by a fraction. The numerator is the number of days of physical location of the property in the zone during the rental or royalty periods in the tax year. The denominator is the number of days of physical location of the property everywhere during the rental or royalty periods in the tax year.
- (b) Such rents and royalties are wholly allocated to an enterprise zone if the taxpayer's commercial domicile is in the zone.

Line (5): Patents and copyrights and royalties from intangible property not related to the production of business income are allocated to an enterprise zone to the extent they are utilized by the taxpayer in the zone or the taxpayer's commercial domicile is in the enterprise zone.

A patent is utilized in a zone to the extent the taxpayer employs it in production or other processing in the zone or produces a patented product in the zone.

A copyright is utilized in a zone to the extent printing or other publications originated in the zone.

Line (6): Other non-business income: Add other non-business income not provided for in lines 1 through 5. Explain other non-business income on a separate schedule and attach it to the return.

Line (7): Enter in column A apportioned Indiana income, as modified, from Form IT-65 Schedule IN K-1, and any portion of tiered partnership income attributed to the zone. Enter in column B the total non-unitary partnership and tiered partnership income reported on the federal return.

Line (8): Enter all related non-business expenses other than state income taxes.

Line (9): Net non-business and non-unitary partnership income or loss: Add lines 1 through 7; subtract line 8 for each column.

Part 2 - Enterprise Zone Employment Expense Tax Credit Calculation IC 6-3-3-10 provides a tax liability credit to certain enterprise zone employers. The credit is the lesser of 10 percent of the increase in wages paid to qualified employees or \$1,500 multiplied by the number of qualified employees. A qualified employee is an individual who:

- (1) Has a principal place of residence in the enterprise zone in which he or she is employed;
- (2) Performs services of which 90% are directly related to the conduct of the taxpayer's trade or business located in an enterprise zone;
- (3) Performs at least 50% of his or her service for the taxpayer in the zone; and
- (4) In the case of an individual who is employed by a taxpayer that is a pass-through entity, was first employed by the taxpayer after Dec. 31, 1998.

Except for employers who are defined as "pass-through entities," an increase in wages is determined by subtracting wages paid to employees that could qualify in the base year from wages paid to qualified employees in the current tax year. The base year is the 12-month period immediately preceding the month in which an enterprise zone is established. Divide the annual base period qualified EZ employee wages by 12 to find the monthly base period wages.

Taxpayers whose tax years do not coincide with the designation of an enterprise zone must prorate their qualified wages for the period after designation. For the year in which an enterprise zone is designated, fiscal year taxpayers should prorate their qualified wages.

Enterprise Zone	Base Year
Bedford	12 months preceding Feb. 1, 1993
Bloomington	12 months preceding Feb. 1, 1992
Connersville	1994
Elkhart	1998
Evansville	1983
Ft. Harrison Reuse Authority	12 months preceding Dec. 1, 1997
Ft. Wayne	1983
Frankfort	2002
Grissom Aeroplex	1995
Hammond	1984
Indianapolis	1989
Jeffersonville	1999
Kokomo	1989
Lafayette	12 months preceding Feb. 1, 1993
La Porte	2001
Marion	1992
Michigan City	1983
Mitchell	2000
New Albany	1999
Portage	2000
Richmond	1983
River Ridge Development Authority	12 months preceding Feb. 1, 1998
Salem	2002
South Bend	1983
Vincennes	2001

Use this list to look up contact information for a particular enterprise zone: www.in.gov/dor/3619.htm

See enterprise zone maps at: www.in.gov/dor/3619.htm

Qualified state tax liability means each taxpayer's total income or financial institution tax liability incurred under:

- (1) IC 6-3-1 through 6-3-7 (state adjusted gross income tax) with respect to enterprise zone adjusted gross income;
- (2) IC 27-1-18-2 (insurance premiums tax) with respect to enterprise zone insurance premiums; and
- (3) IC 6-5.5 (financial institutions tax) as computed after the application of the credits that, under IC 6-3.1-1-2, are to be applied before this credit.

Pass-through entity means a:

- (1) Corporation that is exempt from adjusted gross income tax under IC 6-3-3-3.8(2);
- (2) Trust;
- (3) Limited liability company; or
- (4) Limited liability partnership.

If a pass-through entity is entitled to a credit but does not have a state tax liability against which the tax credit may be applied, an individual who is a shareholder, partner, beneficiary, or member of the pass-through entity is entitled to a pro rata share of the computed tax credit.

If the credit exceeds the taxpayer's qualified state tax liability for the taxable year, the taxpayer can carry any excess credit back three years and forward up to ten years until the enterprise zone terminates.

Caution: An eligible enterprise zone employer for purposes of the employment expense credit cannot be a governmental agency or non-profit organization (with no unrelated tax liability).

For additional information, get Income Tax Information Bulletin 66 at www.in.gov/dor/3650.htm

Contact the Indiana Economic Development Corporation, One North Capitol, Suite 700, Indianapolis, IN, 46204, call (317) 232-8800, or visit their Web site at www.in.gov/iedc for more information.

Line 1: Enter base period year. For a pass-through entity, enter 1999. Enter on line 1a the amount of base period wages paid; except for pass-through entities, base period wages will be zero (0). Enter on line 1b the amount of wages paid to qualified employees during the current year. However, pass-through entities must enter the amount of wages paid to only qualified employees, newly hired since 1999, during the current tax year. Wages paid to otherwise qualified employees who were already employed by the pass-through entity before Jan. 1, 1999, may not be included.

Line 3: Enter a figure based on the number of qualified employees during the tax year. Caution: Employers who are pass-through entities may count only those qualified employees who were first employed by the entity after Dec. 31, 1998.

Line 6: Taxable income, for purposes of the credit, is federal taxable income (before net operating loss deduction) with all applicable Indiana modifications. However, an S corporation with passive income or built-in gains tax liability must enter the amount computed on Schedule B of Form IT-20S. Employers not subject to the apportionment and/or

allocation method of computing zone income should disregard lines 7 through 12 and enter Indiana net taxable adjusted gross income from zone sources on lines 6 and 13. Domestic insurance companies paying insurance premium tax, financial institutions, pass-through entities with no tax liabilities must enter zero and go on to line 15.

Line 12: Taxpayers whose Indiana adjusted gross income is totally eliminated by a net operating loss deduction will have no enterprise zone adjusted gross income tax and should enter zero on line 14. Taxpayers whose Indiana adjusted gross income is partially offset by a net operating loss deduction must determine the portion of the loss attributable to an enterprise zone source. Separately complete the apportionment Schedule EZ, Part 1 applicable to the loss year. Multiply the remaining net operating loss deduction used in the current year by this percentage, and enter the product on line 12 as a positive figure.

Line 14: Multiply line 13 by the individual tax rate of 3.4 percent with respect to “enterprise zone adjusted gross income.” A corporate entity must use the tax rate of 8.5 percent. **Exception:** If the corporate entity is doing business in a Qualified Military Base Enhancement Area (MBEA), use the applicable tax rate of 5 percent to the extent that your taxable zone income is from MBEA activity.

Line 15: The entry on this line represents total qualified state tax liability. Taxpayers filing Form IT-20 must enter the amount from line 14. Financial institution taxpayers must enter net financial institution tax due (line 29 of Form FIT-20) reduced by other nonrefundable state tax credits. Domestic insurance companies should enter the portion of premium tax attributed to the enterprise zone.

Line 16: This is the credit available for the current year plus any applied credit carryover. A pass through entity without any current year income tax liability may pass through to each of its members their pro rata share of credit from line 5 plus any unused carryover.

Line 17: When the total credit (on line 5) exceeds the current year qualified state tax liability (on line 15), the taxpayer may carry the excess back and/or forward against computed state income tax liabilities derived from the enterprise zone. Refer to the instructions for Part 3.

Note: A taxpayer is not entitled to a refund of any unused credit.

Part 3 - Employment Expense Tax Credit Carryover for Enterprise Zone Tax Liability

When the enterprise zone employment expense credit exceeds the taxpayer's qualified state tax liability for the tax year, the remaining credit may be carried back three years and applied to each year whether or not a credit is utilized, and/or carried forward up to ten years until the enterprise zone terminates.

The application of the credit, when carried over, must be shown on Schedule EZ, Part 3. A copy of this schedule should be attached to any return on which the taxpayer is applying the credit. A separate schedule should be completed when a credit is available from more than one tax year.

Note: The amount of credit applied is generally limited to the qualified state tax liability, which is based on the tax on income derived from the enterprise zone.

Indiana Department of Revenue
Schedule EZ 1, 2, 3 (For Tax Years 2008-2010)

Tax Year Ending: Month _____ Year _____

Part 1 A

**To Determine Enterprise Zone Adjusted Gross Income
for Employment Expense Tax Credit (Effective beginning 2007)**

Name	Federal Identification Number		
This schedule must be completed by taxpayers having income from sources both within and outside the zone, who are not otherwise exempt from the allocation and apportionment provisions for determining enterprise zone adjusted gross income.	(Enter percent to two decimals, e.g., 67.89%) ↴		
	Column A Total Within the Zone	Column B Total Within and Outside the Zone	Column C Percent Within the Zone
1. Property Factor Average value of owned property from the beginning and the end of the tax year (Value of real and tangible personal property at original cost)			
(a) Property reported on federal tax return (average value for tax year).....			
(b) Fully depreciated assets still in use at cost (average value for tax year).....			
(c) Inventories, including work in progress (average value for tax year).....			
(d) Other tangible personal property (average value for tax year).....			
(e) Rented property (8 times the annual rental).....			
Total Property Values: add lines (a) through (e).....			1 . %
2. Payroll Factor Wages, salaries, commissions, and other compensation of employees and pro-rata share of payroll reportable on return			
Total Payroll Value:			2 . %
3. Receipts Factor (less returns and allowances):			
(a) Sales delivered or shipped to the enterprise zone			
(1) Shipped from within the zone.....			
(2) Shipped from outside the zone.....			
(b) Sales shipped from the zone to:			
(1) The United States government.....			
(2) A location outside a zone where the only sales activity consists of the solicitation of orders which may be accepted but are not subject to approval or rejection at such location.....			
(c) Interest income and other receipts from extending credit attributed to the zone.....			
(d) Other gross business receipts not previously apportioned.....			
Total Receipts: Add column A, lines 3(a) through 3(d); enter all receipts in column B..			
Adjusted Receipts Percent Within Zone: Divide total receipts, column A by amount in column B; enter percent within zone here _____ %			
			3 . %
4. Total Percent (sum of percentages in column C, lines 1, 2, and 3):			4 . %
5. Enterprise Zone Income Apportionment Percentage: Divide total percent on line 4 by: 5 for tax year beginning in 2007 ; 6.67 for tax year beginning in 2008 ; 10 for tax year beginning in 2009 ; 20 for tax year beginning in 2010 if all three factors are present in column B.....			5 . %

NOTE: In instances in which there is a total absence of one of these factors (e.g., no payroll anywhere), divide the sum of the percentages by the number of the remaining factor values present in the apportionment formula.

**Part 1 B To Determine Allocated Non-business/non-unitary
Enterprise Zone Income for Employment Expense Tax Credit**

Allocate, using the provisions of IC 6-3-2-2(g), any income classified as non-business derived from sources within the zone and from sources everywhere.	Zone Sources Column A	All Sources Column B
(1) Dividends (not from DISC or FSC) (excess after dividend deduction).....	1	1
(2) Interest (other than U.S. government interest).....	2	2
(3) Net capital gains or losses.....	3	3
(4) Rents and royalties from tangible personal property.....	4	4
(5) Patents, copyrights, and royalties from intangible property.....	5	5
(6) Other non-business income.....	6	6
(7) Distributive share income from non-unitary partnerships and tiered partnerships.....	7	7
(8) Less other related expenses for non-business income.....	8	8
(9) Net non-business and non-unitary partnership/tiered income or loss (add lines 1 through 7; subtract line 8 for each column).....	9	9



Schedule EZ 1, 2, 3 continued

Part 2 Enterprise Zone Employment Expense Tax Credit Calculation

Name		Federal Identification Number			
Indicate type of income tax return to be filed by employer (Check one): <input type="checkbox"/> Individual Form IT-40 <input type="checkbox"/> Nonprofit Form IT-20NP <input type="checkbox"/> Corporation Form IT-20 <input type="checkbox"/> Financial Institution Form FIT-20		*Pass-through entities		<input type="checkbox"/> S Corp. Form IT-20S* <input type="checkbox"/> Partnership Form IT-65* <input type="checkbox"/> Fiduciary Form IT-41*	
Location Name of Enterprise Zone(s) or Airport Development Zone	Base Period Year	Base Period Qualified Wages		Current Tax Year Qualified Wages	
1. Qualifying wages attributed to zone (pass-through entities enter zero on line 1a)		1a		1b	
2. Qualified increase (subtract line 1a from line 1b)				2	
3. Multiply line 2 by 10% (0.10)				3	
4. Number of qualified employees (except for pass-through entities, number first employed after 12-31-1998): _____ X \$1500				4	
5. Enter the lesser of line 3 or line 4 (this is your current year employment expense credit)				5	
6. Current year federal adjusted gross income after Indiana modifications (see instructions) . <i>Entities subject to insurance premium tax or financial institutions tax skip to line 15</i>		6		Line 9: apportionment formula in effect for your taxable year.	
7. Non-business income from all sources from Part 1B, line 9 of column B		7			
8. Net taxable business income (subtract line 7 from line 6)		8			
9. Apportionment percentage from Part 1A, line 5 for taxable year		9	%		
10. Enterprise zone business income (multiply line 8 by line 9)		10			
11. Non-business enterprise zone income from Part 1B, line 9 of column A		11			
12. Enterprise zone net operating loss deduction (see instructions)		12			
13. Total "enterprise zone adjusted gross income" (add line 10 and line 11; subtract line 12)		13			
14. Enterprise zone adjusted gross income tax (multiply line 13 by 3.4%). Corporate taxpayers use 8.5% (or 5% in MBEA)				14	
15. This is your qualified state tax liability: Enter the amount from line 14, the net financial institution tax, or insurance premium tax attributed to the enterprise zone. <i>A pass-through entity with no tax liability will enter zero.</i>				15	
16. Enter the lesser of line 5 (plus applied carryover credit) or line 15. If line 15 exceeds line 5, add your available unused carryover credit from other tax years, up to the remaining amount of your qualified state tax liability <i>(Carry this amount to the appropriate credit entry line on the annual corporate or individual income tax return. Pass-through entities with no income tax liabilities enter the pro rata share of credit from line 5 above, on Form IN K-1.)</i>				16	
17. Unused credit carryover - If line 5 exceeds line 15, enter the excess here and on Part 3				17	

I certify I have examined this schedule, and to the best of my knowledge and belief it is true, correct, and complete. I further certify that Indiana business activities were not substantially reduced for the purpose of relocating the business in an enterprise zone.

Signature _____ Title _____ Date _____

Part 3 Employment Expense Tax Credit Carryover for Enterprise Zone Tax Liability

Year of Credit	Credit Carryback	Period Ending	Qualified Tax Liability Applied	Remaining Excess Credit
	3rd preceding tax year	_____	\$ _____	\$ _____
	2nd preceding tax year	_____	\$ _____	\$ _____
	1st preceding tax year	_____	\$ _____	\$ _____
Amount of Excess Credit from Part 2	Credit Carryforward			
	1st following tax year	_____	\$ _____	\$ _____
	2nd following tax year	_____	\$ _____	\$ _____
	3rd following tax year	_____	\$ _____	\$ _____
	4th following tax year	_____	\$ _____	\$ _____
	5th following tax year	_____	\$ _____	\$ _____
	6th following tax year	_____	\$ _____	\$ _____
	7th following tax year	_____	\$ _____	\$ _____
	8th following tax year	_____	\$ _____	\$ _____
	9th following tax year	_____	\$ _____	\$ _____
	10th following tax year	_____	\$ _____	\$ _____

