Use of the Empowerment Zone and Renewal Community Employment Credit, Tax Years 1998–2010

by Craig E. Johnson

Empowerment zones and renewal communities are leading examples of a set of temporary tax incentives enacted during the past 20 years to encourage economic development in particular geographic regions.[1] This paper examines in detail the use of one of the incentives offered to these areas, the empowerment zone and renewal community (EZ/RC) employment credit, for Tax Years 1998 through 2010.[2] The amount of allowable EZ/RC employment credit claimed on individual and corporate tax returns increased from $41.7 million in 1998, to a high of $277.1 million in 2005, and then declined to $172.9 million in 2010. This pattern of increase and subsequent decrease in the amount of credit claimed annually corresponds to the number of designated zones and communities for these years (Figure A). Summing over Tax Years 1998 through 2010, the $1.0 billion of the EZ/RC employment credit claimed on individual returns almost matched the $1.2 billion of credit claimed on corporate returns.

Evaluating whether empowerment zones and renewal communities are effective at supporting additional economic activity in the targeted regions is beyond the scope of this article. However, having an accurate measure of the use of the EZ/RC employment credit provides a crucial component in evaluating the overall cost effectiveness of these initiatives. This is important as policy makers decide whether to extend these provisions for additional years or enact similar provisions, such as the proposal for Promise Zones in the Administration's Fiscal Year 2014 Budget. The Promise Zone proposal includes an employment credit similar in design to the EZ/RC employment credit.

The first section of this article briefly describes the history of empowerment zones and renewal communities, followed by a description of the EZ/RC employment credit. The next section examines in detail the use of the credit by corporate taxpayers, including a breakdown by major industry and asset size, which is followed by a similar analysis for the credit claimed on individual returns. The next to last section provides an analysis of the impact of statutory and alternative tax liability limitations on amount of allowable credit for both corporate and individual returns, while the last section summarizes the results.

Craig E. Johnson is an economist with the Office of Tax Analysis, U.S. Department of the Treasury. The views expressed are those of the author and do not necessarily represent those of the Treasury Department.

Description of Empowerment Zones and Renewal Communities

Empowerment zones (EZs) were authorized through three separate rounds of legislation enacted in 1993, 1997, and 2000. A total of 40 EZs have been designated—30 in urban areas and 10 in rural areas—through a competitive application process. State and local governments nominated economically distressed geographic areas, which were selected on the strength of their strategic plans for economic and social revitalization. The urban areas were designated by the Secretary of Housing and Urban Development (HUD). The rural areas were designated by the Secretary of Agriculture.

EZs have been provided a set of tax incentives and government grants to spur economic activity within the zones. The mix of tax incentives and grants has varied by round. Nine Round I zones (six urban and three rural) were authorized by the Omnibus Budget Reconciliation Act of 1993. Businesses in the zones were eligible for three tax incentives: (1) an employment credit for qualified employees who both work and live within a zone; (2) additional section 179 expensing for qualified zone property; and (3) tax-exempt financing for certain qualifying zone facilities. Round I zones received the greatest amount of direct government spending, with grant authority of approximately $100 million per urban zone and $40 million per rural zone.[3] Zone designation began in December 1994 and was originally scheduled to last 10 years.

The Taxpayer Relief Act of 1997 authorized the designation of two urban supplemental Round I zones (effective January 1, 2000), plus 20 Round II zones (15 urban and 5 rural). Businesses in Round II zones were eligible for: (1) additional section 179 expensing for qualified zone property; and (2) tax-exempt financing for certain qualifying zone facilities that was less restrictive than in Round I zones. Round II zones received approximately $26 million per urban zone and $18 million per rural zone in grant authority. The Round II zones were initially designated for 10 years. This act also authorized the District of Columbia Enterprise Zone (DC Zone), effective January 1, 1998, which received similar tax benefits

[1] Empowerment zones, enterprise communities, renewal communities, and the new markets tax credit are examples of incentives targeted to economically distressed areas, as indicated by high poverty rates, high unemployment rates, or relatively low median incomes. Other targeted incentives have focused on disaster relief, such as the New York Liberty Zone, the Gulf Opportunity Zone, and the Midwestern Disaster Area.

[2] For an analysis of the empowerment zone employment credit for Tax Year 1996, see Brashares, Edith, "Empowerment Zone Tax Incentive Use: What the 1996 Data Indicate," *Statistics of Income Bulletin,* Summer 2000, Volume 20, Number 1. For an analysis of the empowerment zone employment credit for Tax Year 1997, see Bershadker, Andrew, and Edith Brashares, "Use of the Federal Empowerment Zone Employment Credit for Tax Year 1997: Who Claims What?" *Statistics of Income Bulletin*, Spring 2004, Volume 23, Number 4.

[3] See U.S. Government Accountability Office, *Revitalization Programs: Empowerment Zones, Enterprise Communities and Renewal Communities* (GAO-10-464R, 2010), for a summary of grant authority given to EZs and RCs.

Figure A

Empowerment Zone and Renewal Community Employment Credit, Number of Corporate and Individual Returns, Allowable Credit, and Number of Qualifying Areas, Tax Years 1998–2010

[Money amounts are in thousands of dollars]

Tax year	Corporate returns [1]		Individual returns		Total allowable credit	Number of qualifying areas [2]
	Number of returns	Allowable credit	Number of returns	Allowable credit		
	(1)	(2)	(3)	(4)	(5)	(6)
1998	541	19,619	3,150	22,091	41,709	10
1999	590	21,958	4,757	26,893	48,851	10
2000	676	23,700	5,169	21,948	45,648	12
2001	797	23,401	9,833	24,274	47,675	12
2002 [3]	2,130	65,676	19,926	61,262	126,938	81
2003	2,662	92,458	25,896	83,449	175,907	81
2004	3,122	113,651	35,372	105,179	218,830	81
2005	3,378	149,351	33,933	127,790	277,142	81
2006	3,595	153,436	38,475	120,603	274,039	81
2007	3,795	152,629	36,166	116,603	269,231	81
2008 [4]	3,817	131,365	39,325	126,870	258,236	81
2009 [4]	3,535	138,565	38,014	124,770	263,335	81
2010 [4], [5]	2,649	99,419	30,362	73,479	172,898	41

[1] Corporate return estimates exclude Forms 1120S. Estimates may vary from other published numbers (see footnote 11).
[2] The number of qualifying areas are based on calendar years. In 1998, there were nine Round I empowerment zones (EZs) plus the DC Zone. In 2000, two supplemental Round I EZs were added. In 2002, the number of EZs increased to 40 and 40 renewal communities (RCs) were designated. The 40 RCs expired at the end of 2009.
[3] Minor corrections were made to the allowable credit amount reported in the corporate sample.
[4] Allowable credit for corporate returns calculated by author based on a change to the tax form starting in Tax Year 2008.
[5] Allowable credit for both corporate and individual returns includes Eligible Small Business Credits calculated by author.

to Round I EZs.[4] The primary difference is that the eligibility rules for the tax incentives were less restrictive for the DC Zone. Of particular interest for the purpose of this article, all DC residents who work within the DC Zone qualify for the employment credit, not just those who both work and live within the zone.

The Community Renewal Tax Relief Act of 2000 authorized the designation of nine Round III zones (seven urban and two rural).[5] In addition, this act extended Round I and Round II zone designations through the end of 2009, and it conformed the tax incentives across all zones for the period 2002 through 2009. For this period, tax incentives for businesses in all EZs included: (1) the employment credit; (2) additional section 179 expensing for qualified zone property; (3) tax-exempt financing for certain qualifying zone facilities; (4) deferral of capital gains on sales and reinvestment in empowerment zone assets; and (5) an additional exclusion of the gain on the sale of qualified small business stock held more than 5 years.[6] The Round III rural zones were eligible for about $3 million in grant authority per zone, while no specific grant authority was given for urban zones.

The Community Renewal Tax Relief Act of 2000 also authorized HUD to designate 40 renewal communities (RCs), 28 in urban areas and 12 in rural areas. Businesses in RCs were eligible for the following tax incentives: (1) an employment credit; (2) additional section 179 expensing for qualified community property; (3) a capped commercial revitalization deduction; and (4) a capital gains exclusion for qualified community assets held longer than 5 years. No grant authority was specifically authorized for RCs. RC designations were in effect from 2002 through 2009.

EZ designations (including the DC Zone) expired temporarily at the end of 2009 but were extended retroactively through the end of 2011 by the Tax Relief,

[4] The DC Zone was originally designated for 5 years and had been subsequently extended several times on a temporary basis before expiring on December 31, 2011.
[5] A total of eight urban zones were designated in this round because the Round I EZ in Atlanta, GA, elected to become an RC in 2002, and was replaced by a new zone.
[6] See Internal Revenue Service, *Publication 954: Tax Incentives for Distressed Communities*, 2004, and U.S. Government Accountability Office, *Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited* (GAO-04-306, 2004) for a more detailed discussion of the tax incentives available in EZs and RCs.

Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which was enacted in December 2010. EZ designations expired again at the end of 2011 and were extended retroactively through the end of 2013 by the American Taxpayer Relief Act of 2012, which was enacted in January 2013. However, the DC Zone was not extended.

In addition to these incentives, residents of EZs and RCs ages 18-39 years old qualify as a targeted group for the work opportunity tax credit (WOTC).[7] Employers who hire an individual in a targeted group receive a 40-percent credit that applies to the first $6,000 of qualified first-year wages. EZ and RC residents ages 16-17 can also qualify as a targeted group for WOTC, but the qualifying wage limit is reduced to $3,000, and the period of employment must be between May 1 and September 15.

The Empowerment Zone and Renewal Community Employment Credit

The EZ employment credit provides a 20-percent credit on the first $15,000 of annual qualifying wages paid to a qualified zone employee.[8] A qualified zone employee resides within an EZ, and substantially all of the employee's services are performed within an EZ in a trade or business of the employer. The RC employment credit is subject to the same eligibility rules as the EZ employment credit, only the credit rate is 15 percent on the first $10,000 of annual qualifying wages paid to employees who both live and work within an RC.

Both full-time and part-time employees who have been employed for at least 90 days are eligible for the EZ/RC employment credit. However, the following individuals do not qualify as a qualified zone employee: (1) certain related taxpayers; (2) certain dependents; and (3) any person who owns more than 5 percent of stock (or capital or profits interests) of the employer. While it is not necessary for the employer to satisfy the requirements of an enterprise zone business that are necessary for other EZ incentives, wages paid in connection to certain business activities do not qualify for the credit.[9]

The employer's deduction for salaries and wages paid is reduced by the amount of the employment credit generated that year. Also, the credit is not available for wages taken into account in determining the WOTC and the $15,000 ($10,000) cap is reduced by any wages taken into account in computing the WOTC. These provisions prevent claiming more than one credit on the basis of the same wages.

To determine the amount of employment credit allowed for a given year, a taxpayer first calculates the current-year amount of the credit. The current-year amount of the credit is the sum of qualifying wages paid by the taxpayer to qualifying employees subject to the appropriate credit rate (20 percent for EZs, 15 percent for RCs), plus the amount of credit from passthrough entities in which the taxpayer holds an ownership interest. The tentative credit for the year is the current-year amount (minus any amounts restricted because of passive activity rules) plus any carryback or carryforward of the credit from other tax years.[10]

The allowable credit is equal to the tentative credit, unless restricted by the tax liability of the taxpayer for that year. The employment credit is a component of the General Business Credit (GBC). Most components of the GBC are not allowed to offset the Alternative Minimum Tax (AMT), but the EZ/RC employment credit can offset up to 25 percent of AMT liability. To determine the amount of tax liability that may be offset by the credit in the current year, the taxpayer subtracts a limitation amount from the taxpayer's net income tax. The limitation amount is the greater of: (1) 75 percent of the taxpayer's tentative minimum tax; or (2) 25 percent of the excess of net regular tax liability that exceeds $25,000. The amount of tentative credit that exceeds the allowable amount of credit for that year is currently subject to a 1-year carryback and a 20-year carryforward, according to the GBC rules.

Analysis of Use of the Employment Credit on Corporate Returns

This study uses the sample of corporate returns assembled each year by the Statistic of Income Division (SOI) of the Internal Revenue Service for Tax Years 1998 through 2010. The EZ/RC employer credit is unique among credits in that for most years the credit has been in effect, the corporate sample contains the full population of corporations that utilize the credit. This began

[7] Prior to May 25, 2007, the upper age limit was 24.

[8] Qualified wages include those wages subject to the Federal Unemployment Tax Act (FUTA) without regard to the FUTA dollar limit and certain training and education expenses paid or incurred on behalf of the qualified employee.

[9] These nonqualified activities include farming businesses above a certain scope and activities described in IRC section 144(c)(6)(b), which include golf courses, country clubs, massage parlors, hot tub facilities, suntan facilities, racetracks, and liquor stores.

[10] Note that the use of the terms "current-year" and "tentative" credit follow how those terms were defined on Form 8844 for 1998 through 2001. In later years, these terms were either dropped from the form or were used in a different way. For example, for 2002 through 2005, the form used the term "current-year" to label what this article refers to as the "tentative" credit.

out of a concern that the national sample may not provide an accurate representation of a credit with limited geographic reach. Thus for all of the years in this study, the corporate sample includes every corporate return that filed Form 8844, *Empowerment Zone and Renewal Community Employment Credit,* during the filing period for that tax year.

The values reported for corporate returns are weighted to adjust for the small percentage of returns that are not included in the corporate sample for that tax year. This could be the result of a taxpayer filing the return late or amending a return at a later date to include Form 8844. For most of the tax years in this analysis (2002–2010), SOI assigned a special weight to the returns that included Form 8844 for the purpose of calculating the aggregate amount of the EZ/RC employment credit. This weight, rather than the national final weight, is used when available for this article.[11] The tabulations for corporate returns in this article do not include the credits reported on Forms 1120S for small business corporations since the credits are passed to their shareholders and reported on individual returns.

The corporate sample includes several lines from Form 8844, which provide information on the current-year credit, the amount of carryforwards, the tentative credit, and the impact of the tax liability limitations on the allowable credit. Form 8844 underwent several modifications during this time period and there is not complete consistency across the years regarding which lines are included in the sample. The most significant change occurred in 2008, when the calculation of the allowable credit was moved from Form 8844, to Form 3800, *General Business Credit.* The allowable amount of credit for 2008 through 2010 was not directly captured in the sample and the amounts reported in this article were calculated based on information on the tax return.

The current-year credit is the amount of potential credit resulting from qualifying wages paid in that calendar year, whether directly by the taxpayer or through a passthrough entity in which the taxpayer holds an ownership interest. The amount of current-year credit and the percentage change from the previous year are listed in columns (1) and (2) of Figure B. The amount of current-year credit generally increases from one year to the next until Tax Year 2009 when a decline of 6 percent occurs.

There are many factors that affect the growth of the current-year credit from year to year. The most significant is the number of eligible areas, which began with 10 eligible zones in 1998 (including the DC Zone), increased to 12 eligible zones in 2000, and then to 81 zones and communities in 2002. In 2010, the number of eligible areas declined to 41 as the 40 RCs expired. The expiration of the RCs was the primary factor leading to the significant decline in current-year credit from $173.6 million in Tax Year 2009 to $99.9 million in Tax Year 2010, a 42-percent decrease. However, qualifying wages paid in EZs also declined by 9 percent from Tax Year 2009 to Tax Year 2010.

Also, it is common to see a phased take-up of tax incentives as more taxpayers become aware of the credit over time and adjust behavior to take advantage of the credit, which would help explain the large growth rates in years right after the expansion that tend to level off over time. Plus it is important to note that there is not an exact correspondence between the tax year and the calendar year for which Form 8844 applies. A taxpayer with a fiscal year different than a calendar year may file a Form 8844 that reports calendar year amounts that lag the tax year by one year. For example, in the Tax Year 2008 sample, 387 out of 3,817 corporate returns filed the 2007 version of Form 8844. This can make the take-up of the credit appear slower than it is in reality.

The state of the national economy (as a proxy for the local economy) may also contribute to the growth of current-year credits over time. For example, the 6-percent decline in the current-year credit in Tax Year 2009 coincided with a severe national recession. Whether the possibility of the employment credit expiring after Calendar Year 2009 contributed to the decline in current-year credit in Tax Year 2009 is unclear. For 2002 through 2009, when the full number of EZs and RCs were eligible for the employment credit, the current-year credit ranged between $99.4 million in Tax Year 2002 and a high of $185.2 million in Tax Year 2008 (Figure B).

The figure also shows the amount of carryforwards and tentative credits reported by corporate taxpayers. The tentative credit is the sum of the current-year credit plus the amount of carryforwards and carrybacks. In the sample, carrybacks are not observed as the file does not include amended returns.[12] The carryforward credit ($192.0 million) exceeded the current-year credit ($173.6 million) for the first time in Tax Year 2009. The tentative credit grew in each year from Tax Years 1999 through 2009, and has exceeded $300 million for every year from Tax Years 2006 through 2009. Driven by the fall in the current-year credit in Tax Year 2010, the tentative credit

[11] The use of different weights implies that some of the corporate results in this article will differ somewhat from other published numbers, such as those found in *Statistics of Income*, Corporation Income Tax Returns, Publication 16, which use the final sample weights.

[12] The tentative credit listed in column (5) is less than the sum of the carryforwards and current-year credit when passive activity restrictions apply. When the amount of tentative credit exceeds the sum of carryforwards and current-year credit, it is most likely due to missing data in the carryforward or current-year field.

Figure B

Empowerment Zone and Renewal Community Employment Credit for Corporate Returns, Amount and Annual Percentage Change for Current-Year, Carryforward, Tentative and Allowable Credits, Tax Years 1998–2010 [1]

[Money amounts are in thousands of dollars]

Tax Year	Current-year credit		Carryforward credit		Tentative credit		Allowable credit	
	Amount	Annual percentage change	Amount	Annual percentage change	Amount	Annual percentage change	Amount	Annual percentage change
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1998	25,655	N/A	10,993	N/A	36,647	N/A	19,619	N/A
1999	31,539	22.9	12,642	15.0	44,181	20.6	21,958	11.9
2000	33,701	6.9	22,579	78.6	56,259	27.3	23,700	7.9
2001	35,649	5.8	28,267	25.2	64,073	13.9	23,401	-1.3
2002 [2]	99,447	179.0	41,010	45.1	140,512	119.3	65,676	180.7
2003	128,078	28.8	67,421	64.4	195,907	39.4	92,458	40.8
2004	136,458	6.5	99,354	47.4	236,491	20.7	113,651	22.9
2005	161,489	18.3	115,802	16.6	277,122	17.2	149,351	31.4
2006	169,354	4.9	134,914	16.5	304,271	9.8	153,436	2.7
2007	176,974	4.5	149,313	10.7	326,514	7.3	152,629	-0.5
2008 [3]	185,166	4.6	163,582	9.6	348,981	6.9	131,365	-13.9
2009 [3]	173,602	-6.2	191,954	17.3	365,544	4.7	138,565	5.5
2010 [3], [4]	99,909	-42.4	187,997	-2.1	287,903	-21.2	99,419	-28.3

N/A—Not available.
[1] Estimates exclude Forms 1120S. Estimates may vary from other published numbers (see footnote 11).
[2] Minor corrections were made to the allowable credit amount reported in the sample.
[3] Allowable credit for corporate returns calculated by author based on a change to the tax form starting in Tax Year 2008.
[4] Allowable credit includes Eligible Small Business Credits calculated by author.

declined from $365.5 million in Tax Year 2009 to $287.9 million in Tax Year 2010.

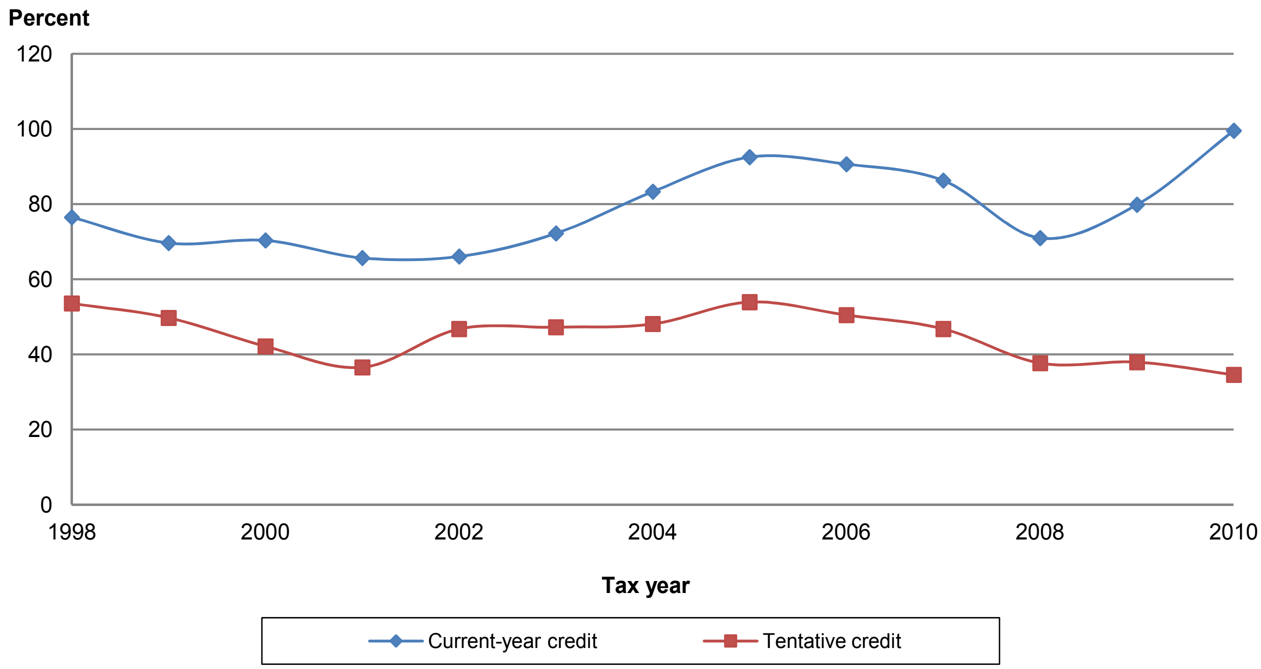
The allowable credit has also mostly increased year by year over the life of the credit, except for large declines of 14 percent in Tax Year 2008 and 28 percent in Tax Year 2010. Small declines of 1 percent also occurred in Tax Year 2001 and Tax Year 2007. This trend is consistent with the change in the number of zones and communities over time, a phased take-up period, and the effect of economic conditions on hiring and profitability. For example, the strong annual growth in the allowable credit from a level of $23.4 million in Tax Year 2001 to a level of $149.4 million in Tax Year 2005 coincided with a substantial increase in the number of eligible areas in 2002 and a growing economy. The amount of allowable credits peaked in Tax Year 2006 at $153.4 million, declined slightly in Tax Year 2007 to $152.6 million, and then declined considerably in Tax Year 2008 to $131.4 million. These declines appear to be primarily the result of lower taxpayer profitability, as the level of tentative credits increased during these years. The Tax Year 2010 decline in the allowable credit mostly reflects the expiration of RCs.

The utilization rate of the credit, that is, the allowable credit as a share of the current-year or tentative credit is shown in Figure C. For any given year, the allowable credit was less than the current-year credit, with the share ranging from 66 percent in Tax Year 2001 to nearly 100 percent in Tax Year 2010. The allowable credit as a share of the tentative credit was around 50 percent for most years, with dips below 40 percent in Tax Year 2001, and Tax Years 2008 through 2010, which coincided with recession years.

Over the time period of this study, Tax Years 1998 through 2010, corporate taxpayers generated $1.46 billion in current-year credits. Adding $11 million in carryforwards from credits unused in years prior to 1998 brings the amount of total potential credits for Tax Years 1998 through 2010 to $1.47 billion. Of this amount, taxpayers have claimed $1.19 billion (81 percent) in allowable credits, with an additional $0.19 billion projected as the carryforward stock for Tax Year 2011. This accounts

Figure C

Allowable Empowerment Zone and Renewal Community Employment Credit as a Percentage of the Current-Year and Tentative Credit, Corporate Returns, Tax Years 1998–2010 [1]



[1] Estimates exclude Forms 1120S.

for 94 percent of the potential credits for Tax Years 1998 through 2010. It is unclear to what extent the remaining difference is the result of unreported carrybacks, missing returns, missing or inaccurate information on returns, or unused credits resulting from the business entity ceasing to exist.

Use of the Employment Credit by Size of the Corporation

Policy makers may be interested in whether the businesses that take advantage of the EZ/RC employment credit tend to be relatively large or small. Figure D reports the share of corporate returns, current-year credit, carryforward credit, tentative credit, and allowable credit for small firms (those with total assets of $5 million or less) and large firms (those with total assets greater than $500 million).[13] As is often the case in tax data, smaller corporations account for a large portion of returns, but only a small portion of credit. For example, firms with $5 million or less in total assets on average accounted for 58 percent of the corporate returns filing Form 8844 from Tax Year 1998 through Tax Year 2010, but on average claimed only 11 percent of the allowable credit. Meanwhile, firms with over $500 million in total assets on average accounted for 16 percent of Forms 8844 filed from Tax Year 1998 through Tax Year 2010, but on average claimed 64 percent of the allowable credit. The share of the allowable credit going to the larger firms generally increased from 53 percent in Tax Year 1998 to 69 percent in Tax Year 2004, where the share has stabilized around 70 percent through Tax Year 2010.

Furthermore, large companies are more likely to be profitable and less likely to have the credit restricted in a given year due to limited tax liability. Thus, the share of current-year credit going to large companies should be smaller than the allowable credit. This is generally the case, but the differences are not great. The share of the current-year credit attributable to large firms averaged 59 percent from Tax Years 1998 to 2010. In contrast, the

[13] The asset classes are fixed in 2010 dollars, but the total assets reported by firms in a previous year are scaled by the ratio of nominal GDP in 2010 to nominal GDP in that year for greater consistency in the measurement of firm size over time.

Figure D

Corporate Returns Filing Form 8844, Empowerment Zone and Renewal Community Employment Credit: Share of Returns, and Current-Year, Carryforward, Tentative, and Allowable Credits, by Selected Size of Total Assets, Tax Years 1998–2010 [1]

Selected size of total assets [2]	Tax year													Average for tax years 1998–2010
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	Share of Form 8844 returns (percent)													
$5,000,000 or less	53.4	54.6	52.2	55.8	58.4	58.1	60.8	61.3	62.3	62.0	61.3	58.7	58.0	58.2
Over $500,000,000	14.8	15.9	16.7	16.9	16.1	16.6	15.1	15.8	15.4	16.1	16.3	18.1	19.9	16.4
	Share of current-year credit (percent)													
$5,000,000 or less	14.1	12.8	13.9	17.0	15.3	14.6	15.0	13.7	13.4	12.9	12.1	11.5	11.7	13.7
Over $500,000,000	49.4	48.1	45.4	46.7	56.6	59.7	59.8	63.3	64.0	65.9	67.4	68.3	70.9	58.9
	Share of carryforward credit (percent)													
$5,000,000 or less	39.7	43.0	37.6	39.0	31.7	33.7	29.5	33.2	36.4	36.9	38.3	29.9	26.6	35.0
Over $500,000,000	7.0	4.2	13.4	7.2	12.8	34.8	29.5	25.7	19.1	17.4	20.3	32.4	34.0	19.8
	Share of tentative credit (percent)													
$5,000,000 or less	21.8	21.5	23.4	26.8	20.1	21.2	21.1	21.9	23.7	23.9	24.3	21.2	21.4	22.5
Over $500,000,000	36.7	35.6	32.6	29.2	43.8	51.1	46.9	47.6	44.1	43.6	45.2	49.4	46.8	42.5
	Share of allowable credit (percent)													
$5,000,000 or less	10.9	9.8	11.0	14.6	11.8	10.0	9.7	9.0	9.7	10.1	10.5	9.8	10.3	10.6
Over $500,000,000	52.7	58.9	54.5	52.6	63.6	65.6	68.5	71.2	69.0	71.9	70.6	70.3	68.7	64.5

[1] Estimates exclude Forms 1120S.

[2]Total asset values for years 1998 through 2009 were scaled to 2010 values using nominal Gross Domestic Product ratios.

share of current-year credit going to small firms averaged 14 percent over these years, which is greater than the smaller firms' share of allowable credit (11 percent).

The interaction of the tax liability limitations and firm size are more easily observed in the relative shares of carryforward credits. The average share of carryforward credits attributable to small firms for Tax Years 1998 to 2010 (35 percent), was greater than the average share of carryforwards attributable to large firms (20 percent) over this same time period. The greater carryforward shares going to small firms implies that small firms accounted for a larger portion of tentative credits relative to the current-year or allowable credits. Small firms on average accounted for 22 percent of tentative credits for Tax Years 1998 to 2010, while large firms on average accounted for 43 percent. Table 1 shows shares of returns and credit by size of total assets.

Current-Year Credit Shares for RCs

One of the criticisms of the EZ/RC employment credit is that it is not possible to determine what portion of the aggregate credit is attributable to a particular zone or community, as that information is not reported on the tax return.[14] For returns with multiple subsidiaries and lines of business, the address listed on the tax return at the consolidated level may not be representative of the business locations of the subsidiaries classified within empowerment zones and/or renewal communities. Therefore, this study does not attempt such a breakdown; however, the portion of the current-year credit attributable to employment in RCs can be separated from employment in EZs, since the qualifying wages for each are reported separately on Form 8844.

For the years where RC designations are in effect, 2002 through 2009, the RC share of the current-year EZ/RC employment credit has averaged 46 percent; rising from a low of 40 percent in Tax Year 2003 to a high of 48 percent in Tax Year 2009 (Figure E). The RC share of qualifying wages was higher, averaging 53 percent for Tax Years 2002 through 2009; this would also have been the RC share of the current-year credit if the credit rates were equal for RCs and EZs. The RC employment credit applies a 15-percent credit rate to the first $10,000 of annual qualifying wages paid to a qualified employee, for a maximum annual credit of $1,500 per qualified employee. A higher credit rate of 20 percent and a higher

[14] See U.S. Government Accountability Office, *Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited* (GAO-04-306, 2004) and U.S. Government Accountability Office, *Revitalization Programs: Empowerment Zones, Enterprise Communities and Renewal Communities* (GAO-10-464R, 2010) for a discussion of this issue.

Figure E

Corporate Returns Filing Form 8844, Empowerment Zone (EZ) and Renewal Community (RC) Employment Credit: RC Share of Current-Year Credit and Qualifying Wages, Tax Years 2002–2009 (Percent) [1]

Tax year	RC share of current-year credit [2]	RC share of qualifying wages	Implied RC share of current-year credit assuming EZ parameters [3]
	(1)	(2)	(3)
2002	40.9	48.0	58.1
2003	39.9	47.0	57.1
2004	43.4	50.6	60.5
2005	46.6	53.8	63.6
2006	48.1	55.3	64.9
2007	46.3	53.5	63.3
2008	47.4	54.6	64.3
2009	47.5	54.7	64.4
Average for tax years 2002–2009	45.5	52.7	62.6

[1] Estimates exclude Forms 1120S.
[2] Current-year credit flowing to the corporation due to an ownership interest of a passthrough entity was excluded from this analysis, as it is unknown whether such credit was generated in a RC or an EZ.
[3] Assumes annual limit on qualifying wages increases to $15,000 and credit rate increases to 20 percent.

annual wage ceiling of $15,000 implies the maximum annual credit of $3,000 per employee in EZs is double that of RCs.

Furthermore, if it is assumed that all employees eligible for the RC employment credit were paid at least $15,000 per year, then raising the annual wage limit in RCs to the EZ level of $15,000 and applying the EZ 20-percent credit rate implies that RCs would have accounted for 63 percent of the total EZ/RC current-year employment credit between Tax Years 2002 and 2009. This share is similar to the approximately 57 percent of the total population of EZs and RCs that reside in RCs.

Note that one of the main differences between RCs and EZs is that rural RCs tend to be larger in size and especially in population than rural EZs. RCs accounted for 49 percent of the population in urban RCs and EZs, while 82 percent of the population of rural RCs and EZs lived in RCs.[15] Differences between utilization of the credit in EZs and RCs by different industrial sectors, which may be in part related to the different geographical emphases of the two programs, are discussed next.

Current-Year Credit Shares by Industry

What type of firms take advantage of the EZ/RC employment credit? Figure F1 lists the share of current-year EZ/RC employment credit by North American Industry Classification System (NAICS) sector for the Tax Years 2002 through 2009. The current-year credit amount is used, rather than the allowable credit amount as the current-year amount can be divided into the portion deriving from employment in EZs versus employment in RCs.[16] Also, for comparison purposes the share of national private employment by industrial sector is provided in Figure F2. The shares of the current-year credit by sector were mostly stable over this time period. The manufacturing sector generated the largest share of credits; accounting for 20 to 25 percent of total credits over the time period, though the share did tend to decrease over time. This decline in manufacturing was also seen at the national level during this time period. Retail trade accounted for the next largest share: approximately 20 percent of total current-year credits or a little less. Accommodation and food services was the only other sector with a credit share greater than 10 percent; its share varied from 13 to 16 percent.

Given that there are restrictions on the employment credit that may affect certain industries more than others and the differences in how that data are collected, it is not expected that the employment credit shares would equal the national employment shares.[17] Nevertheless, it still may be informative to compare the relative importance of employment in different sectors. There are several sectors where the share of employment credits were lower than the national employment share, the largest total decline was in the healthcare sector. This is not surprising given the large portion of employers in this sector that are nonprofit entities and not eligible for the employment credit. This factor probably explains much of the difference in the educational services sector as well. Given that EZs and RCs are generally lower income areas, it is not surprising that industries with relatively high compensation, such as the finance and insurance sector and the professional, scientific and technical services sector would see lower employment credit shares than the national employment shares. It is more surprising to see that the share of credit in the construction sector was so much below the national employment share.

In contrast, the share of credits in the manufacturing sector nearly doubled the national employment share.

[15] Population shares are based on the 1990 census as reported in U.S. Government Accountability Office, *Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited* (GAO-04-306, 2004).
[16] For this analysis, the portion of the current-year credit coming from passthrough entities to corporate taxpayers is not included. These flowthrough credits accounted for about 5 percent of the current-year credit for Tax Years 2002 through 2009.
[17] The EZ/RC employment credit data are based on corporate tax returns, many of which are consolidated and could lump different industries into just one sector. The Current Employment Statistics survey is establishment based and covers more entities than just C corporations.

Figure F1

Share of Current-Year Empowerment Zone and Renewal Community Employment Credit by North American Industry Classification System (NAICS) Sector, Corporate Returns, Tax Years 2002–2009 (Percent) [1, 2]

NAICS Sector	Tax year							
	2002	2003	2004	2005	2006	2007	2008	2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Agriculture, forestry, fishing, and hunting	1.4	2.1	2.4	4.0	3.2	1.4	2.8	2.4
Mining	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.6
Utilities	0.2	0.9	0.5	0.7	0.6	0.8	1.0	0.7
Construction	1.9	1.9	1.9	1.5	1.8	1.9	1.7	1.4
Manufacturing	24.1	24.5	22.7	22.0	21.9	21.8	21.4	20.5
Wholesale trade	5.6	6.3	5.3	4.7	5.3	5.3	4.6	3.9
Retail trade	17.1	18.4	20.4	19.3	17.7	20.1	19.6	20.5
Transportation and warehousing	4.4	3.6	5.3	5.8	6.5	5.9	6.6	5.8
Information	4.7	4.2	4.7	4.1	3.5	3.5	3.9	3.4
Finance and insurance	2.5	2.2	1.9	1.9	1.8	1.9	1.9	2.0
Real estate, rental, and leasing	1.0	0.8	1.1	1.0	1.3	1.3	1.3	1.1
Professional, scientific, and technical services	3.5	2.9	2.9	3.1	3.2	2.9	2.4	2.7
Management of companies (holding companies)	5.0	4.3	4.3	5.1	5.0	4.6	5.1	4.2
Administrative and support, waste management, and remediation services	7.4	6.6	6.4	6.1	7.8	8.3	8.0	7.7
Educational services	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Health care and social assistance	6.3	5.0	5.2	4.7	4.1	4.7	4.8	5.2
Arts, entertainment, and recreation	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3
Accommodation and food services	12.7	13.7	12.6	13.7	13.8	13.2	12.5	15.6
Other services	2.0	2.1	1.9	1.8	2.0	1.8	1.7	1.7

[1] Estimates exclude Forms 1120S.
[2] Current-year credit flowing to the corporation due to an ownership interest of a passthrough entity was excluded from this analysis.

Other sectors with relatively large shares of the EZ/RC employment credit compared to national employment shares were the retail trade sector, the accommodation and food services sector, and somewhat surprisingly, the management of companies sector. This latter difference may be due to classification differences based upon the different data sources for Figures F1 and F2

For Tax Years 2002 to 2009, RCs accounted for a little less than half of the current-year credit. Yet, there was considerable variation in the RC share of the current-year credit by sector (Figure F3). Nearly all of the employment credit (approximately 90 percent) in the agriculture, forestry, fishing and hunting sector are attributable to RCs. Mining, and transportation and warehousing are two other sectors with a large RC share, usually over 70 percent. In contrast, the RC share of the accommodation and food services sector, and the professional, scientific, and technical services sector is usually less than 30 percent. For manufacturing and retail trade, the RC share is close to 50 percent, similar to the overall RC share.

Analysis of Use of the Employment Credit on Individual Returns

The coverage of the EZ/RC employment credit for individual returns is generally less extensive than the coverage for corporate returns. This is highlighted in several different ways. First, individual returns filing Form 8844 are included in the individual sample based on the standard sampling procedure for individual returns. There is no special inclusion of returns filing Form 8844, as is the case for corporate returns. This implies that all the results reported in this article for individual returns are weighted according to the final sample weights. Second, the individual sample normally includes fewer lines from Form 8844 than does the corporate sample. In particular, the current-year credit is not included and the carryforward credit is only included beginning in Tax Year 2006. Third, individual returns include credits from many types of businesses: sole proprietorships, S-corporations and various forms of partnerships, where there is no tax at the entity level and income, deductions

Figure F2

Share of National Private Employment by North American Industry Classification System (NAICS) Sector, 2002–2009 (Percent) [1]

NAICS sector	Tax year							
	2002	2003	2004	2005	2006	2007	2008	2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Agriculture, forestry, fishing, and hunting	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Mining	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.6
Utilities	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Construction	6.1	6.1	6.3	6.5	6.7	6.5	6.2	5.5
Manufacturing	13.9	13.2	12.9	12.6	12.3	11.9	11.6	10.8
Wholesale trade	5.1	5.1	5.1	5.1	5.1	5.2	5.1	5.1
Retail trade	13.6	13.6	13.5	13.5	13.3	13.3	13.2	13.3
Transportation and warehousing	3.8	3.8	3.8	3.9	3.9	3.9	3.9	3.9
Information	3.1	2.9	2.8	2.7	2.6	2.6	2.6	2.6
Finance and insurance	5.3	5.4	5.3	5.3	5.3	5.3	5.2	5.3
Real estate, rental, and leasing	1.8	1.9	1.9	1.9	1.9	1.9	1.8	1.8
Professional, scientific, and technical services	6.0	6.0	6.1	6.2	6.4	6.6	6.7	6.9
Management of companies (holding companies)	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.7
Administrative and support, waste management, and remediation services	6.9	7.0	7.1	7.2	7.3	7.2	6.9	6.6
Educational services	2.4	2.5	2.5	2.5	2.5	2.5	2.6	2.8
Health care and social assistance	12.3	12.7	12.8	12.8	12.9	13.2	13.7	14.7
Arts, entertainment, and recreation	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Accommodation and food services	9.3	9.4	9.6	9.6	9.7	9.8	9.9	10.2
Other services	4.9	4.9	4.9	4.8	4.7	4.7	4.8	4.9

[1] Share calculations primarily based on Bureau of Labor Statistics Current Employment Statistics survey, which covers nonfarm payrolls, retrieved at http://www.bls.gov/webapps/legacy/cesbtab1.htm. The agricultural, foresty, fising and hunting sector share is held constant for 2002 through 2009 and is imputed based on year 2000 employment listed in the U.S Bureau of Labor Statistics *Monthly Labor Review* January 2012, p. 66, retrieved at http://www.bls.gov/opub/mlr/2012/01/mlr201201.pdf.

and credits are "passed through" to the owners and taxed at the individual level. There is often little information on the individual return about the characteristics of the business entity, which precludes an analysis based on industry or business size for individual returns.

The annual amount and annual percentage change of carryforward credit, tentative credit, and allowable credit claimed on individual returns for Tax Years 1998 through 2010 are shown in Figure G. While the results are broadly consistent with corporate returns in terms of growth over time, there is a greater tendency for there to be a decline from the previous year in the tentative and allowable credit in the individual sample. For example, the tentative credit reported on individual returns declined compared to the previous year in Tax Years 2001, 2007, 2008, 2009, and 2010. The amount of tentative credit peaked in Tax Year 2006 at $287.6 million and declined to $221.8 million in Tax Year 2009 and fell further to $174.1 million in Tax Year 2010. The amount of allowable credit peaked in Tax Year 2005 at $127.8 million and remained fairly stable through Tax Year 2009, but declined considerably in Tax Year 2010 to $73.5 million.

Figure H reports the share of tax returns, tentative credit, and allowable credit by size of adjusted gross income (AGI) for Tax Years 2002 through 2010. The use of the credit is concentrated among high-income individuals. For Tax Years 2002 through 2010, on average, only 24 percent of returns that filed Form 8844 reported AGI of $100,000 or less in 2010 dollars. These same taxpayers on average reported 28 percent of the tentative credit and 7 percent of the allowable credit for these years. Looked at in another way, on average 65 percent of the allowable credit for Tax Years 2002 through 2010 was claimed by taxpayers with AGI above $500,000 in 2010 dollars.

Moreover, income can be quite variable from year to year and low income in one year does not imply the individual does not have high incomes in other years or that this represents an owner of a particularly small business. This is highlighted by the fact that returns with negative AGI accounted for on average 12 percent of the tentative credit for Tax Years 2002 through 2010, while accounting for only 5 percent of the returns over this time period. This indicates that the underlying business activity for these individuals is substantial, but either the business itself, or the owner, faced losses for that particular year.

Figure F3

Renewal Community Share of Current-Year Empowerment Zone and Renewal Community Employment Credit by North American Industry Classification System (NAICS) Sector, Corporate Returns, Tax Years 2002–2009 (Percent) [1, 2]

NAICS sector	Tax year							
	2002	2003	2004	2005	2006	2007	2008	2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Agriculture, forestry, fishing, and hunting	88.1	89.1	86.7	87.8	93.4	86.2	95.7	94.2
Mining	72.2	95.9	94.4	96.0	98.9	77.9	77.5	40.6
Utilities	2.4	3.3	1.3	3.5	5.9	5.0	27.8	19.3
Construction	27.6	35.9	41.4	45.9	49.9	42.0	41.0	43.9
Manufacturing	47.5	42.2	44.0	46.3	50.3	54.8	49.1	51.4
Wholesale trade	35.2	34.5	32.7	43.1	47.3	53.6	47.6	43.1
Retail trade	46.8	46.8	54.2	51.2	50.1	48.5	50.9	52.4
Transportation and warehousing	73.6	67.4	74.1	76.9	73.1	53.3	71.1	74.3
Information	28.5	30.7	27.5	31.9	34.3	36.7	38.9	35.3
Finance and insurance	43.2	38.7	45.5	41.6	33.5	46.5	41.5	36.2
Real estate, rental, and leasing	15.6	29.1	23.5	34.4	40.1	43.3	38.1	44.2
Professional, scientific, and technical services	6.2	28.3	23.7	26.8	30.6	27.4	26.2	22.9
Management of companies (holding companies)	54.9	48.9	45.2	48.6	53.2	49.6	53.6	50.9
Administrative and support, waste management, and remediation services	32.3	32.3	34.5	40.1	43.4	39.3	31.9	38.4
Educational services	17.5	40.0	47.0	66.8	58.1	66.9	54.4	51.6
Health care and social assistance	46.3	51.3	52.6	55.4	61.5	59.6	60.7	63.5
Arts, entertainment, and recreation	1.2	46.1	70.0	30.2	22.4	2.1	14.6	13.4
Accommodation and food services	23.2	21.1	22.8	28.5	28.6	29.0	30.7	31.0
Other services	29.8	28.8	37.2	44.6	43.2	33.6	37.7	35.5

[1] Estimates exclude Forms 1120S.

[2] Current-year credit flowing to the corporation due to an ownership interest of a passthrough entity was excluded from this analysis, as it is unknown whether such credit was generated in a RC or an EZ.

Analysis of Alternative Tax Liability Limitations on the Allowable Credit for Corporate and Individual Returns

As discussed above, an employer may only offset a certain portion of its tax liability with the employment credit. Calculations in Figure I show how sensitive the aggregate annual amount of allowable credit is to different tax liability limitation rules for corporate returns. Under current law, the taxpayer subtracts a limitation amount from the taxpayer's net income tax (regular tax plus AMT) to determine how much tax liability may be offset by the employment credit. The limitation amount is the greater of: (1) 75 percent of the taxpayer's tentative minimum tax, thus allowing the credit to offset up to 25 percent of the AMT; or (2) 25 percent of the excess of net regular tax liability that exceeds $25,000. Under generally applicable GBC rules the credit would not be allowed to offset AMT. In this case, the limitation amount would be the greater of (1) the tentative minimum tax; or (2) 25 percent of the excess of net regular tax liability that exceeds $25,000. If this restriction were used, then the amount of allowable credit would have been on average 15 percent lower for corporate taxpayers than under actual law for the Tax Years 1998 through 2010 (see column 1 of Figure I).

Components of the GBC receive different treatment in regards to AMT liability. Most components, as just described are not allowed to offset AMT liability. Other components are allowed to fully offset AMT liability. If the EZ/RC employment credit were allowed to fully offset the AMT, then the only limitation amount would be the 25 percent of excess net regular tax liability that exceeds $25,000. In this case the allowable amount of credit for corporate taxpayers would have increased over actual law by an average of 7 percent for Tax Years 1998 through 2010. If this latter limitation amount is also removed, which implies the credit is allowed to fully offset both regular and AMT liability, then compared to actual law the allowable amount of credits would have increased by an average of 12 percent for Tax Years 1998 through 2010.

Figure G

Empowerment Zone and Renewal Community Employment Credit for Individual Returns: Amount and Annual Percentage Change for Carryforward, Tentative, and Allowable Credits, Tax Years 1998–2010

[Money amounts are in thousands of dollars]

Tax year	Carryforward credit		Tentative credit		Allowable credit	
	Amount	Annual percentage change	Amount	Annual percentage change	Amount	Annual percentage change
	(1)	(2)	(3)	(4)	(5)	(6)
1998	N/A	N/A	27,488	N/A	22,091	N/A
1999	N/A	N/A	31,469	14.5	26,893	21.7
2000	N/A	N/A	42,468	35.0	21,948	-18.4
2001	N/A	N/A	38,763	-8.7	24,274	10.6
2002	N/A	N/A	101,247	161.2	61,262	152.4
2003	N/A	N/A	157,672	55.7	83,449	36.2
2004	N/A	N/A	183,737	16.5	105,179	26.0
2005	N/A	N/A	244,116	32.9	127,790	21.5
2006	114,388	N/A	287,582	17.8	120,603	-5.6
2007	123,275	7.8	287,330	-0.1	116,603	-3.3
2008	114,095	-7.4	269,365	-6.3	126,870	8.8
2009	79,114	-30.7	221,822	-17.6	124,770	-1.7
2010 [1]	91,623	15.8	174,066	-21.5	73,479	-41.1

N/A—Not available.
[1] Allowable credit includes Eligible Small Business Credits calculated by author.

These calculations assume that under current law no taxpayers were allowed to use the EZ/RC credit to fully offset AMT. However, the Small Business Jobs Act of 2010 allows eligible small businesses to claim general business credits, including the EZ/RC employment credit, fully against AMT. An eligible small business is defined to have average annual gross receipts for the 3 tax years prior to the current tax year of not more than $50 million. Approximately 10 percent of the corporations filing Form 8844 for Tax Year 2010 claimed eligible small business status.[18] These firms accounted for about 3 percent of the allowable EZ/RC employment credit for 2010. For these firms, the special AMT treatment led to a 16-percent increase in the allowable credit, compared to following the standard EZ/RC credit limitation rules. However, this leads to an aggregate increase in the allowable credit of only about 0.5 percent. If all corporate taxpayers were allowed to fully offset AMT with the credit in Tax Year 2010, the amount of allowable credit would have increased by 7 percent.

Finally, if the credit would have been refundable, implying that the allowable amount of credit in each year would equal the current-year credit, then the allowable credit for corporations would have increased by an average of 28 percent for Tax Years 1998 through 2010.

The calculations for Figure I (and for individual returns in Figure J) hold fixed the amount of carryforward credit applied to the returns in each year. These results should be viewed as what would happen in any given year if the credit limitation rules were revised. If different credit limitation rules were in place during the whole time period, that would affect the pattern of carryforwards, and possibly the percentage change in allowable credit deriving from the rule change for any given year.

Compared to corporate taxpayers, the AMT plays a more significant role for individual taxpayers with tentative EZ/RC employment credit. If individual taxpayers were not allowed to claim the EZ/RC employment credit against 25 percent of AMT, that is if the generally applicable GBC rules applied, then allowable credits would have declined on average by 40 percent for Tax Years 1998 through 2010 (Figure J). For corporate taxpayers, the corresponding drop was only 15 percent. Alternatively, if the EZ/RC employment credit were allowed to fully offset the AMT, then allowable credits would have increased on average by 24 percent for Tax Years 1998 through 2010 compared to actual law.

[18] This is indicated by where the tentative amount of EZ/RC employment credit was reported on Form 3800.

Figure H

Individual Returns Filing Form 8844, Empowerment Zone and Renewal Community Employment Credit: Share of Returns, Tentative Credit, and Allowable Credit by Size of Adjusted Gross Income, Tax Years 2002–2010

Size of adjusted gross income [1]	Tax year									Average for tax years 2002–2010
	2002	2003	2004	2005	2006	2007	2008	2009	2010	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Share of Form 8844 returns (percent)									
$0 or less	6.3	4.7	1.4	2.1	3.8	5.8	4.2	4.9	7.2	4.5
$1 to $100,000	19.9	26.1	20.7	19.7	21.3	20.8	22.5	8.9	13.9	19.3
$100,001 to $200,000	8.6	22.7	18.6	17.3	14.5	11.0	5.6	13.6	4.3	12.9
$200,001 to $500,000	31.2	19.3	21.3	16.0	18.1	17.6	20.6	24.1	19.8	20.9
$500,001 to $1,000,000	18.1	14.4	19.5	20.7	19.2	18.5	22.4	22.1	21.9	19.7
$1,000,001 to $5,000,000	14.6	11.5	16.1	20.5	19.2	22.1	21.3	22.9	28.5	19.6
$5,000,001 to $10,000,000	0.8	0.8	1.2	1.7	1.9	1.9	1.8	1.7	2.0	1.5
$10,000,001 or more	0.6	0.6	1.3	1.9	2.0	2.3	1.7	1.8	2.2	1.6
	Share of tentative credit (percent)									
$0 or less	14.9	9.5	8.1	5.9	8.2	9.1	10.6	14.3	25.7	11.8
$1 to $100,000	20.6	11.3	8.2	7.2	15.1	10.7	36.3	15.5	16.6	15.7
$100,001 to $200,000	3.2	29.6	26.7	14.1	31.3	25.0	5.9	6.9	7.6	16.7
$200,001 to $500,000	23.1	11.2	14.8	18.6	12.0	25.7	13.4	9.6	6.1	14.9
$500,001 to $1,000,000	9.7	15.7	14.8	26.8	9.7	5.6	12.3	23.7	17.0	15.0
$1,000,001 to $5,000,000	20.9	15.9	20.6	17.6	15.0	14.7	14.6	20.6	19.4	17.7
$5,000,001 to $10,000,000	4.6	4.4	2.7	4.7	3.7	3.8	3.0	3.5	3.4	3.7
$10,000,001 or more	2.9	2.4	4.1	5.2	5.0	5.6	4.0	5.9	4.3	4.4
	Share of allowable credit (percent)									
$0 or less	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.2	0.1	0.1
$1 to $100,000	10.8	10.4	7.1	3.5	9.1	3.1	12.6	3.7	4.9	7.2
$100,001 to $200,000	5.1	21.0	16.7	10.1	7.9	8.4	5.0	10.0	2.5	9.6
$200,001 to $500,000	30.1	9.0	20.8	20.2	15.9	23.1	16.5	14.8	10.2	17.8
$500,001 to $1,000,000	12.3	21.6	13.9	20.1	16.6	9.9	22.0	24.3	26.4	18.6
$1,000,001 to $5,000,000	29.0	25.6	29.6	27.8	30.0	32.3	29.5	30.5	38.5	30.3
$5,000,001 to $10,000,000	7.7	7.7	4.6	8.5	8.5	9.4	6.0	6.2	7.3	7.3
$10,000,001 or more	4.8	4.6	7.2	9.8	11.9	13.8	8.4	10.4	10.1	9.0

[1] Adjusted gross income for years 2002 through 2009 were scaled to 2010 dollars using the Consumer Price Index for all Urban Consumers (CPI-U).

However, removing the other GBC limitation placed on regular tax liability would have had little additional effect for individual returns. In this case, the average increase in allowable credit compared to actual law for Tax Years 1998 through 2010 was 26 percent, which was only 2 percentage points more than allowing the EZ/RC employment credit to fully offset AMT.

Furthermore, the results reported in Figure J ignore the allowance for Eligible Small Business Credits to fully offset AMT in Tax Year 2010. A little more than 6 percent of individual returns with tentative EZ/RC employment credit claimed Eligible Small Business Credits for 2010. This increased the aggregate amount of allowable EZ/RC employment credit by around $6 million over what would have been allowable under normal rules for the EZ/RC employment credit. This was an increase of 9 percent on aggregate, which was over one-third of the 25-percent increase that would have occurred if all individual taxpayers were allowed to let tentative EZ/RC employment credit fully offset AMT in Tax Year 2010. This again illustrates that for businesses using the EZ/RC employment credit, the AMT has a more significant impact on those taxed as passthrough entities than those taxed at the corporate level.

Figure I

The Effects of Alternate Tax Liability Limitation Rules on the Allowable Amount of the Empowerment Zone and Renewal Community Employment Credit, Corporate Returns, Tax Years 1998–2010 [1]

Tax year	Percentage change in allowable credit compared to actual law			
	Credit is not allowed to offset the Alternative Minimum Tax (AMT) [2]	Credit is allowed to fully offset the AMT	Credit is allowed to fully offset regular tax and AMT [3]	Credit is fully refundable
	(1)	(2)	(3)	(4)
1998	-18.1	12.7	15.0	30.3
1999	-15.2	7.4	10.2	41.8
2000	-18.4	6.1	11.6	41.2
2001	-17.3	8.7	23.1	52.7
2002	-12.1	6.3	10.7	51.3
2003	-16.5	10.0	14.3	36.3
2004	-16.7	9.2	11.9	16.1
2005	-14.5	5.7	8.5	5.5
2006	-14.9	5.5	9.5	6.8
2007	-15.0	6.3	8.9	15.6
2008	-11.2	4.9	7.0	40.9
2009	-10.5	6.8	10.4	25.3
2010 [4]	-13.0	7.4	12.4	1.0
Average for tax years 1998–2010	-14.9	7.5	11.8	28.0

[1] Estimates exclude Forms 1120S.
[2]The standard General Business Credit (GBC) limitations apply.
[3] The GBC limitations that reduce the portion of regular tax or alternative minimum tax liability the credit may offset do not apply.
[4] These calculations assume that rules for allowing Eligible Small Business Credits to offset AMT do not apply.

Summary

This article describes the use of the EZ/RC employment credit for Tax Years 1998 through 2010 for corporate and individual taxpayers. While the amount of the credit claimed each year is strongly correlated with the number of designated zones and communities, other factors, including economic conditions appear to make an impact as well. The combined allowable credit claimed on individual and corporate tax returns peaked in Tax Year 2005 at $277.1 million, declined somewhat to $263.3 million in Tax Year 2009 at a time when the national economy experienced a recession, and declined considerably in Tax Year 2010 to $172.9 million as the 40 RCs expired.

Passthrough businesses reporting taxes at the individual level accounted for 47 percent of the total credit claimed for Tax Years 1998 through 2010. Information about the size of such businesses is not available on individual returns, but larger corporations accounted for most of the allowable credit claimed on corporate returns. Also, for corporations that used the credit, employment was more heavily concentrated in manufacturing and less in service industries (especially healthcare and education) compared to national employment shares.

Finally, for any given tax year, a substantial portion of the tentative credit was not claimed in that tax year due to insufficient tax liability of the taxpayer. Calculations in this article indicate to what extent the allowable credit would have changed in a given year if the tax liability restrictions were made more or less restrictive. In particular, rules regarding the extent AMT liability could be offset by the credit were found to have significant impact on the amount of allowable credit in a given year for individual taxpayers.

Figure J

The Effects of Alternate Tax Liability Limitation Rules on the Allowable Amount of the Empowerment Zone and Renewal Community Employment Credit, Individual Returns, Tax Years 1998–2010

Tax year	Percentage change in allowable credit compared to actual law		
	Credit is not allowed to offset the Alternative Minimum Tax (AMT) [1]	Credit is allowed to fully offset the AMT	Credit is allowed to fully offset regular tax and AMT [2]
	(1)	(2)	(3)
1998	-13.6	4.5	4.5
1999	-19.1	11.1	11.9
2000	-35.7	32.6	43.0
2001	-29.9	28.6	29.0
2002	-30.6	13.6	14.8
2003	-39.6	25.0	25.7
2004	-46.7	28.7	30.8
2005	-49.0	41.3	46.0
2006	-45.2	21.9	23.9
2007	-49.4	32.4	35.0
2008	-50.3	16.2	16.9
2009	-53.4	24.9	26.5
2010[3]	-53.2	25.0	29.7
Average for tax years 1998–2010	-39.7	23.5	26.0

[1] The standard General Business Credit (GBC) limitations apply.
[2] The GBC limitations that reduce the portion of regular tax or alternative minimum tax liability the credit may offset do not apply.
[3] These calculations assume that rules for allowing Eligible Small Business Credits to offset AMT do not apply.

Table 1. Corporate Returns Filing Form 8844, Empowerment Zone and Renewal Community Employment Credit: Share of Returns and Share of Current-Year, Carryforward, Tentative, and Allowable Credits by Size of Total Assets, Tax Years 1998–2010 [1]

Size of total assets [2]	Tax year												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	Share of Form 8844 returns (percent)												
$500,000 or less	17.6	18.8	18.6	20.4	24.3	24.7	28.5	28.2	29.5	29.5	29.4	27.4	27.4
$500,001 to $1,000,000	10.7	10.5	11.2	12.1	12.0	11.8	11.1	11.5	11.7	11.3	10.9	10.4	10.5
$1,000,001 to $5,000,000	25.1	25.3	22.3	23.3	22.1	21.6	21.3	21.6	21.1	21.3	21.0	20.8	20.1
$5,000,001 to $10,000,000	8.5	7.1	8.6	7.5	6.7	6.4	6.3	6.0	5.9	5.5	5.8	5.4	5.1
$10,000,001 to $25,000,000	7.0	7.6	7.1	7.0	5.6	5.5	5.3	5.4	5.3	5.1	4.7	5.2	4.6
$25,000,001 to $50,000,000	5.2	4.7	4.6	4.6	4.0	3.5	3.4	2.6	2.5	2.6	2.5	2.7	2.8
$50,000,001 to $100,000,000	3.7	2.9	3.3	2.7	2.4	2.9	2.6	2.8	2.5	2.4	2.6	2.9	2.8
$100,000,001 to $250,000,000	3.3	3.2	4.3	3.3	3.9	4.2	3.6	3.9	3.8	3.9	3.9	3.7	3.7
$250,000,001 to $500,000,000	4.1	3.9	3.3	2.4	3.0	2.8	2.9	2.3	2.3	2.3	2.9	3.3	3.2
$500,000,001 to $2,500,000,000	5.9	6.3	7.0	6.4	7.5	7.5	7.0	7.2	7.0	7.6	7.6	8.5	9.1
$2,500,000,001 or more	8.9	9.7	9.8	10.5	8.6	9.1	8.1	8.6	8.5	8.5	8.7	9.5	10.7
	Share of current-year credit (percent)												
$500,000 or less	2.9	2.5	2.6	3.6	3.3	3.2	3.8	3.5	3.7	3.6	3.3	2.9	3.3
$500,001 to $1,000,000	2.4	2.1	2.6	3.6	2.6	2.7	2.7	2.5	2.4	2.1	2.1	1.7	1.7
$1,000,001 to $5,000,000	8.8	8.3	8.8	9.8	9.4	8.6	8.5	7.6	7.4	7.2	6.8	6.9	6.8
$5,000,001 to $10,000,000	5.1	5.1	5.3	4.1	4.1	4.2	4.4	3.8	3.9	3.4	2.8	2.8	2.0
$10,000,001 to $25,000,000	6.6	10.3	8.7	10.1	5.4	4.8	4.3	4.2	3.8	3.2	3.3	3.4	2.6
$25,000,001 to $50,000,000	9.2	5.9	6.5	7.5	4.9	3.0	3.1	2.0	2.4	2.2	2.0	2.2	2.9
$50,000,001 to $100,000,000	7.2	6.7	6.1	2.3	1.6	3.2	2.6	2.9	3.5	2.7	2.8	2.9	2.8
$100,000,001 to $250,000,000	3.7	6.8	8.2	6.0	6.4	6.5	5.6	6.0	5.3	5.7	5.2	4.2	3.8
$250,000,001 to $500,000,000	4.6	4.2	6.0	6.2	5.7	4.0	5.2	4.0	3.7	4.1	4.4	4.7	3.1
$500,000,001 to $2,500,000,000	14.5	11.6	11.9	9.3	14.4	15.5	15.6	14.9	18.1	16.8	17.5	16.1	16.9
$2,500,000,001 or more	34.9	36.5	33.5	37.5	42.3	44.2	44.2	48.4	45.9	49.1	49.8	52.2	54.0
	Share of carryforward credit (percent)												
$500,000 or less	12.0	9.7	8.2	7.6	8.0	5.9	7.8	9.1	11.0	11.6	13.0	9.4	8.5
$500,001 to $1,000,000	6.9	8.7	8.7	10.9	6.9	11.2	6.4	6.1	8.1	7.0	6.3	5.1	5.2
$1,000,001 to $5,000,000	20.8	24.5	20.7	20.5	16.8	16.6	15.4	18.0	17.3	18.3	19.1	15.5	12.9
$5,000,001 to $10,000,000	9.2	11.5	6.4	6.1	11.1	4.7	8.9	5.5	7.4	8.6	6.6	4.5	4.7
$10,000,001 to $25,000,000	3.8	17.7	15.1	15.1	9.7	5.9	9.3	10.9	10.9	7.7	6.2	9.8	10.3
$25,000,001 to $50,000,000	10.9	11.1	7.0	16.8	16.7	8.4	6.8	4.1	4.1	5.7	3.1	3.0	2.9
$50,000,001 to $100,000,000	10.3	9.5	13.8	1.5	0.9	1.0	2.1	5.6	7.9	9.7	10.5	11.0	10.7
$100,000,001 to $250,000,000	5.1	0.1	4.3	1.3	3.1	4.8	5.6	6.8	7.8	6.9	6.8	4.3	4.9
$250,000,001 to $500,000,000	14.0	2.8	2.3	12.9	14.1	6.7	8.4	8.2	6.4	7.1	8.1	5.1	5.9
$500,000,001 to $2,500,000,000	6.4	2.1	9.0	4.6	4.9	21.2	15.4	14.4	8.6	5.7	8.7	15.5	10.3
$2,500,000,001 or more	0.6	2.1	4.4	2.6	7.9	13.6	14.0	11.3	10.6	11.7	11.6	16.9	23.7

Footnotes at end of table.

Table 1. Corporate Returns Filing Form 8844, Empowerment Zone and Renewal Community Employment Credit: Share of Returns and Share of Current-Year, Carryforward, Tentative, and Allowable Credits by Size of Total Assets, Tax Years 1998–2010 [1]—Continued

Size of total assets [2]	Tax year												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	Share of tentative credit (percent)												
$500,000 or less	5.6	4.5	4.8	5.4	4.6	4.2	5.5	5.9	7.0	7.3	7.8	6.3	6.7
$500,001 to $1,000,000	3.7	4.0	5.0	6.9	3.9	5.7	4.2	4.0	4.9	4.3	4.0	3.5	4.0
$1,000,001 to $5,000,000	12.4	12.9	13.6	14.5	11.6	11.3	11.4	12.0	11.8	12.3	12.4	11.4	10.8
$5,000,001 to $10,000,000	6.4	7.0	5.8	5.0	6.2	4.4	6.3	4.5	5.5	5.8	4.6	3.7	3.8
$10,000,001 to $25,000,000	5.8	12.4	11.2	12.3	6.7	5.2	6.4	7.0	7.0	5.3	4.9	6.8	7.6
$25,000,001 to $50,000,000	9.7	7.4	6.7	11.7	8.3	4.9	4.6	2.9	3.1	3.8	2.5	2.6	2.9
$50,000,001 to $100,000,000	8.1	7.5	9.2	2.0	1.4	2.4	2.4	4.0	5.4	5.9	6.4	7.1	7.9
$100,000,001 to $250,000,000	4.1	4.9	6.6	3.9	5.4	5.9	5.6	6.3	6.3	6.2	5.9	4.3	4.5
$250,000,001 to $500,000,000	7.4	3.8	4.5	9.1	8.2	4.9	6.8	5.8	4.9	5.5	6.2	4.9	5.0
$500,000,001 to $2,500,000,000	12.1	8.9	10.7	7.2	11.6	17.4	15.5	14.7	13.8	11.7	13.4	15.8	12.6
$2,500,000,001 or more	24.7	26.7	21.8	22.0	32.2	33.6	31.4	32.9	30.2	31.9	31.8	33.6	34.2
	Share of allowable credit (percent)												
$500,000 or less	1.4	1.3	2.1	2.4	2.1	1.7	2.0	1.6	1.8	1.9	2.3	1.6	1.8
$500,001 to $1,000,000	2.1	1.4	1.2	2.3	1.6	1.7	1.5	1.4	1.7	1.5	1.9	1.3	1.6
$1,000,001 to $5,000,000	7.4	7.2	7.7	9.9	8.1	6.7	6.3	6.0	6.2	6.6	6.3	6.9	6.9
$5,000,001 to $10,000,000	4.4	4.8	5.6	4.9	4.0	3.8	3.1	3.4	3.6	2.8	2.7	3.0	2.6
$10,000,001 to $25,000,000	5.8	8.1	6.3	9.0	4.6	3.3	3.7	3.6	4.3	2.8	3.9	4.2	3.7
$25,000,001 to $50,000,000	5.9	4.3	6.4	5.4	4.1	3.1	3.7	2.2	2.2	1.9	1.7	2.2	2.8
$50,000,001 to $100,000,000	9.6	2.9	4.5	2.9	2.0	2.9	1.4	2.1	2.4	1.5	2.1	2.4	5.0
$100,000,001 to $250,000,000	5.3	6.7	7.8	8.1	5.6	6.9	4.7	5.2	5.5	5.1	4.8	5.2	3.9
$250,000,001 to $500,000,000	5.2	4.5	3.8	2.5	4.3	4.4	5.2	3.4	3.3	3.9	3.7	2.9	3.0
$500,000,001 to $2,500,000,000	11.1	11.7	14.4	10.6	13.5	16.0	15.4	19.6	19.9	18.3	17.3	14.5	17.8
$2,500,000,001 or more	41.6	47.3	40.2	41.9	50.1	49.6	53.2	51.6	49.1	53.5	53.3	55.8	50.9

[1] Estimates exclude Forms 1120S.
[2] Total asset values for years 1998 through 2009 were scaled to 2010 values using nominal GDP ratios.