

***SOUTHEAST COLORADO
ENHANCED RURAL ENTERPRISE ZONE
TAX INCENTIVES***

An Enterprise Zone is a state designation for a selected area in need of economic growth and diversification. It provides various state tax credits to encourage the private sector to invest resources to create or maintain jobs within the zone area. All of Baca, Bent, Crowley, Kiowa and Prowers counties are located within Southeast Colorado Enterprise Zone.

The Southeast Colorado Enterprise Zone was created in 1986 because of the need of economic growth and diversification. Southeast Colorado was designated an Enterprise Zone on September 15, 1986, after a very extensive and competitive process.

Enterprise Zone tax credits include:

- 3% investment tax credit – to any business within the Zone boundaries.
- \$500 job tax credit, per new employee, and an additional \$500 per employee for employees of a manufacturing or processing business which adds value to an agricultural commodity.
- Health insurance credit of \$200 per number of new employee for employers who pay 50% or more for their health plan.
- 3% research and development credit.
- 25% rehabilitation credit for buildings more than 20 years old that have been vacant for 2 years or over.
- 25% credit for private contributions to eligible Enterprise Zone projects.
- Exemption from state sales and use tax for manufacturing and aircraft equipment. Purchases of manufacturing machinery, machine tools, and parts therefore are exempt from the 3% state sales and use tax statewide.
- 25% credit for contributions to promote child care facilities in an Enterprise Zone.

THREE PERCENT INVESTMENT TAX CREDIT

Businesses making investments in equipment used exclusively in an enterprise zone, which have qualified for the pre-1986 federal investment tax credit, may claim a credit against their Colorado income taxes equal to 3 percent of the amount of the investment, subject to limitations on the amount which can be claimed in any one year.

\$500 JOB TAX CREDIT

Businesses hiring new employees in connection with a “new business facility” located in an enterprise zone may claim a tax credit against state income taxes of \$500 for each such employee. An expansion of an existing facility may be considered a “new business facility” if the expansion adds at least 10 employees over the previous annual average, if it is at least \$1 million in investment, or, if less, at least doubles the original investment in the facility. The credit may be taken in subsequent years of the enterprise zone for each additional employee above the maximum employment in any prior tax year.

DOUBLE JOB TAX CREDIT FOR AGRICULTURAL PROCESSING

An additional credit of \$500 per new business facility employee may be claimed by businesses which add value to agricultural commodities through manufacturing or processing.

\$200 JOB TAX CREDIT FOR EMPLOYER HEALTH INSURANCE

In order to encourage employer sponsored health insurance plans, a taxpayer with a qualifying new business facility is allowed a two year \$200 tax credit for each new business facility employee who is insured under a qualifying employer-sponsored health insurance program.

R&D TAX CREDIT

Taxpayers who make private expenditures on research and experimental activities (as defined in federal tax law) conducted in an enterprise zone qualify for an income tax credit. This credit equals three percent (3%) of the amount of the increase in the taxpayer's R&D expenditures within the zone for the current tax year above the average of R&D expenditures within the zone area in the previous two years. No more than one fourth of the allowable credit may be taken in any one tax year.

CREDIT TO REHABILITATE VACANT BUILDINGS

Owners or tenants of commercial buildings in an enterprise zone which are at least 20 years old and which have been vacant for at least 2 years may claim a credit of 25 percent of the cost of rehabilitating each building. The credit is limited to \$50,000.

CREDIT FOR CONTRIBUTIONS TO ZONES

A taxpayer who makes a contribution to a local zone administrator for enterprise zone development projects and for promoting child care in zones may claim a tax credit. The amount of the credit is 50 percent if the contributor submitted a pledge form to SECED prior to July 1, 1998 and 25% of the value of the contribution for all other pre-approved projects, up to \$100,000.

Southeast Colorado Enterprise Zone. recognizes non-cash donations, as well. Gifts of property, stocks or other in-kind donations may qualify for state tax credits, but non-cash contributions are limited to a 12.5% credit.

EXEMPTION FROM STATE SALES AND USE TAX FOR MANUFACTURING, MINING, AND AIRCRAFT EQUIPMENT

Purchase orders and/or invoices of \$500.00 of machinery, machine tools and machine parts after 01/01/88 for the manufacturing of tangible personal property for resale are exempt from sales tax. The sales tax exemption purchases of machinery and machine tools do not apply to Regional Transportation District Tax (RTD) or most local and county sales taxes. Please contact local jurisdictions.

Manufacturing means the operation of producing a new product, article, substance, or commodity different from and having a distinctive name, character, or use from raw or prepared materials.

In order to qualify for the exemption, the machinery, machine tools and machine parts must be of a nature that they meet the definition for Section 38 property as found in the Internal Revenue Code of 1954. This property must be capitalized.

If the property purchased is used for any purpose outside the beginning and ending points of manufacturing, it will not qualify for the exemption.

An exemption may not be claimed for sales tax paid in another state which is credited against Colorado Sales and Use Tax.

To receive the exemption, a DR 1191 must be filed by the purchaser with the seller of the machinery or machine tools and machine parts, and with the Executive Director of the Department of Revenue. A copy must also be kept by the purchaser.

Instructions for Business Located in an Enterprise Zone

The information listed above also pertains to businesses located in an Enterprise Zone.

However, the machine and machine tools purchased:

Must be used solely and exclusively in the Enterprise Zone.

May be capitalized or expensed on or after 06/07/89.

May include materials for machinery or machine tools construction on or after 06/07/89.

Purchases of manufacturing machinery, machine tools, and parts therefore are exempt from the 3 percent state sales and use tax statewide. In addition, when used solely within an enterprise zone this exemption may be claimed for purchases of: mining equipment; machinery and equipment used for the maintenance and repair of commercial aircraft; materials used to make eligible machinery. Eligible purchases used in an enterprise zone are exempt whether the purchases are capitalized or expensed for accounting purposes.

LOCAL GOVERNMENT TAX INCENTIVES

Any city or county within an enterprise zone is authorized to negotiate with individual taxpayers who have qualifying new business facilities: (a) an incentive payment equal to not more than the amount of the increase in property tax liability over pre-enterprise zone levels; and (b) a refund of local sales taxes on purchases of equipment, machinery, machine tools, or supplies used in the taxpayer's business in the enterprise zone. In most instances these incentives are negotiated directly with the local government.

CERTIFICATION PROCEDURE

The Southeast Colorado Enterprise Zone Administrator is required to verify that a business is located within the zone. If the only credit being claimed is the investment tax credit and it is less than \$450 a certificate is not required. Do NOT send the form to the Department of Revenue independently of your tax return; it must be attached to your return like any other supporting schedule.

Applying for the credit is a simple and quick process. The steps are as follows:

1. Fully complete, sign and date the "Enterprise Zone Certification of Qualified Business" form (DR 74). Separate forms should be obtained for the contribution tax credit (DR 75), rehabilitation of an old building credit, and the state sales tax exemption.
2. Mail form, enclosing a stamped, self-addressed return envelope. Send to: Dan Tate, Enterprise Zone Administrator
3. The zone administrator will sign, date and return the form immediately.
4. You need to attach a copy of this fully executed form to your Colorado income tax return when you file. It is important documentary evidence required by the state to substantiate your claim to credits taken. Do NOT send the form to the Department of Revenue independently of your return; it must be attached to your return like any other supporting schedule.

Important note to filers to "S" Corporations and Partnerships:

Please provide to all appropriate partners and shareholders a copy of the form along with a calculation of their proportionate share of any credits claimed. They are entitled to claim their share of these credits and must have substantiation to do so.

INSTRUCTIONS TO BUSINESS OWNERS AND TAX ADVISORS

Should you have specific questions regarding the Colorado Enterprise Zone tax law, code regulations, their application and interpretation, especially as it relates to your business circumstances, please call: Colorado Department of Revenue Taxpayer Services Division (303) 534-1208.

WANT ADDITIONAL INFORMATION?

For more detailed information about Southeast Colorado Enterprise Zone, about the Community Contribution Tax Credit for designated enterprise zone projects, or about any other available enterprise zone tax credits, contact:

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