
URBAN ENTERPRISE ZONE TAX QUESTIONS AND ANSWERS



New Jersey Commerce & Economic
Growth Commission
Urban Enterprise Zone Program
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URBAN ENTERPRISE ZONES QUESTIONS AND ANSWERS

GENERAL

1. When can a business owner obtain tax benefits in an Urban Enterprise Zone?

Answer - When it is certified as a qualified business, within a designated zone, by the Urban Enterprise Zone Authority. Exemption certificates will then be issued by the Division of Taxation, effective on the date of certification.

2. What is an Urban Enterprise Zone?

Answer - A city which has suffered economic problems and meets certain other criteria may request that the Urban Enterprise Zone Authority designate part of the city, usually about 30%, as an Urban Enterprise Zone.

3. Where are Urban Enterprise Zones usually located?

Answer- Usually in the industrial and/or commercial portions of a city, within a continuous boundary. In the joint zone of Vineland-Millville the zone is comprised of parts of two adjoining cities, with the zone having a continuous boundary. The joint zone of Asbury Park-Long Branch has non-continuous boundaries.

4. What is the Urban Enterprise Zone Authority?

Answer - It is a nine member authority, established under N.J.S.A. 52:27H-60 et seq., consisting of the CEO/Secretary of the Commerce and Economic Growth Commission, and the Commissions of Community Affairs, Labor, and the State Treasurer or their designees; together with five public members.

5. How does the Authority designate zones?

Answer - By reviewing applications of cities requesting designation. The decision is based upon the need of the city for economic development; the unemployment rate; the percentage of families on welfare; the potential benefits shown by the application; and similar factors.

6. When does a designated zone become effective?

Answer - When it is designated by the Authority, and has accepted the designation by municipal ordinance. There are no benefits for a business until the zone is effective, and the business has been certified.

7. How many zones have been established?

Answer - The Urban Enterprise Zone Program (UEZ) was enacted in 1983 with a duration of twenty years. It authorized the designation of ten zones by the New Jersey Urban Enterprise Zone Authority: Camden, Newark, Bridgeton, Trenton, Plainfield, Elizabeth, Jersey City, Kearny, Orange and Millville/Vineland (joint zone).

In 1994 the legislation was amended and ten more zones were added to this successful economic development program. Of the ten new zones, six were predetermined: Paterson, Passaic, Perth Amboy, Phillipsburg, Lakewood, Asbury Park/Long Branch (joint zone). The four remaining zones were selected on a competitive basis. They are Carteret, Pleasantville, Union City and Mount Holly.

The legislation was amended again in 1996 to include seven additional zones. They were all predetermined and include East Orange, Guttenberg, Hillside, Irvington, North Bergen, Pemberton and West New York.

8. How does a business become certified as a "qualified business"?

Answer - By making application to the local municipal zone coordinator on an Authority application form. The local coordinator verifies that the business is within the zone and forwards the application to the Authority at 20 West State Street, P.O.820, Trenton, New Jersey 08625-0820 for review and approval.

9. What tests are used by the Authority to decide whether a business shall be certified?

Answer - Generally, that the business will create new employment in the municipality containing the zone, and will not create unemployment elsewhere in the state (including that municipality).

10. What preliminary tests must all businesses meet?

Answer - The business must be engaged in the active conduct of a trade or business in a zone at the time the zone is designated an enterprise zone, or after the zone is designated become engaged in the active conduct of a trade or business in that zone and have at least 25% of its employees employed at a business location in the zone, meeting one or more employment tests.

11. What are the employment tests?

Answer - A new business formed in or moving into a zone must have at least 25% of its new full-time employees, hired during its first or second year in the program, meeting one or more of the following criteria:

- (a) Residents of any zone; or
- (b) Unemployed for at least six months prior to being hired and residing in New Jersey, or recipients of New Jersey public assistance programs for at least six months prior to being hired; or
- (c) Determined to be economically disadvantaged by the Federal Jobs Training Partnership Act.

Under an alternative, the Authority may certify a business if it agrees to meet the 25% criteria during its first two years of certification.

If the Authority determines that an applicant is unable in good faith to meet the 25% requirement, the Authority may reduce the requirement below 25% for that business, conditioned upon the agreement of the business to implement and/or sponsor certain specified training and job programs for a period of at least five years.

12. Is there a corporation tax credit for a small business which is unable to increase its employment and which makes an investment in the zone, instead?

Answer - Yes. There is an alternate method by which a zone business may be qualified, even though it is unable to increase its full-time permanent employment, if the business has fewer than 50 employees and was in business in the zone at least one year prior to designation of the zone. This business may be certified for one year by entering into an agreement with the zone city to make an expenditure, approved by the Authority, which contributes substantially to the economic attractiveness of the zone.

The expenditures must be at least \$5,000 for a business with 10 or fewer employees, with an additional \$500 per employee up to the maximum of 49. The corporation is entitled to an 8% investment credit against the Corporation Business Tax for the tax year in which the expenditure is made. The credit may be carried over (see question 22).

13. Are there any retroactive tax benefits for a qualified business after it is certified?

Answer - No. All benefits are effective only from the date of certification. Also, there are no benefits for a business unless it is currently a "qualified business." Renewal of qualified business status must be made annually.

14. What are the benefits?

Answer - Briefly, the right to buy taxable tangible personal property (except motor vehicles), and most services (except telecommunications services), without sales tax; credits against the Corporation Business Tax for certain businesses hiring certain new employees; and an award for certain new employees, based upon employment insurance tax paid. Also, qualified retail businesses may, on certification by the Division of Taxation, collect sales tax at half rate on most taxable sales of tangible personal property.

15. What are Unemployment Insurance Based Awards?

(Administered by the New Jersey Commerce and Economic Growth Commission in conjunction with the NJ Department of Labor)

Answer - A qualified business may be eligible for an award based upon the amount of unemployment insurance tax it has paid for certain new employees. No qualified business with a deficit reserve ratio qualifies for this award as long as it maintains that ratio. A deficit reserve ratio results when the employer's unemployment charges exceed the employer contributions to the unemployment trust fund.

The award applies only to those employees whose gross salaries are less than \$4,500 per quarter and is calculated according to a specific schedule. Contact the Department of Labor at (609) 292-2327.

16. Are businesses ever denied recertification?

Answer - Yes. If a qualified business is unable to maintain the number of employees it had when it met the employment tests required for qualification, the business no longer meets the criteria for being a qualified business and the business loses its UEZ benefits. The Local Coordinators in the zones will answer questions about requalification.

CORPORATION BUSINESS TAX

17. How is the new employee tax credit granted?

Answer - A qualified business which is not retail sales or warehousing oriented, may be entitled to an employee tax credit. It is available to corporations subject to the Corporation Business Tax which hire new employees at the zone location, after they become qualified. The corporation may claim either a \$1,500 or \$500 credit for each new employee, provided that all criteria are met.

18. What is the difference between the two credits?

Answer - A one-time credit of \$1,500 is allowed for each new full-time, permanent employee who resides in any municipality which contains a zone, and immediately prior to employment by the qualified business was unemployed for at least 90 days or dependent upon public assistance as the primary source of income.

A one time credit of \$500 is allowed for new full-time permanent employees who do not meet the qualification for the \$1,500 tax credit, but are residents of any municipality in which a designated enterprise zone is located, and were not employed at a location within the qualifying municipality immediately prior to employment by the qualified business.

The credit is available only for new full-time permanent employees who have been employed by the qualified business for at least six continuous months during the year for which the credit is claimed. For a new employee to be considered a full-time permanent employee, the total number of full-time permanent employees, including the new employee, employed by the qualified business during the calendar year must exceed the greatest number of full-time permanent employees employed in the zone by the qualified business during any prior calendar year since the zone was designated.

19. How long must the new employee be employed?

Answer - A tax credit may be available for each new permanent full-time employee who was hired in the preceding tax year, and employed for at least six consecutive months during the tax year for which the credit is claimed, provided that the employee works at the business location within the designated zone.

For example, if a corporation is on a calendar year, it can hire new employees between April 20, 1992 and December 31, 1992. None of them can result in a 1992 credit, whether employed more than 6 months, or less, in 1992. Any qualifying employees hired in 1992 who work continuously through June 30, 1993 (6 months) can result in the credit for the 1993 tax-year C.B.T. return.

20. How is this credit claimed?

Answer - To claim the credit, an employer must file a completed Schedule U with the New Jersey Corporation Business Tax Return (CBT-100). The credit is claimed on page one (1) of the return. The Schedule U can be obtained through Taxpayer Information, 609-588-2200.

21. How much credit is allowed?

Answer - There is no maximum limit on the credit. However, only 50% of the tax otherwise due may be offset by the credit in any tax year. Also, the minimum tax of \$25.00 (domestic) or \$50.00 (foreign) must be paid.

22. Is the unused credit in any tax year lost?

Answer - No. Unused credits are carried over to succeeding tax years and may be applied against 50% of the tax then due, up to the later of the date of termination of the zone or 20 years from the date on which Corporate Business Tax was first payable.

SALES TAX EXEMPTION

23. What kind of personal property can a qualified business buy or rent under the sales tax purchase exemption?

Answer - The purchase exemption applies to office and business equipment and supplies, furnishings, trade fixtures, repair or construction materials and all other tangible personal property purchased by a qualified business (other than motor vehicles and parts and supplies) for exclusive use or consumption on the premises of the qualified business at its zone location. Only personal property controlled by the "qualified business" qualifies for the exemption.

24. Are any taxable services exempt?

Answer - Most services performed for a qualified business at its zone location are exempt. Examples are repair, janitorial and maintenance services of all kinds. However, telecommunications services (see question 25) and repairs of motor vehicles (see question 28) are not exempt.

25. Does the purchase exemption apply to telecommunications services?

Answer - No. The purchase exemption does not apply to the sales tax on telecommunications services, such as telephone, computer, fax, "beeper" and alarm security telecommunications services. On the other hand, the purchase or rental of non-mobile telecommunications equipment, and repair and maintenance of the equipment, qualify for exemption - if, on the billings, such charges are stated separately from the charges for the telecommunications services.

26. Does the purchase exemption apply to other types of purchases, such as purchases of meals, rooms, admissions, or to the petroleum products gross receipts tax?

Answer - No. The exemption only applies to taxes imposed by the Sales and Use Tax Act, on "tangible personal property" and "services", which do not include prepared foods and beverages, rooms or admissions. Further, the exemption does not apply to petroleum products gross receipts or fuel taxes, because they are not imposed under the Sales and Use Tax Act.

27. If a qualified business has other business locations outside of the zone, can it purchase tax exempt property for use at those locations?

Answer - No. The statute provides the purchase exemption only "for the exclusive use or consumption of such business within an Enterprise Zone."

28. Are motor vehicles, and parts, supplies and repairs for motor vehicles, exempt?

Answer - No. The exemption applies only for items purchased for use exclusively at the place of business within the zone. Similarly, rentals of motor vehicles (including trailers and housetrailer) are not exempt. (See questions below for more information.)

29. What about the purchase or rentals of nonconventional vehicles, such as forklifts?

Answer - The sales tax exemption applies to the purchase, rental and use of nonconventional vehicles used exclusively at the place of business in the zone. This exemption also applies to parts and repairs for such vehicles.

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30. **Are charges for the repair of machinery or equipment of a qualified business made at location outside a zone exempt?**

Answer - Yes, provided that the machinery or equipment will then be used exclusively at the zone location of the qualified business.

31. **What does a qualified business give its vendors or lessors for proof of exemption from sales tax on its purchases or rentals?**

Answer - A completed and executed copy of the UZ-5. The transaction must be completed by delivery within the effective dates on the UZ-5. The vendor must keep the UZ-5 with his records like any other exemption certificate. Qualified businesses must continue to use the ST-3 for purchases for resale.

LEASES (more than 28 days) - If a qualified business is leasing property (other than a motor vehicle) to be used exclusively at the place of business in the zone, the qualified business may give the lessor a UZ-5 form to exempt the lessor from any sales or use tax otherwise due. (See also, question 28.)

32. **A qualified business repairs or expands its building. Are there any exemptions with respect to the costs incurred?**

Answer - Yes. The building materials are exempt, whether purchased by the qualified business or a contractor. (See also questions 33 and 34.)

33. **Is there a distinction between repair and maintenance services, and new construction, when the qualified business owns the property being worked on?**

Answer - No. Repair and maintenance services, and materials and supplies purchased for such services or for new construction, are all exempt, as long as the work is done for the qualified business and at its zone location.

If the materials or supplies are purchased by a contractor (or a subcontractor), the contractor completes a UZ-4, obtainable only from the qualified business. After completing the UZ-4, the contractor may issue copies to its vendors or its subcontractors. Any subcontractor must attach its name, address and certificate of authority number (in addition to the name, address and number of the contractor) and then give the UZ-4 and attachments to its vendors.

34. **A contractor, which is a qualified business, buys building materials for construction on, or repair of, property of an owner who is not a qualified business. Does the contractor's exemption apply?**

Answer - No. The construction material exemption is available only if the property owner is a qualified business.

35. **A contractor rents or leases a crane or other equipment for use on a qualified business construction job. Is the rental or lease exempt from tax?**

Answer - No. A rental or lease to the business is exempt, but a rental or lease to a contractor is taxable.

36. **Must exempt purchases by a qualified business be made from vendors located within an Enterprise Zone?**

Answer - No. The exempt purchase may be made from any vendor that is collecting New Jersey sales tax, whether located inside or outside of the Urban Enterprise Zones.

37. Is there an exemption for advertising?

Answer - Yes, as long as the advertising is used exclusively at the place of business in the zone. This includes handbills, flyers, sales catalogs, etc., for distribution at the zone place of business, but does not include items used for mailing to customers in New Jersey. Direct mail service charges and advertising published in a newspaper, magazine, yellow pages, etc., or advertising by radio or television, are not exempt from any sales or use tax otherwise due.

38. Can a certified UEZ business apply retroactively to recover sales tax paid under the 6 percent tax exemption rule?

Answer - If the UEZ Authority has certified a business as a UEZ "qualified business," the business is entitled to the sales tax exemption provided by the UEZ Act, for purchases delivered to the business during the qualification period. If the qualified business has not received its UZ-4 and UZ-5 exemption certificates or simply forgot to use the certificate for certain purchases, the business may apply for a refund of sales and use tax paid on purchases for which the business was exempt. The business must file the claim for refund with the Division of Taxation within the appropriate time period (4 years, for tax paid on or after July 1, 1993).

39. Can blanket purchase orders be placed on a short term basis i.e., three (3) months, six (6) months?

Answer - For a UZ-2 certified business to be able to charge 3% sales tax, the sales contract must: specify a numerical quantity and a numerical price; specify, in detail, the item(s) that will be bought; and require that all deliveries will be completed by the next "qualification" ending date of the business. Please note that the Division may, in the near future, establish more stringent requirements for the delivery provision that must be in the contract.

40. Is the cleaning of wearing apparel (uniforms, etc.) subject to the six percent (6%) tax exemption?

Answer - A "qualified business" will be exempt from sales tax on the cleaning of uniforms, etc., if the apparel or linens will be used only at the place of business in the zone.

41. Can the purchase of alcohol be tax exempt if used as an ingredient of an end item, i.e., special baked products and/or food products?

Answer - The purchase of alcoholic beverages to be used as an ingredient of a food product produced for sale is exempt under the purchase-for-resale exemption. The business should use a New Jersey ST-3 Resale Certificate as proof of exemption.

42. Can the \$500/\$1,500 tax credit apply to all UEZ certified bank employees (including branches) or by a branch method?

Answer - The UEZ Act provides in pertinent part:

"Any qualified business... actively engaged in the conduct of business from a location within an enterprise zone . . . , which business at that location consists primarily of manufacturing or other business which is not retail sales or warehousing oriented, shall receive an enterprise zone employee tax credit..... for each new full-time permanent employee at that location . . . " N.J.S.A. 52:27H-78.

The Division of Taxation would allow a business to take credit with regard to each location that meets all three of the following criteria:

- (1) the location is certified as a "qualified business" by the UEZ Authority;
- (2) the location consists of a business that is not retail sales or warehousing oriented; and
- (3) the employees meeting the statutory criteria are actually and "physically" working at the location.

REDUCED SALES TAX COLLECTION

43. What is the reduced rate for collection of sales tax by vendors having a UZ-2 certificate?

Answer - 50% of the regular sales tax rate.

44. How does a reduced rate vendor qualify?

Answer - First the vendor must be designated as a qualified business. Then, by separate application, the vendor must apply to the Division of Taxation on Form UZ-1 for authority to collect tax at the reduced rate. If the qualified business is a retailer and exhibits and has an inventory of items for retail sales, and is not primarily a catalog or mail order business, the application is approved and a UZ-2 Certificate is issued. (See also questions 50 and 51.)

No business may collect sales tax at the reduced rate without a currently effective UZ-2. Recertification of the UZ-2 is automatic, unless the business loses its "qualified business" status or changes ownership or form, etc.

45. When may application be made?

Answer - At the same time the company sends its application to the UEZ Authority to become a "qualified business," or later, so long as the "qualified business" status exists.

46. How long is the certification effective?

Answer - The UZ-2 is valid for the duration of the qualified business's certification year. A new UZ-2 is usually automatically sent when the UEZ Authority recertifies the business as a "qualified business" (See question 44 also).

47. Are motor vehicles eligible for the reduced sales tax rate?

Answer - No. The receipts from sales, leases, and rentals of motor vehicles and trailers are taxable at the regular sales tax rate.

48. Are there any other kinds of personal property which cannot be sold at the 50% sales tax rate?

Answer - Yes. The retail sales tax on the sale of alcoholic beverages, etc., and the retail sales tax on cigarettes do not qualify for the reduced sales tax rate. For both alcoholic beverages and cigarettes, sales tax must always be collected at the full rate.

49. Are motor vehicle parts eligible for the reduced sales tax rate?

Answer - Yes. Parts, but not services, may be eligible for the reduced rate sales tax - if the vendor meets the retail requirements discussed in question 44 above and itemizes the parts separately from any service charges on the bill.

50. A restaurant is a qualified business. Is the reduced sales tax rate available for restaurant meals?

Answer - No. The reduced sales tax rate only applies to the sale of tangible personal property. The sale of restaurant meals or prepared foods or beverages is not considered the sale of tangible personal property under the Sales and Use Tax Act.

51. Does the reduced sales tax rate apply to the sale of services, rooms or admissions?

Answer - No. The reduced sales tax rate only applies to the sale of tangible personal property. If a "reduced rate" vendor sells both services and personal property, the reduced sales tax rate may apply to sales of property (not services), but only if the cost of the property is itemized separately on the bill.

Storage space and safety deposit box rentals are "services" (not eligible for reduced sales tax rate).

52. Does the reduced sales tax apply to rentals and leases?

Answer - Yes. Sales tax law defines a sale as including the rental or leasing of personal property. If the transaction is a lease (more than 28 days) and meets the face-to-face requirements discussed below, the lessor may pay use tax at the reduced rate. However, if the property is later leased to another customer who does not have the required face-to-face transaction, use tax is then due at the full rate.

53. How does a reduced rate vendor report and remit sales tax?

Answer - Form UZ-50, covering sales tax at the regular rate for non-qualifying sales, and at the half rate for qualifying sales, must be filed monthly. The UZ-50 replaces forms ST-50 and ST-51.

If you file the New Jersey/New York combined Sales Tax ST-20 and ST-21, you must file those and the UZ-50. On the UZ-50, take the regular rate sales as a deduction, leaving only the reduced rate sales for calculating sales tax to remit. For the ST-20 and ST-21, calculate tax on all other sales, with the New Jersey reduced rate sales being taken as a deduction.

54. A taxpayer holds a UZ-2. He usually files quarterly sales and use tax returns. Can he file the UZ-50 on a quarterly basis?

Answer - No. Taxpayers collecting reduced sales tax must file the UZ-50 combined return on a monthly basis.

55. I own a retail store and hold a UZ-2 certificate. Can I collect the half rate on mail, telephone or similar types of orders?

Answer - Only if the customer picks up the order at the store in the zone, and the business is not primarily a mail or telephone order business (see question 44 above). All sales of tangible personal property which qualify for the reduced rate must be "face-to-face" transactions at the store.

56. Must the customer pick up the property himself in order to qualify for the reduced sales tax rate?

Answer - No. Delivery may be made by the vendor, or by a carrier for the vendor, to a New Jersey destination within or outside of the zone, as long as the property was ordered in person at the location in the zone.

57. Is the reduced rate limited to customers living in the zone?

Answer - No. The residence of the customer has no bearing on the application of the reduced rate to a "face-to-face" sale of tangible personal property in a zone, as long as the order is picked up by the customer or is delivered to a New Jersey address. (NOTE: Reduced sales tax does not apply to "out-of-state" sales, because no New Jersey sales tax is collected.)

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58. A vendor holding a reduced rate sales tax collection certificate (UZ-2) receives an order by telephone and delivers the property, from its retail inventory, to the buyer by vendor's truck or by common carrier. The buyer then comes in and pays in person, whether by cash, check, credit card or otherwise. Does this transaction qualify as a reduced rate sales transaction?

Answer - No. Payment is not part of the sale transaction for this purpose. For reduced sales tax, either the buyer must order in person or pick up the purchase in person at the qualified vendor's place of business. If those requirements are met, reduced sales tax applies, regardless of the payment time or method (cash, check, credit card, etc.).

IMPORTANT

59. What are the most frequent problems involving the tax benefits of a qualified business?

Answer - Failure to requalify annually, which results in loss of benefits, and qualified businesses making reduced rate sales without a currently valid **UZ-2**. Unauthorized use of benefits can result in substantial penalties.

NOTE: The law is found at N.J.S.A. 52:27H-60 through 27H-89. Substantial amendments were made by P.L. 1988, C. 93, approved August 4, 1988; by P.L. 1990, C. 40, approved June 27, 1990; and by P.L. 1993, C. 367, approved January 5, 1994.

LOCAL UEZ OFFICES

Asbury Park.....	(732)	502-5749
Bridgeton.....	(856)	455-3230 - Ext. 224
Camden.....	(856)	968-6422
Carteret	(732)	541-3835
East Orange	(973)	266-5140
Elizabeth.....	(908)	289-8188 - Ext. 15
Guttenberg.....	(201)	617-4333
Hillside	(973)	926-1054
Irvington.....	(973)	399-5636
Jersey City	(201)	333-7797 - Ext. 25
Kearny	(201)	955-7985
Lakewood.....	(732)	364-2500 - Ext. 5256
Long Branch.....	(732)	222-7000 - Ext. 203
Millville	(856)	327-6663
Mount Holly	(609)	267-0170 - Ext. 208
Newark.....	(973)	643-2790
North Bergen.....	(201)	392-2000
Orange.....	(973)	266-4051/61
Passaic.....	(973)	365-5520
Paterson.....	(973)	279-5980
Pemberton Township	(609)	894-3316
Perth Amboy.....	(732)	442-6421
Phillipsburg.....	(908)	454-5500 - Ext. 323
Plainfield.....	(908)	753-3655
Pleasantville.....	(609)	484-7359
Trenton.....	(609)	989-3508
Union City.....	(201)	271-2350
Vineland.....	(856)	327-6663
West New York	(201)	295-5200/5289

UEZ Executive Director

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20 W. State Street PO Box 829

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Urban Enterprise Zones:

New Jersey has 27 Urban Enterprise Zones which provide significant incentives and benefits to businesses that locate within the zones. The zones are in designated portions of the following municipalities (select a zone for further information):

Asbury Park/Long Branch;	Hillside;	Newark;	Phillipsburg;
Bridgeton;	Irvington;	North Bergen;	Plainfield;
Camden;	Jersey City;	Orange;	Pleasantville;
Carteret;	Kearny;	Passaic;	Trenton;
East Orange;	Lakewood;	Paterson;	Union City;
Elizabeth;	Millville/Vineland;	Pemberton;	and
Guttenberg;	Mount Holly;	Perth Amboy;	West New York

Zone Incentives:

- Qualified retailers may charge 50 percent of New Jersey sales tax on "in person" purchases;
- Sales tax exemptions for materials and for tangible personal property;
- A one-time corporation tax credit of \$1,500 for the full-time hiring of residents of a city where a Zone is located who have been unemployed or dependent upon public assistance for at least 90 days, or
- Corporation tax credit of \$500 for hiring resident within the zone, within another zone or within a qualifying municipality;
- Subsidized unemployment insurance costs, for certain new employees;
- An eligible firm may receive an incentive tax credit of 8 percent of investment in the Zone by an approved "in lieu" agreement;
- Possible State regulatory relief by Zone request;
- Priority for financial assistance from New Jersey Local Development Financing Fund (LDFF) and Job Training Program.

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