

Use of the Federal Empowerment Zone Employment Credit for Tax Year 1997: Who Claims What?

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In an attempt to encourage revitalization of economically distressed inner cities and rural areas, Congress authorized a Federal program in the Omnibus Budget Reconciliation Act of 1993 (OBRA 93) whereby selected geographic areas across the United States became eligible for special tax incentives and Federal funding. From a set of areas nominated by State and local governments, the Department of Housing and Urban Development and the Department of Agriculture designated 104 areas for these special incentives. Nine areas were designated "Empowerment Zones," and 95 became "Enterprise Communities." All of these designations took effect on December 21, 1994. While all the qualifying areas satisfied the same eligibility criteria, including minimum poverty rates, and population and geographic size limitations, Congress allotted most of the tax incentives and Federal funding to the empowerment zones. By combining these incentives and funding with locally initiated redevelopment strategies, Congress intended to encourage investment and employment in these areas.

This article examines the empowerment zone employment (EZE) credit for Tax Year 1997, one of three tax incentives available to qualified businesses that were located in the empowerment zones. This credit is calculated as a fixed percentage of certain wages paid and is applied against a taxpayer's "regular" income tax and, possibly, "alternative minimum tax" (AMT) [1]. For Tax Year 1997, there were 1,168 individual income tax returns that showed an EZE credit against regular tax, with a total credit of \$10.9 million. In comparison, there were 1,040 such returns with a total credit of \$9.6 million for Tax Year 1996 [2]. In addition, 278 taxable corporations claimed a total of \$8.6 million in EZE credit for 1997 [3]. For 1996, 214 taxable corporations claimed \$5.5 million in credit against regular tax [4]. About 54.5 percent of claimants who were individuals and 44.6 percent of those that were taxable corporations were repeat claimants, i.e., they claimed the credit for 1997

and the previous tax year. For taxable corporations, the 1997 "tentative credit," which was the credit accumulated before limitations based on available tax liability, was \$17.4 million. Because of tax liability limitations, there were about 100 more taxable corporations with a tentative credit for 1997 than there were with an actual credit claimed against regular tax. Taxable corporations were able to employ at least 4,600 subsidized workers in 1997 as a result of the credit [5].

The Empowerment Zone/Enterprise Community Program and the EZE Credit

Nominated geographic areas were required to meet certain eligibility criteria, based on the 1990 Census, for consideration as empowerment zones (EZ's) or enterprise communities (EC's). First, the census tracts comprising each nominated area were required to be contiguous. Second, each tract within the area needed a poverty rate greater than or equal to 20.0 percent, while 90.0 percent of the census tracts needed poverty rates of at least 25.0 percent, and 50.0 percent needed poverty rates of at least 35.0 percent. Third, the total population of each zone was capped. For areas nominated to be urban empowerment zones, the population was capped at 10.0 percent of the population of the city within which the area was located, up to a maximum of 200,000 people [6]. The areas nominated to be rural empowerment zones had populations of 30,000 individuals or less. Fourth, the physical size of each urban area was 20 square miles or less, while rural areas were 1,000 square miles or less. Finally, nominated areas were required to submit strategic plans that included a description of how the State and local efforts would augment the Federal program.

Under the OBRA 93 provisions, nine EZ's were selected (six located in urban areas and three in rural areas) with tax incentives available for 10 years [7]. The zones include parts of Atlanta, Georgia; Chicago, Illinois; Baltimore, Maryland; Detroit, Michigan; Harlem and the Bronx, New York City, New York; Philadelphia/Camden, Pennsylvania/New Jersey; Kentucky Highlands, Kentucky; Mid-Delta, Mississippi; and, Rio Grande Valley, Texas. Zone administrative agencies receive Federal grants, and certain businesses located in the zones are eligible for three Federal tax incentives [8]:

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- ❑ a credit against income tax equal to 20.0 percent of the first \$15,000 of wages paid to each zone resident who worked in the zone [9];
- ❑ an additional \$20,000 of expensing of the cost of otherwise depreciable “qualified zone property,” under Internal Revenue Code section 179, placed in service by an “enterprise zone business” [10], and
- ❑ issuance of tax-exempt private activity bonds for certain zone facilities, subject to the private activity bond volume cap for the State in which the EZ was designated [11].

Taxable corporations, shareholders in S corporations, partners in partnerships, and sole proprietorships are all eligible for the three tax incentives. There is no restriction on the legal form of the business. Even subsidiaries or affiliates of larger corporations with establishments in an EZ are potentially eligible. EZ businesses that provide services both inside and outside of the zone can also utilize these tax incentives if the EZ resident employees of the businesses perform their work in the EZ [12]. However, restrictions on the use of the additional section 179 expensing prevent many larger businesses that purchase more than \$400,000 in depreciable assets from benefiting from this provision [13]. Similarly, tax-exempt bonds for certain zone facilities are subject to that State’s private activity bond volume cap.

The EZE credit is part of the general business credit (GBC). However, unlike most other components of the GBC, the EZE credit can be used to offset a portion of the AMT. Therefore, a separate tax form (Form 8844) is used to determine the amount of EZE credit, after the other components of the GBC have been determined. An employer claiming the credit first determines the eligible wages paid and resulting “tentative EZE credit” earned [14]. Then, using a series of computations based on regular income tax, tentative minimum tax (the amount of AMT a taxpayer would pay if regular income tax was zero), and AMT, the business determines the amount of EZE credit claimable for the current tax year [15]. Such credit is first claimed against regular income tax (up to the level of such tax); the rest is claimed against AMT. Any remaining credit not claimed for the current year (due to insufficient tax

liability) may be carried back to 1994, when the EZE credit began, then forward 15 years [16]. For more information on the calculation of the EZE credit, see the Appendix.

Data on Use of Tax Incentives in Federal Empowerment Zones

Analysts normally use Statistics of Income (SOI) data, based on samples of tax returns, to analyze various provisions of the tax code [17]. The SOI individual national sample is based on individual income tax returns, while the SOI corporate national sample is drawn from the tax returns of taxable corporations. However, Treasury tax analysts were concerned that these samples would be inappropriate for examining the EZE tax credit. The samples are designed for estimates and analysis at the national level. In contrast, the EZE credit is a tax incentive which targets small, economically distressed geographic areas in various places around the country. At the request of Treasury’s Office of Tax Analysis, SOI undertook two procedures to address this concern. The first procedure addresses individual taxpayers, while the second addresses taxable corporations.

Under the first procedure, the content of a record on the Internal Revenue Service (IRS) Individual Master File (which contains information on the population of individual taxpayers) was expanded to include the EZE credit claimed against regular tax [18]. Statistics of Income then obtained a special extract of data from the Master File. This special extract contains fewer variables than does the SOI (individual) national sample, but does contain the population of returns with an EZE credit claimed against the regular tax. This procedure was used for Tax Years 1996 and 1997 and will continue to be used for future tax years.

Under the second procedure, the SOI (corporate) national sample for Tax Year 1997 was expanded to include 100.0 percent of the returns with an EZE credit claimed against regular tax for that tax year, as well as the returns that claimed the credit for the previous tax year even if no credit was claimed for Tax Year 1997. As a result, for taxable corporations, all of the additional data normally transcribed from tax returns and edited for the SOI corporate sample were available for use in analyzing the 1997 EZE credit. This procedure will be used for future tax years; a procedure analogous to that used for indi-

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vidual tax returns was used for Tax Year 1996 [19]. More data permitted certain analyses of taxable corporations (such as the number of workers subsidized through the Federal program) that could not be made for individuals.

Individual EZE Credit Claimants: Tax Year 1997

The individual income tax return data for 1997 show 1,168 individual taxpayers claimed \$10.9 million in credit against regular tax liability. Sole proprietors, individuals with interests in partnerships or S corporations, beneficiaries of estates and trusts, and other taxpayers are included in this total. These taxpayers represent a 12.3-percent increase in the number of individual claimants and a 13.1-percent increase in credit claimed over Tax Year 1996 [20]. Columns 1 through 4 of Table 1 distribute claimants and credit by the amount of EZE credit claimed. Most taxpayers claimed relatively small amounts of credit. Over 60.0 percent claimed \$4,000 or less, while about 10.9 percent claimed more than \$15,000. However, 2.8 percent of claimants (those claiming more than \$50,000) claimed 44.5 percent of the total credit claimed.

Columns 1 through 4 of Table 2 distribute claimants and credit by size of the adjusted gross income (AGI) of the claimant. Most claimants had a relatively high AGI, and thus a larger tax liability against which to apply the credit. Indeed, 63.3 percent of claimants had an AGI of \$100,001 or more, and 22.3 percent had an AGI of \$500,001 or more. These taxpayers claimed 91.4 percent and 64.8 percent of the credit, respectively.

Table 3 shows the distributions of claimants and credit claimed by the type of business schedule attached to the claimants' individual tax returns. The type of business schedule loosely determines the claimant's type of business. However, there are limits to examining business schedules because a taxpayer is only required to file one EZE tax form for all qualified wages paid. While sole proprietors file Schedule C, and farmers Schedule F, a wide assortment of taxpayers file Schedule E: individuals with interests in S corporations or partnerships, beneficiaries of estates and trusts, or individuals with income or losses from rental real estate, royalties, and others. For any taxpayer filing a combination of Schedules C, E, and F, or claiming more than one income source on Schedule E, it is not possible to match the credit claimed with business activity. For example, a tax-

payer could have owned shares in two separate S corporations, only one of which paid qualified wages. For Tax Year 1997 (and generally), the available data do not allow any matching of the claimed EZE credit to a specific business. Moreover, the available data do not allow the aggregation of the separate shareholders or partners in a given business interest to the business entity level.

Despite these limitations, Table 3 shows that 60.2 percent of claimants who were individuals filed only Schedule E, and these taxpayers accounted for 73.2 percent of the total credit claimed by individuals. Another 23.0 percent of claimants filed both Schedules C and E, claiming 19.8 percent of the total credit. The average credit for Schedule E filers was \$11,292. The average credit for combined Schedule C and E filers was \$8,033. These results suggest individuals with partnership or S corporation interests benefited the most from the EZE credit.

Individual EZE Credit Repeat Claimants: 1996-1997

Of the 1,168 taxpayers claiming the EZE credit against regular tax for Tax Year 1997, about 54.5 percent (636 taxpayers) also claimed the credit against regular tax for the previous year [21]. Columns 5 through 8 of Table 1 show the distribution of repeat claimants and the amount of EZE credit claimed by the size of claimed credit. Repeat claimants reported proportionately more credit. Just over 54.5 percent of 1997 claimants also reported EZE credit for 1996, but these taxpayers claimed over 77.7 percent of the total credit for 1997. Moreover, repeat claimants tended to have claimed more of the EZE credit for 1996, as well as for 1997. Among taxpayers claiming over \$30,000 in EZE credit for 1997, about 81.3 percent also claimed credit for 1996. Conversely, among taxpayers claiming \$5,000 or less in EZE credit for 1997, only 56.5 percent also claimed credit for the prior year. Finally, 40.9 percent of the dollars claimed by repeat claimants were reported on returns with over \$100,000 in EZE credit, compared to 33.8 percent for the full population.

In addition to having larger credits, repeat claimants also tended to have a larger AGI. Columns 5 through 8 of Table 2 show the distribution of the 1997 EZE credit by size of 1997 AGI for repeat claimants. About 49.8 percent of repeat claimants reported an

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AGI of more than \$200,000, compared to 44.1 percent for all claimants. Furthermore, these high AGI claimants claimed 83.9 percent of the credit in the full 1997 population, and 88.0 percent for the repeat claimants. This suggests that those with higher incomes who claimed larger EZE credits were more likely to claim additional credit in a later tax year.

Although not shown in the statistics, repeat claimants were also tabulated by business type. There were few differences in these distributions compared to the corresponding population distributions, i.e., repeat claimants did not differ greatly from new claimants in terms of business type. There was also little change in form of business among repeat filers. Over 88.0 percent of repeat claimants filed the same combination of Schedules C, E, and F for both 1996 and 1997. Among those that did change, most Schedule E filers became combined Schedules C and E filers or dropped a Schedule C from the combination.

Because of limitations of the data file used for the statistics, it was not possible to determine how much of the total credit claimed was earned during the current year and how much was an unused amount carried forward from prior years. Nor can the credits shown in the statistics represent the final amounts for 1997, which would have to include unused amounts carried back from future years (and which were yet unknown to the taxpayer or IRS), plus any revisions resulting from IRS examination or enforcement activities. Nonetheless, it is instructive to examine the change in credit over time for taxpayers who were repeat filers. These changes are at least indicative of the change in EZE credit usage from 1996 to 1997.

To get a sense of this change, Table 4 shows the distribution of the change in the EZE credit claimed between 1996 and 1997 for those taxpayers with claims for both years. Over 72.0 percent (459 claimants) had 1997 claims that were within \$3,000 of their 1996 claims. Although it was not possible to tie the credit claimed to the number of workers subsidized, a small change in credit likely correlates with a relatively constant level of employment of EZ residents. Only 43 claimants (about 6.7 percent) reported an absolute change of \$15,000 or more. These claimants may have substantially increased (or decreased) their employment of EZ residents, or may have carried forward an unused credit from 1996 to 1997.

Table 5 shows the change in the AGI of EZE credit repeaters. Almost 36.0 percent (226 claimants) showed a decline in AGI, while the rest showed an increase in AGI between 1996 and 1997. Over 20.0 percent (130 claimants) showed an increase of between \$10,001 and \$50,000, while 150 (over 23.0 percent) showed an increase of at least \$100,001. There was no correlation between the changes in AGI and the changes in credit claimed among the 636 repeat claimants. (The correlation coefficient between these changes is a statistically insignificant -0.002 .) This suggests that there was little unused "pent-up" credit being carried forward to high tax liability years.

Taxable Corporation EZE Credit Claimants: Tax Year 1997

The data on taxable corporate EZE claimants were collected differently for 1997 than for prior tax years, and differently than the data on individual EZE claimants. Unlike the data set for individual filers, which contains only the limited information included in the IRS Individual Master File, the data set for taxable corporations is a subset of the SOI sample of taxable corporations and thus contains all the information commonly found in the SOI sample. As noted above, for Tax Year 1997, the SOI sample of taxable corporations was expanded to include the population of corporations claiming EZE credit for that year. A corporation income tax return had to meet one of three criteria for inclusion in the sample. First, it showed an EZE credit claimed against regular tax for 1997. Second, it showed an EZE credit for 1996 or prior years, even if there was no credit claimed for 1997. Third, the corporation filed income tax Form 8844 (demonstrating tentative EZE credit earned) even if no credit was actually claimed (i.e., the unused credit was carried over to future years) [22]. As a result, the sample includes claimants that may have tentative EZE credits, but not EZE credits against regular tax.

For 1997, there were 278 taxable corporations that claimed \$8.6 million in EZE credits against regular tax. This constitutes a 29.9-percent increase in the number of claimants (from 214 for 1996) and a 56.4-percent increase in the amount of EZE credit claimed (from \$5.5 million). In general, taxable corporations file consolidated returns and combine the incomes from affiliated corporations operating in

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different lines of business and in different States. Thus, it can be difficult to interpret results based on income tax return information. However, columns 1 through 4 of Table 6 show the distribution of the EZE credit by the size of credit claimed against regular tax. Most of the taxable corporations claimed small amounts of credit. Specifically, 44.6 percent of EZE credit claimants claimed \$6,000 or less in EZE credits against regular tax. In contrast, 6.8 percent of corporations claimed \$90,001 or more in EZE credit, which accounted for 54.7 percent of the total credit claimed.

Columns 1 through 4 of Table 7 distribute the EZE credit against regular tax by the size of total assets shown on the return. In terms of number, smaller size businesses dominated the distribution. In terms of the amount of tax credit claimed, however, large businesses dominated. Those corporations with total assets of \$3 million or less accounted for 59.3 percent of corporate claimants, but only 15.7 percent of the credit taken. Almost 52.0 percent of the credit was claimed by the 18.0 percent of taxpayers with assets over \$100 million. Although not shown in the statistics, these results held when the credit was distributed either by taxable net income or dollars of business receipts.

Table 8 distributes the EZE credit and the number of returns claiming the credit by industry grouping. These groupings are determined by the corporation's primary business activity. The manufacturing division accounted for 60.9 percent of the credit, despite comprising only 30.6 percent of corporate credit claimants. Corporations classified in retail trade accounted for the second largest group of participants (18.0 percent); however, these companies claimed only 11.1 percent of the total credit.

Taxable Corporation EZE Credit Repeat Claimants: 1996-1997

Of the 278 corporate taxpayers claiming the EZE credit for Tax Year 1997, almost half (44.6 percent) also claimed the credit against regular tax for 1996 [23]. The other 55.4 percent were "new" claimants. For 1997, the distributions of returns and dollars for repeat claimants were similar to those for the full population of claimants for that year. Columns 5 through 8 of Table 6 show the distributions of repeat claimants and the amount of credit claimed, by size of credit. Unlike repeat individual claimants, who accounted for 54.5 percent of all claimants but a

disproportionate 77.7 percent of the total credit claimed, the 44.6 percent of repeat corporate claimants accounted for a more proportionate 43.4 percent of the total corporate credit. Among the repeat claimant corporations, about 44.0 percent claimed less than \$6,000 in credit, while only very small percentages (10.5 percent of the repeaters and 12.2 percent for the full population) claimed at least \$60,001 each.

Columns 5 through 8 of Table 7 show the distributions of repeat claimants and dollars of credit claimed, by size of total assets. Here, the distributions of repeat claimants were weighted slightly towards the bottom of the distribution. For the 1997 population, 49.9 percent of claimants reported \$1 million or less in total assets, while 44.4 percent of repeat claimants fell into that size class. The two groups claimed 6.6 percent and 8.6 percent of their total credits, respectively. Similarly, at the top of the distribution (total assets over \$10 million), 31.3 percent of the 1997 population claimed 77.3 percent of the total credit, while the 25.0 percent of repeat claimants falling in this asset-size class claimed 73.2 percent of the total.

Table 9 shows that a large percentage of repeat claimants showed little to no change in the amount of credit claimed between 1996 and 1997. Over 47.0 percent of repeat claimants showed an absolute credit change of less than \$3,000. Only 9.6 percent reported a decrease in credit of at least \$15,000, and 8.0 percent reported a similar magnitude increase. As with the individual returns, changes in credit claimed were only tenuously tied to changes in employment of EZ residents. However, small changes in credit may indicate a relatively constant level of employment of EZ residents. In future years, the enhanced data used for this study will permit a more comprehensive examination of changes over time. However, the currently available data do permit an examination of the tentative credit earned but not used in the current and previous years ("accumulation") and the current-year subsidization of EZ employees. These results are presented in the next two sections.

Taxable Corporation Tentative EZE Credit

As noted above, the 1997 enhanced data collection procedures allow for the examination of a broader range of EZE credit-related tax items for taxable corporations than for individuals. In particular, the

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data contain information on the “tentative” credit earned by corporations, before the application of the various limitations noted earlier and in the Appendix. In addition to the 278 taxable corporations that claimed a credit against regular tax for 1997, an additional 126 taxable corporations earned and/or reported previously earned but not claimed “tentative” credits, even though no credit was claimed against regular tax for 1997 [24]. The accumulation of tentative amounts represent credits earned, but not used currently, because the companies had insufficient regular tax liability in 1997, and may provide some insight into the severity of the limitations imposed on credit usage. Also, the current-year tentative credit amounts analyzed provide insight into the number of employees subsidized.

Table 10 shows the details of tentative EZE credit earned and accumulated from prior years. In total, 404 taxable corporations had tentative credits totaling \$17.4 million. Of this amount, almost \$14.0 million (columns 5 plus 9) were earned in 1997, while \$3.3 million (columns 6 plus 10) were carried forward from previous years. Columns 3 through 6 show total current-year tentative credit, i.e., the total tentative credit for the 278 taxable corporations claiming an EZE credit, the tentative credit “earned” in 1997, and the tentative credit carried forward from previous years [25]. Columns 7 through 10 show the same information for the additional 126 taxable corporations that were unable to use any credit against regular tax in 1997.

Recall from Table 6 that 278 taxable corporations claimed \$8.6 million in EZ credit against regular tax for Tax Year 1997. Now turning to Table 10, note that the amount claimed equals 68.8 percent of the \$12.5 million in tentative credit earned by those corporations, leaving \$3.9 million unused and carried back or forward. Columns 7 through 10 of Table 10 show an additional \$4.9 million of tentative credit (\$3.5 million earned currently, plus \$1.4 million carried forward) accumulated by corporations that could not use any of the tentative credit against regular tax. Thus, the \$8.6 million claimed against regular tax are just under half of the total credit (i.e., total tentative EZE credit) accumulated [26].

Two separate restrictions on EZE credit usage reduced the amount of EZE credit claimed against regular tax. First, any credit amount exceeding the taxpayer’s net tax liability (in this case, the sum of

regular tax and AMT liabilities) was never used due to the normal tax liability limitations imposed on a “nonrefundable” credit, or was carried back to an earlier tax year or forward to a later tax year. Second, taxpayers had to determine the greater of 75.0 percent of tentative minimum tax, or 25.0 percent of regular tax liability over \$25,000, and then subtract that amount from their tax liability (regardless of the amount of AMT actually owed, if any). This additional limitation, in effect, further reduced the tax liability against which credit was claimed.

Table 11 shows the pattern of tentative credit unused for 1997 due to tax liability limitations, by size of total assets, for all 404 taxable corporations with tentative credit. This table includes the corporations with and without the ability to claim an EZE credit for 1997 against regular tax. It shows that, for almost all asset size classes, the normal tax liability limitations comprise the vast majority of the limitations placed on credit usage. Of the \$17.4 million in tentative credit accumulated, \$8.6 million were carried back or forward and appear in column 3. Of the \$8.6 million, \$7.1 million (82.6 percent) were unused due to normal tax liability limitations. Only 17.4 percent was unused due to the additional “general business credit” limitations described above. This pattern held for all asset size classes except the highest. Of the \$3.5 million in tentative credit accumulated by taxable corporations with assets over \$500 million, \$654,000 was carried back or forward; \$202,000 (30.9 percent) because of normal tax liability limitations; and \$452,000 (69.1 percent) due to the additional tax limitation.

Subsidization of Employees

The additional data available for taxable corporations claiming an EZE credit allowed for the estimation of the number of employees subsidized by these corporations in 1997. The reporting requirements for the credit did not include the number of employees subsidized. It was possible, however, to calculate a lower bound on the number of employees subsidized by assuming each was paid at least the maximum credit-eligible amount, \$15,000. At a credit rate of 20.0 percent, the dollars of current-year credit earned imply a particular level of qualified wages paid. The lower bound on the number of employees subsidized is then equal to the total dollars of wages paid divided by \$15,000 [27].

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Table 12 shows the total 1997 current-year tentative credit earned by the 404 taxable corporations with a tentative credit, distributed by business activity. The table shows that 53.9 percent of estimated subsidized employees (2,516) worked for corporations that engaged primarily in manufacturing. Given the requirement that workers performed substantially all their service in the empowerment zone, this result is not surprising. The services industry division subsidized the second-largest number of workers. Agriculture, forestry, and fishing and mining (combined), and construction, subsidized the fewest workers. Given the national levels of employment in agriculture, forestry, fishing and mining, and the site-specific nature of the construction industry, these results also are not surprising [28].

Conclusions

This article examines use of the “empowerment zone employment credit” for Tax Year 1997. For that year, 1,168 taxpayers who were individuals claimed \$10.9 million in credits against regular tax, while 278 taxable corporations claimed \$8.6 million. For both individuals and taxable corporations, the distributions of claimants tended towards the lower end of a given measure, while the distribution of dollars tended toward the upper end. For example, a large percentage of individual and taxable corporate claimants claimed relatively small amounts of EZE credit, while a small percentage of these taxpayers claimed relatively large amounts of EZE credit. This pattern held when claimants were distributed over the size of adjusted gross income, in the case of individuals, or total assets, in the case of taxable corporations.

When individual and corporation claimants for 1997 were matched with their 1996 records, the data show that about half of the 1997 claimants had also claimed a credit for 1996. For individuals, the repeating group claimed over 75.0 percent of the total 1997 credit claimed. For taxable corporations, the percentage of credit claimed was more proportionate to their share of the population. Among both types of repeat claimants, the amount claimed for 1997 was usually within \$3,000 of the amount claimed for 1996 (about 72.0 percent of individuals and 48.0 percent of taxable corporations). These results suggest relatively constant EZ resident employment for these repeat claimants over the 2 years.

Enhanced data collection efforts on taxable corporations enabled an examination of the amount of tentative credit accumulated, before the application of any limitations on use. Approximately half of the \$17.4 million in tentative credit accumulated by 1997 was unusable for that year, and presumably was carried forward. The Corporate SOI samples for 1998 and beyond will help determine the ultimate disposition of this credit. Finally, an analysis of the taxable corporate current-year tentative credit shows that the manufacturing division apparently subsidized the greatest number of workers.

The increase in both the number of claimants, as well as the amount of the EZE credit between 1996 and 1997, suggests that EZ businesses were still learning about the EZE credit and/or learning how to take advantage of the credit. This appears to have been the case both for sole proprietorships and flow-through businesses, such as partnerships, as well as taxable corporations.

Appendix: Calculation of the EZE Credit

As noted in the text, the EZE credit is part of the general business credit. However, because it can be used to offset alternative minimum tax (unlike the other components of the GBC), determination of the EZE requires a separate form and set of calculations. This appendix discusses these calculations [29]. The maximum EZE credit that can be claimed in a single tax year is equal to the taxpayer’s net income tax reduced by either 75.0 percent of tentative minimum tax or 25.0 percent of net regular tax exceeding \$25,000, whichever is greater.

To claim the EZE credit, a taxpayer first determines the level of qualified wages paid (the first \$15,000 of wages paid to each qualified employee). The tentative EZE credit is then 20.0 percent of such wages plus any similar amounts flowing through from other entities or being carried back or forward from other tax years.

The taxpayer must next determine the amount of tentative EZE credit that can actually be claimed for a given tax year (the taxpayer’s EZE credit). This amount of EZE credit claimed is limited by the amount of tax liability the taxpayer has incurred and by any other credits the taxpayer may be claiming. The taxpayer starts with regular tax, before any other credits have been claimed, and subtracts any non-

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EZE credits, including the GBC. This amount is the taxpayer's net regular tax and is added to the taxpayer's alternative minimum tax (which may be zero), giving net income tax.

The taxpayer must next determine the greater of two amounts: 25.0 percent of any net regular tax exceeding \$25,000, and 75.0 percent of tentative minimum tax. This second amount is required even if the taxpayer does not actually owe alternative minimum tax. The greater of these two amounts is subtracted from net income tax, and the net amount is the maximum amount of tax liability against which EZE credit may be claimed. Any excess tentative EZE over this maximum must be carried back or forward to other tax years.

The 75.0 percent of tentative minimum tax computation is of particular note. In computing available GBC, the taxpayer determines the greater of 25.0 percent of net regular tax exceeding \$25,000 or 100.0 percent of tentative minimum tax. In essence, the available non-EZE portion of the GBC may be reduced by all of a taxpayer's tentative minimum tax, while the EZE portion may be reduced by 75.0 percent of that taxpayer's tentative minimum tax.

An example may help clarify the distinction here. Consider a taxpayer with zero net regular income tax and \$1,000 in tentative minimum tax. This taxpayer's AMT would be \$1,000 (tentative minimum tax minus regular income tax). This taxpayer's maximum allowable GBC would be equal to regular income tax (zero) plus AMT (\$1,000) minus the greater of 25.0 percent of net regular tax exceeding \$25,000 (zero) or 100.0 percent of tentative minimum tax (\$1,000). Thus, the maximum allowable GBC is \$1,000 minus \$1,000, or zero. This taxpayer cannot use any GBC to offset AMT.

Now, contrast this with a similar taxpayer claiming the EZE credit. This taxpayer has zero net regular tax and \$1,000 in tentative minimum tax, giving a \$1,000 AMT liability. This taxpayer's maximum allowable EZE credit would be equal to regular income tax (zero) plus AMT (\$1,000) minus the greater of 25.0 percent of net regular tax exceeding \$25,000 (again zero) or 75.0 percent of tentative minimum tax (\$750). Thus, the maximum allowable EZE credit is \$1,000 minus \$750, or \$250. This taxpayer can use \$250 of EZE credit to offset AMT.

Notes and References

- [1] The regular income tax is the normal tax paid by taxable corporations and by individuals on income. In contrast, the "alternative minimum tax" (AMT) expands the definition of income to certain sources not included under the regular income tax, and disallows (partially or completely) certain tax credits and deductions. Thus, the AMT has a broader base for taxation. However, the AMT applies to fewer taxpayers. In general, a taxpayer determines the income tax owed under the two separate systems: "regular income tax liability" and "tentative minimum tax liability." The taxpayer's AMT liability is that amount of tentative minimum tax liability that exceeds regular income tax liability. Thus, a taxpayer can have regular income tax liability, AMT liability, or both. In the case of corporations, AMT paid can be considered an "advance payment" of regular corporate income tax liability since the tax paid on income subject only to the AMT can be credited against regular tax liability if and when that income becomes subject to the regular income tax. Due to certain data limitations discussed below and this "advance payment" characteristic of the corporate AMT, only the amount of credit that is claimed against regular tax is covered in this article.
- [2] See Brashares, Edith, "Empowerment Zone Tax Incentive Use: What the 1996 Data Indicate," *SOI Bulletin*, Summer 2000, Volume 20, Number 1, pp. 236-252 for 1996 results.
- [3] Taxable corporations are defined as corporations that are taxable under Subchapter C of the Internal Revenue Code and file income tax Form 1120. For taxable corporations, "1996" refers to those corporations with accounting periods that end between July 1996 and June 1997, while "1997" refers to those corporations with accounting periods that end between July 1997 and June 1998. While many corporations have calendar-year accounting periods, some do not. For all other business forms, including corporations taxed under Subchapter S (S corporations), partnerships, and sole

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proprietorships, income and tax liability flow back to the individual shareholders, partners, or sole proprietors. Their business incomes are taxed at the individual level, and such taxpayers file income tax Form 1040 and related schedules. For these taxpayers, "1996" and "1997" refer to the January to December 1996 and 1997 accounting periods, respectively.

- [4] See Brashares (2000).
- [5] As discussed later, comparable estimates of tentative credit earned and of the number of subsidized workers employed by businesses that are not taxable corporations were not possible, given the more limited data available from individual income tax returns.
- [6] Nominated areas in cities with less than 500,000 people were permitted to have populations of 50,000, thus exceeding 10.0 percent of the city population.
- [7] As originally legislated, the 10-year program, including the tax incentives, would have expired at the end of 2004. However, since 1993, two acts extended and enhanced the program. Together, the Tax Relief Act of 1997 and the Community Renewal Tax Act of 2000 provided for the designation of 31 additional empowerment zones (for a total of 40), standardized the tax incentives across all zones (but not enterprise communities), created two new tax incentives, authorized the designation of 40 renewal communities (which receive a different set of tax incentives), extended zone-like incentives to areas of Washington, DC, and extended the entire program, including the original nine empowerment zones, to December 31, 2009. This article discusses only the nine original empowerment zones that met the criteria in the Omnibus Budget Reconciliation Act of 1993 (OBRA 93).
- [8] The U.S. General Accounting Office in *Businesses' Use of Empowerment Zone Tax Incentives* (RCED-99-253, 1999), reports that Federal grants totaled \$100 million for each urban EZ and \$40 million for each rural EZ.
- [9] Wages eligible for the credit included certain training and education expenses paid by the employer. As with other wage tax credits,

employers must reduce their business deductions by the amount of credit claimed. Eligible employees do not include relatives of the owner, 5.0-percent-or-more owners of the business, and employees who worked for less than 90 days. An eligible employee must live and perform substantially all of his or her services for the employer in the EZ. Certain businesses were not eligible, such as gambling establishments, liquor stores, and massage parlors, and farms with assets greater than \$500,000.

- [10] The Community Renewal Tax Relief Act of 2000 raised the additional expensing limitation to \$35,000 for tax years beginning after December 31, 2001.
- [11] These so-called "EZ bonds" are sold at a higher price than comparable instruments because interest paid on such obligations is not subject to Federal income taxation. The result is a lower effective interest rate for the borrower and, hence, reduced financing costs for the lender. EC businesses are also eligible for this tax-exempt financing, again subject to the State volume cap.
- [12] Employers used a calendar-year or pay-period-by-pay-period approach for all potentially eligible employees to determine if substantially all services had been provided in the EZ. The pay-period option made some businesses that provide services eligible for the EZE credit. See IRS Final Rules (TD 87 47) on empowerment zone employment credits, December 29, 1997, for details.
- [13] Section 179 permits a taxpayer to expense up to \$18,000 of certain otherwise depreciable property put in place during Tax Year 1997. However, the amount expensed must be reduced by the amount by which the cost of the property exceeds \$200,000. Section 1397A grants qualified taxpayers in Empowerment Zones an additional \$20,000 in expensing and effectively raises the reduction threshold to \$400,000.
- [14] The tentative EZE credit included any EZE credit earned in other tax years but unclaimed due to insufficient tax liability.

Use of the Federal Empowerment Zone Employment Credit for Tax Year 1997

- [15] For sole proprietorships, S corporations, partnerships, estates, trusts, and cooperatives, the limitations on the credit claimed apply at the “owner” level (i.e., by the owner, shareholder, partner, beneficiary, member, or patron). For taxable corporations, the limitations are imposed at the entity level.
- [16] Starting with 1998, credits were carried back only 1 year, then forward 20 years.
- [17] The SOI is a division within the U.S. Department of Treasury’s Internal Revenue Service.
- [18] The Individual and Business Master Files are compiled annually by the IRS for administrative purposes. For a given year, they contain selected tax return information for that year for the full population of taxpayers in the United States. Beginning with the files for Tax Year 1994, the IRS expanded the files by one, and only one field. Given the “advance payment” characteristics of the corporate AMT, the EZE credit claimed against regular tax, and not the combined regular tax and AMT, was added.
- [19] See Brashares (2000) for more details on the 1996 data.
- [20] See Brashares (2000).
- [21] Social Security numbers (SSN’s) were used to match claimants across years. Any inconsistency in SSN’s between the 2 years resulted in the taxpayer’s omission from the repeat claimant group.
- [22] If the corporation determines the amount of credit allowed in the current year, given its regular tax and AMT liabilities, was zero, then it could choose not to file the EZE credit Form 8844. Unless the company had claimed the credit in a prior year, it may not appear in the dataset until the year the credit carried forward was used. However, it does seem many corporations attach the form when any tentative credit was earned, in order to have a record of this amount for use in future years.
- [23] Employer Identification numbers (EIN’s) were used to match claimants across years. Any inconsistency in EIN’s between the 2 years resulted in the taxpayer’s omission from the repeat claimant group.
- [24] Some of these corporations may have no regular tax liability and thus have no credit claimed against that liability, but still can claim the credit against an AMT liability. However, the EZ credit limitations described in detail in the Appendix make it unlikely that a taxpayer claiming the EZ credit would have an AMT liability and zero regular tax liability. It is also possible that a taxable corporation could accumulate EZE credits and yet not file Form 8844 because it cannot use the credit for the tax year. These taxpayers were excluded from the dataset. See footnote 18.
- [25] EZE credits may also carry back to prior years, but these amounts were negligible.
- [26] Recall that the data collection procedures may not permit a full examination of the amount of credit claimed against AMT since taxable corporations with credit claimed only against that tax were omitted from the sample. However, the data did contain the amount of credit claimed against AMT among those taxable corporations with credit claimed against regular tax. This amount was \$126,000 and is important to keep in mind for the discussion of Tables 10 and 11.
- [27] These calculations are based on 1997 eligible wages, whether or not the credit was taken for 1997. Therefore, the effective subsidy rate varies since credits carried forward are not adjusted for the time value of money.
- [28] In 1995, the employment distribution over industries was (in millions of people): 0.6 in mining; 5.2 in construction; 18.5 in manufacturing; 6.2 in transportation and public utilities; 6.4 in wholesale trade; 21.2 in retail trade; 6.8 in finance, insurance, and real estate; and 33.1 in services. See U.S Department of Labor, Bureau of Labor Statistics, *Employment, Hours and Earnings, United States 1988-1996*, August 1996, for more details.
- [29] These calculations apply to Tax Year 1997. The sequence of calculations has been changed for later years, but the result is generally the same.

Use of the Federal Empowerment Zone Employment Credit for Tax Year 1997

Table 1.--Individual Income Tax Returns with Empowerment Zone Employment (EZE) Credit Against Regular Income Tax: Number of Returns and EZE Credit Claimed, by Size of EZE Credit Claimed

[Money amounts are in whole dollars]

Size of EZE credit claimed	Total returns with EZE credit for Tax Year 1997				Returns with EZE credit for both Tax Years 1996 and 1997			
	Number of returns with EZE credit		EZE credit claimed		Number of returns with EZE credit		EZE credit claimed for 1997	
	Number	Percentage of total	Amount	Percentage of total	Number	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All returns with an EZE credit, total.....	1,168	100.0	10,852,132	100.0	636	100.0	8,440,152	100.0
\$1,000 or less.....	299	25.6	118,115	1.1	118	18.6	51,768	0.6
\$1,001 to \$2,000.....	155	13.3	223,617	2.1	72	11.3	105,746	1.3
\$2,001 to \$3,000.....	151	12.9	382,333	3.5	75	11.8	190,121	2.3
\$3,001 to \$4,000.....	97	8.3	337,666	3.1	44	6.9	152,421	1.8
\$4,001 to \$5,000.....	77	6.6	344,703	3.2	50	7.9	221,817	2.6
\$5,001 to \$10,000.....	196	16.8	1,340,630	12.4	131	20.6	893,880	10.6
\$10,001 to \$15,000.....	66	5.7	800,898	7.4	47	7.4	580,507	6.9
\$15,001 to \$20,000.....	23	2.0	401,456	3.7	16	2.5	277,114	3.3
\$20,001 to \$25,000.....	30	2.6	669,936	6.2	26	4.1	583,182	6.9
\$25,001 to \$30,000.....	15	1.3	411,124	3.8	9	1.4	246,124	2.9
\$30,001 to \$35,000.....	7	0.6	231,766	2.1	7	1.1	231,766	2.8
\$35,001 to \$40,000.....	8	0.7	292,971	2.7	4	0.6	145,616	1.7
\$40,001 to \$50,000.....	11	0.9	472,577	4.4	8	1.3	340,155	4.0
\$50,001 to \$75,000.....	9	0.8	543,732	5.0	6	0.9	357,875	4.2
\$75,001 to \$100,000.....	7	0.6	610,882	5.6	7	1.1	610,882	7.2
\$100,001 or more.....	17	1.5	3,669,728	33.8	16	2.5	3,451,178	40.9

Table 2.--Individual Income Tax Returns with Empowerment Zone Employment (EZE) Credit Against Regular Income Tax: Number of Returns and EZE Credit Claimed, by Size of Adjusted Gross Income (AGI)

[Money amounts are in whole dollars]

Size of adjusted gross income	Total returns with EZE credit for Tax Year 1997				Returns with EZE credit for both Tax Years 1996 and 1997			
	Number of returns with EZE credit		EZE credit claimed		Number of returns with EZE credit		EZE credit claimed for 1997	
	Number	Percentage of total	Amount	Percentage of total	Number	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All returns with an EZE credit, total.....	1,168	100.0	10,852,132	100.0	636	100.0	8,440,152	100.0
\$15,000 or less.....	23	2.0	7,424	0.1	10	1.6	2,404	(¹)
\$15,001 to \$20,000.....	25	2.1	18,037	0.2	13	2.0	10,608	0.1
\$20,001 to \$25,000.....	25	2.1	19,736	0.2	11	1.7	12,013	0.1
\$25,001 to \$30,000.....	30	2.6	51,430	0.5	16	2.5	31,682	0.4
\$30,001 to \$35,000.....	21	1.8	43,576	0.4	6	0.9	12,693	0.2
\$35,001 to \$40,000.....	15	1.3	22,808	0.2	8	1.3	13,614	0.2
\$40,001 to \$45,000.....	23	2.0	70,047	0.7	13	2.0	40,423	0.5
\$45,001 to \$50,000.....	29	2.5	68,586	0.6	11	1.7	24,430	0.3
\$50,001 to \$75,000.....	143	12.2	352,094	3.2	68	10.7	213,600	2.5
\$75,001 to \$100,000.....	95	8.1	283,873	2.6	49	7.7	180,034	2.1
\$100,001 to \$200,000.....	224	19.2	805,242	7.4	114	17.9	472,518	5.6
\$200,001 to \$500,000.....	255	21.8	2,077,969	19.2	161	25.3	1,634,492	19.4
\$500,001 to \$1,000,000.....	128	11.0	1,767,261	16.3	73	11.5	1,293,225	15.3
\$1,000,001 to \$5,000,000.....	106	9.1	3,727,626	34.4	67	10.5	3,066,137	36.3
\$5,000,001 to \$10,000,000.....	17	1.5	1,265,666	11.7	12	1.9	1,187,982	14.1
\$10,000,001 or more.....	9	0.8	270,758	2.5	4	0.6	244,297	2.9

¹ Less than 0.05 percent.

Use of the Federal Empowerment Zone Employment Credit for Tax Year 1997

Table 3.--Individual Income Tax Returns with Empowerment Zone Employment (EZE) Credit Against Regular Income Tax: Number of Returns and EZE Credit Claimed, by Type of Business Schedules Filed

[Money amounts are in whole dollars]

Type of business schedules filed	Total returns with EZE credit for Tax Year 1997		EZE credit claimed for Tax Year 1997	
	Number	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)
All returns with an EZE credit, total.....	1,168	100.0	10,852,132	100.0
Schedule C.....	63	5.4	174,467	1.6
Schedule E.....	703	60.2	7,937,929	73.2
Schedule F.....	6	0.5	11,730	0.1
Schedules C and E.....	268	23.0	2,152,800	19.8
Schedules C and F.....	14	1.2	48,074	0.4
Schedules E and F.....	44	3.8	281,013	2.6
Schedules C, E, and F.....	44	3.8	216,541	2.0
No schedule filed.....	26	2.2	29,579	0.3

Table 4.--Individual Income Tax Returns with Empowerment Zone Employment (EZE) Credit Against Regular Income Tax for Both Tax Years 1996 and 1997: Number of Returns, by Size of Change in EZE Credit

Size of change in EZE credit from 1996 to 1997	Number of returns	Percentage of total
All returns with an EZE credit, total.	636	100.0
Decrease of \$30,001 or more.....	7	1.1
Decrease of \$15,001 to \$30,000.....	16	2.5
Decrease of \$6,001 to \$15,000.....	29	4.6
Decrease of \$3,001 to \$6,000.....	41	6.4
Zero to decrease of \$3,000.....	207	32.5
Increase of \$1 to \$3,000.....	252	39.6
Increase of \$3,001 to \$6,000.....	32	5.0
Increase of \$6,001 to \$15,000.....	32	5.0
Increase of \$15,001 to \$30,000.....	13	2.0
Increase of \$30,001 or more.....	7	1.1

Table 5.--Individual Income Tax Returns with Empowerment Zone Employment (EZE) Credit Against Regular Income Tax for Both Tax Years 1996 and 1997: Number of Returns, by Size of Change in Adjusted Gross Income (AGI)

Size of change in adjusted gross income from 1996 to 1997	Number of returns	Percentage of total
All returns with an EZE credit, total..	636	100.0
Decrease of \$100,001 or more.....	58	9.1
Decrease of \$50,001 to \$100,000.....	27	4.2
Decrease of \$25,001 to \$50,000.....	40	6.3
Decrease of \$10,001 to \$25,000.....	38	6.0
Decrease of \$5,001 to \$10,000.....	26	4.1
Zero to decrease of \$5,000.....	37	5.8
Increase of \$1 to \$5,000.....	43	6.8
Increase of \$5,001 to \$10,000.....	28	4.4
Increase of \$10,001 to \$25,000.....	65	10.2
Increase of \$25,001 to \$50,000.....	65	10.2
Increase of \$50,001 to \$100,000.....	59	9.3
Increase of \$100,001 or more.....	150	23.6

Use of the Federal Empowerment Zone Employment Credit for Tax Year 1997

Table 6.--Taxable Corporation Income Tax Returns with Empowerment Zone Employment (EZE) Credit Against Regular Income Tax: Number of Returns and EZE Credit Claimed, by Size of EZE Credit Claimed ¹

[Money amounts are in whole dollars]

Size of EZE credit claimed	Total returns with EZE credit for Tax Year 1997				Returns with EZE credit for both Tax Years 1996 and 1997			
	Number of returns with EZE credit		EZE credit claimed		Number of returns with EZE credit		EZE credit claimed for 1997	
	Number	Percentage of total	Amount	Percentage of total	Number	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All returns with an EZE credit, total.....	278	100.0	8,613,977	100.0	124	100.0	3,741,756	100.0
\$3,000 or less.....	61	21.9	89,749	1.0	24	19.4	37,275	1.0
\$3,001 to \$6,000.....	63	22.7	299,845	3.5	30	24.2	139,500	3.7
\$6,001 to \$9,000.....	27	9.7	196,311	2.3	12	9.7	87,736	2.3
\$9,001 to \$12,000.....	20	7.2	215,948	2.5	12	9.7	130,021	3.5
\$12,001 to \$15,000.....	15	5.4	203,686	2.4	9	7.3	120,795	3.2
\$15,001 to \$30,000.....	35	12.6	756,473	8.8	16	12.9	353,795	9.5
\$30,001 to \$60,000.....	23	8.3	959,536	11.1	8	6.5	320,891	8.6
\$60,001 to \$90,000.....	15	5.4	1,182,291	13.7	6	4.8	470,899	12.6
\$90,001 or more.....	19	6.8	4,710,138	54.7	7	5.6	2,080,844	55.6

¹ Excludes S corporations electing to be taxed through shareholders.

Table 7.--Taxable Corporation Income Tax Returns with Empowerment Zone Employment (EZE) Credit Against Regular Income Tax: Number of Returns and EZE Credit Claimed, by Size of Total Assets ¹

[Money amounts are in whole dollars]

Size of total assets	Total returns with EZE credit for Tax Year 1997				Returns with EZE credit for both Tax Years 1996 and 1997			
	Number of returns with EZE credit		EZE credit claimed		Number of returns with EZE credit		EZE credit claimed for 1997	
	Number	Percentage of total	Amount	Percentage of total	Number	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All returns with an EZE credit, total.....	278	100.0	8,613,977	100.0	124	100.0	3,741,756	100.0
\$100,000 or less.....	24	8.6	76,013	0.9	10	8.1	38,416	1.0
\$100,001 to \$200,000.....	21	7.6	77,201	0.9	9	7.3	54,703	1.5
\$200,001 to \$500,000.....	33	11.9	186,097	2.2	16	12.9	85,921	2.3
\$500,001 to \$1,000,000.....	33	11.9	228,685	2.7	20	16.1	143,229	3.8
\$1,000,001 to \$3,000,000.....	54	19.4	788,476	9.2	31	25.0	439,120	11.7
\$3,000,001 to \$5,000,000.....	13	4.7	267,313	3.1	4	3.2	123,405	3.3
\$5,000,001 to \$10,000,000.....	13	4.7	332,192	3.9	3	2.4	118,664	3.2
\$10,000,001 to \$30,000,000.....	19	6.8	920,414	10.7	6	4.8	228,707	6.1
\$30,000,001 to \$100,000,000.....	18	6.5	1,264,691	14.7	7	5.6	701,253	18.7
\$100,000,001 to \$500,000,000.....	22	7.9	1,607,459	18.7	7	5.7	1,203,607	32.2
\$500,000,001 or more.....	28	10.1	2,865,436	33.3	11	8.9	604,731	16.2

¹ Excludes S corporations electing to be taxed through shareholders.

Use of the Federal Empowerment Zone Employment Credit for Tax Year 1997

Table 8.--Taxable Corporation Income Tax Returns with Empowerment Zone Employment (EZE) Credit Against Regular Income Tax: Number of Returns and EZE Credit Claimed, by Selected Industrial Sector¹

[Money amounts are in whole dollars]

Selected industrial sector	Total returns with EZE credit for Tax Year 1997		EZE credit claimed for Tax Year 1997	
	Number of returns	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)
All returns with an EZE credit, total.....	278	100.0	8,613,977	100.0
Agriculture, forestry, fishing, and mining.....	16	5.8	39,224	0.5
Construction.....	12	4.3	142,138	1.7
Manufacturing.....	85	30.6	5,242,173	60.9
Transportation and public utilities.....	19	6.8	304,043	3.5
Wholesale trade.....	40	14.4	877,613	10.2
Retail trade.....	50	18.0	956,833	11.1
Finance, insurance, and real estate.....	22	7.9	402,265	4.7
Services.....	34	12.2	649,688	7.5

¹ Excludes S corporations electing to be taxed through shareholders.

Table 9.--Taxable Corporation Income Tax Returns with Empowerment Zone Employment (EZE) Credit Against Regular Income Tax for Both Tax Years 1996 and 1997: Number of Returns by Size of Change in EZE Credit ¹

Size of change in EZE credit from 1996 to 1997	Number of returns	Percentage of total
All returns with an EZE credit, total.....	124	100.0
Decrease of \$30,001 or more.....	5	4.0
Decrease of \$15,001 to \$30,000.....	7	5.6
Decrease of \$6,001 to \$15,000.....	14	11.3
Decrease of \$3,001 to \$6,000.....	7	5.6
Zero to decrease of \$3,000.....	26	21.0
Increase of \$1 to \$3,000.....	33	26.6
Increase of \$3,001 to \$6,000.....	14	11.3
Increase of \$6,001 to \$15,000.....	8	6.5
Increase of \$15,001 to \$30,000.....	6	4.8
Increase of \$30,001 or more.....	4	3.2

¹ Excludes S corporations electing to be taxed through shareholders.

Use of the Federal Empowerment Zone Employment Credit for Tax Year 1997

Table 10.--Taxable Corporation Income Tax Returns with Empowerment Zone Employment (EZE) Credit Against Regular Income Tax: Number of Returns and Tentative EZE Credit, by Size of Tentative EZE Credit ¹

[Money amounts are in whole dollars]

Size of tentative EZE credit	Total returns with tentative EZE credit for Tax Year 1997		Returns with EZE credit against regular income tax for Tax Year 1997			
	Number of returns	Amount	Number of returns	Tentative EZE credit	Total current year EZE credit	EZE credit carryforward
	(1)	(2)	(3)	(4)	(5)	(6)
All returns with a tentative EZE credit, total.....	404	17,364,439	278	12,469,934	10,462,615	1,953,422
\$3,000 or less.....	53	91,866	34	59,808	56,982	2,962
\$3,001 to \$6,000.....	37	189,932	31	159,555	144,381	15,174
\$6,001 to \$9,000.....	42	329,132	29	225,493	171,208	54,285
\$9,001 to \$12,000.....	36	380,306	20	212,990	192,724	20,266
\$12,001 to \$15,000.....	17	224,832	12	158,798	155,147	3,651
\$15,001 to \$30,000.....	81	1,737,373	59	1,263,815	930,352	333,463
\$30,001 to \$60,000.....	62	2,547,604	41	1,679,834	1,279,248	400,586
\$60,001 to \$90,000.....	37	2,805,676	27	2,069,382	1,539,206	476,142
\$90,001 or more.....	39	9,057,720	25	6,640,260	5,993,367	646,893

Size of tentative EZE credit	Returns without EZE credit against regular income tax for Tax Year 1997			
	Number of returns	Tentative EZE credit	Total current year EZE credit	EZE credit carryforward
	(7)	(8)	(9)	(10)
All returns with a tentative EZE credit, total.....	126	4,894,505	3,533,748	1,357,637
\$3,000 or less.....	19	32,058	26,120	5,938
\$3,001 to \$6,000.....	6	30,377	24,257	3,000
\$6,001 to \$9,000.....	13	103,639	79,662	23,977
\$9,001 to \$12,000.....	16	167,316	97,768	69,548
\$12,001 to \$15,000.....	5	66,034	57,194	8,840
\$15,001 to \$30,000.....	22	473,558	399,604	73,954
\$30,001 to \$60,000.....	21	867,770	659,064	208,706
\$60,001 to \$90,000.....	10	736,294	478,257	258,037
\$90,001 or more.....	14	2,417,460	1,711,823	705,637

¹ Excludes S corporations electing to be taxed through shareholders.

NOTE: Columns (4) and (8) include \$50,000 and \$3,000 in carry back EZE credit, respectively.

Use of the Federal Empowerment Zone Employment Credit for Tax Year 1997

Table 11.--Taxable Corporation Income Tax Returns with Tentative Empowerment Zone Employment (EZE) Credit: Number of Returns and Tentative EZE Credit Restricted by Type of Tax Limitations, by Size of Total Assets ¹

[Money amounts are in whole dollars]

Size of total assets	Total returns with tentative EZE credit for Tax Year 1997		EZE credit restricted by income tax limitations				
	Number of returns	Amount	Total	EZE credit restricted by regular tax liability limitations		EZE credit restricted by additional income tax limitations	
				Amount	Percentage of total	Amount	Percentage of total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All returns with a tentative EZE credit, total.....	404	17,364,440	8,623,980	7,124,788	82.6	1,499,192	17.4
\$100,000 or less.....	42	562,419	382,063	380,779	99.7	1,284	0.3
\$100,001 to \$200,000.....	31	425,772	345,457	335,023	97.0	10,434	3.0
\$200,001 to \$500,000.....	47	963,475	780,951	728,917	93.3	52,034	6.7
\$500,001 to \$1,000,000.....	43	1,078,566	844,074	752,473	89.1	91,601	10.9
\$1,000,001 to \$3,000,000.....	74	2,464,038	1,670,892	1,343,658	80.4	327,234	19.6
\$3,000,001 to \$5,000,000.....	20	702,774	440,510	302,750	68.7	137,760	31.3
\$5,000,001 to \$10,000,001.....	23	563,707	231,514	215,649	93.1	15,865	6.9
\$10,000,001 to \$30,000,000.....	31	1,441,734	517,631	446,736	86.3	70,895	13.7
\$30,000,001 to \$100,000,000.....	29	3,146,391	1,881,700	1,571,338	83.5	310,362	16.5
\$100,000,001 to \$500,000,000.....	31	2,495,949	875,007	845,232	96.6	29,775	3.4
\$500,000,001 or more.....	33	3,519,616	654,180	202,234	30.9	451,946	69.1

¹ Excludes S corporations electing to be taxed through shareholders.

Table 12.--Taxable Corporation Income Tax Returns with Tentative Empowerment Zone Employment (EZE) Credit Earned for Tax Year 1997: Number of Returns and Estimated Qualified Wages Paid and Employees Subsidized, by Selected Industrial Sector¹

[Money amounts are in whole dollars]

Selected industrial sector	Total tentative EZE credit earned			Estimated qualified wages	Lower bound on employees subsidized
	Number of returns	Amount	Percentage of total		
	(1)	(2)	(3)	(4)	(5)
All returns with a tentative EZE credit, total.....	404	13,996,363	100.0	69,981,815	4,665
Agriculture, forestry, fishing, and mining.....	21	138,965	1.0	694,825	46
Construction.....	17	233,254	1.7	1,166,270	78
Manufacturing.....	128	7,549,076	53.9	37,745,380	2,516
Transportation and public utilities.....	25	586,404	4.2	2,932,020	195
Wholesale trade.....	54	1,263,441	9.0	6,317,205	421
Retail trade.....	70	1,108,634	7.9	5,543,170	370
Finance, insurance, and real estate.....	32	689,908	4.9	3,449,540	230
Services.....	57	2,426,682	17.3	12,133,410	809

¹ Excludes S corporations electing to be taxed through shareholders.