

Department of the Treasury
Internal Revenue Service

▶ **Attach to your return.**

Name(s) shown on return

Identifying number

Part I Tentative Empowerment Zone Employment (EZE) Credit

1	Enter the total qualified zone wages paid or incurred after December 20, 1994, and before January 1, 1995 (see instructions)	1																		
2	Current year credit. Multiply line 1 by 20% (.20) (see instructions)	2																		
3	EZE credits from flow-through entities	3																		
	<table border="0"> <tr> <td style="border-bottom: 1px solid black;">If you are a—</td> <td style="border-bottom: 1px solid black;">Then enter total of current year EZE credit(s) from—</td> <td></td> <td></td> <td></td> </tr> <tr> <td>a Shareholder</td> <td>Schedule K-1 (Form 1120S), lines 12d, 12e, or 13</td> <td rowspan="4" style="font-size: 3em; vertical-align: middle;">}</td> <td rowspan="4"></td> <td rowspan="4"></td> </tr> <tr> <td>b Partner</td> <td>Schedule K-1 (Form 1065), lines 13d, 13e, or 14</td> </tr> <tr> <td>c Beneficiary</td> <td>Schedule K-1 (Form 1041), line 13</td> </tr> <tr> <td>d Patron</td> <td>Written statement from cooperative</td> </tr> </table>	If you are a—	Then enter total of current year EZE credit(s) from—				a Shareholder	Schedule K-1 (Form 1120S), lines 12d, 12e, or 13	}			b Partner	Schedule K-1 (Form 1065), lines 13d, 13e, or 14	c Beneficiary	Schedule K-1 (Form 1041), line 13	d Patron	Written statement from cooperative			
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c Beneficiary	Schedule K-1 (Form 1041), line 13																			
d Patron	Written statement from cooperative																			
4	Total current year EZE credit. Add lines 2 and 3	4																		
5	EZE credit included on line 4 from passive activities (see instructions)	5																		
6	Subtract line 5 from line 4	6																		
7	EZE passive activity credit allowed for 1994 (see instructions)	7																		
8	Carryback of EZE credit to 1994 (see instructions)	8																		
9	Tentative EZE credit. Add lines 6 through 8. (S corporations, partnerships, estates, trusts, and cooperatives, see instructions.)	9																		

Part II EZE Credit Limitation Based on Amount of Tax

10a	Individuals. Enter amount from Form 1040, line 40	}			10		
b	Corporations. Enter amount from Form 1120, Schedule J, line 3 (or Form 1120-A, Part I, line 1)						
c	Other filers. Enter regular tax before credits from your return						
11	Credits that reduce regular tax before the EZE credit:						
a	Credit for child and dependent care expenses (Form 2441, line 10)	11a					
b	Credit for the elderly or the disabled (Sch. R (Form 1040), line 21)	11b					
c	Mortgage interest credit (Form 8396, line 11)	11c					
d	Foreign tax credit (Form 1116, line 32, or Form 1118, Sch. B, line 12)	11d					
e	Possessions tax credit (Form 5735)	11e					
f	Orphan drug credit (Form 6765, line 10)	11f					
g	Credit for fuel from a nonconventional source	11g					
h	Qualified electric vehicle credit (Form 8834, line 19)	11h					
i	General business credit (see instructions)	11i					
j	Add lines 11a through 11i	11j					
12	Net regular tax. Subtract line 11j from line 10	12					
13	Tentative minimum tax (see instructions):						
a	Individuals. Enter amount from Form 6251, line 26	}			13		
b	Corporations. Enter amount from Form 4626, line 13						
c	Estates and trusts. Enter amount from Form 1041, Schedule H, line 37						
14	Multiply line 13 by 75% (.75)	14					
15	Net income tax:						
a	Individuals. Add line 12 above and line 28 of Form 6251	}			15		
b	Corporations. Add line 12 above and line 15 of Form 4626. Reduce the total by any credit on Form 3800, line 34						
c	Estates and trusts. Add line 12 above and line 39 of Form 1041, Schedule H						
16	If line 12 is more than \$25,000, enter 25% (.25) of the excess (see instructions)	16					
17	Subtract line 14 or line 16, whichever is greater, from line 15. If less than zero, enter -0-	17					
18	EZE credit allowed for the current year. Enter the smaller of line 9 or line 17. Complete lines 19 and 20 to determine how the credit is claimed on your tax return	18					
19	Credit allowed against regular tax. Enter the smaller of line 18 or line 12 here and on Form 1040, line 44; Form 1120, Schedule J, line 4e; Form 1120-A, Part I, line 2a; Form 1041, Schedule G, line 2c; or the appropriate line of your income tax return	19					
20	Credit allowed against alternative minimum tax. If line 18 is greater than line 19, enter the excess here (see instructions)	20					

Paperwork Reduction Act Notice

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.

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

Recordkeeping 7 hr., 39 min.

Learning about the law or the form 1 hr., 47 min.

Preparing and sending the form to the IRS . . . 1 hr., 59 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 both the IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

General Instructions

Section references are to the Internal Revenue Code.

Purpose of Form

The Revenue Reconciliation Act of 1993 amended section 38 and added new sections 1396 and 1397 to allow an income tax credit for qualified wages and certain training and educational expenses paid or incurred on behalf of qualified zone employees. Use Form 8844 to figure the credit.

Although the empowerment zone employment (EZE) credit is a component of the general business credit, section 38 provides a special tax liability limitation for 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: (a) Atlanta, GA (9.29 square miles); (b) Baltimore, MD (6.8 square miles); (c) Chicago, IL (14.33 square miles); (d) Detroit, MI (18.3 square miles); (e) New York, NY (Manhattan and the Bronx) (7.6 square miles); and (f) 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: (a) Kentucky Highlands (Counties of Clinton, Jackson, and Wayne), KY; (b) Mid-Delta (Counties of Bolivar, Sunflower, Leflore, Washington, Humphreys, and Holmes), MS; and (c) 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.

These designations were made on December 21, 1994. Each designation remains in effect from December 21, 1994, 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 next definition). Wages have the same meaning as given in section 51, 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 jobs 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 jobs credit for that employee.

In addition, the following amounts are treated as wages paid to an employee:

- Amounts paid or incurred by the employer that are excludable from the employee's gross income as educational assistance payments under section 127, but only to the extent paid or incurred to a person not related to the employer under section 267(b) or 707(b)(1) (substituting "10 percent" where "50 percent" appears in these sections), and the employer and such other person are not engaged in trades or businesses under common control (within the meaning of subsections (a) and (b) of section 52).
- For an employee under age 19, amounts paid or incurred by the employer for a youth training program operated by such 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) or 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 section 152(a)(1) through (a)(8) to, or is a dependent described in 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 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** on page 4.
- 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 total of the unadjusted bases (or, if larger, the fair market value) of the assets owned or leased by the employer and used in farming exceeds \$500,000.

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.
- The employee becomes disabled before the 90th day. However, if the disability ends before the end of the tax year, the employer must offer reemployment to the former employee.

An employee is not treated as terminated if the corporate employer is acquired by another corporation covered under the rules in 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 jobs credit) is taken into account for the credit.

Note: For 1994, use only amounts paid or incurred from December 21 through December 31 for services rendered after December 20. For other details, see **Qualified zone wages and Qualified zone employee** on page 3.

- 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 limitation. 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 1994 EZE credit from Form 8582-CR or Form 8810. See the instructions for the applicable form for details.

Line 8.—Use only if you amend your 1994 return to carryback unused EZE credits from future tax years.

Line 9.—Flow-through entities allocate the credit as follows:

S corporations and partnerships.—Allocate the line 9 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 9 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 9, 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 it has tax liability. Any excess is shared among its patrons.

Line 11.—The credits listed in lines 11a through line 11i 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 11i the credit from line 15 of Form 3800. If you had only a single separate general business credit form, enter on line 11i the credit from the last line of the credit form (e.g., line 15 of **Form 8586**, Low-Income Housing Credit).

Line 13.—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 16.—See section 38(c)(3) for special rules for married couples filing separate returns; controlled corporate groups; mutual savings institutions, regulated investment companies, and real estate investment trusts; and estates and trusts.

Line 18.—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 19 and 20.

If you cannot use part of the credit because of the tax liability limitation (line 18 is smaller than line 9), carry it forward for 15 years. No carryback is allowed to any year before 1994.

Line 20.—Reduce the amount of AMT that you figured on Form 6251, Form 4626, or Form 1041, Schedule H, by the line 20 amount and enter the reduced AMT amount on your income tax return (Form 1040, line 48; Form 1120, Schedule J, line 9a; 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 20 dollar amount.

