



NORTH DAKOTA
2016 SCHEDULE RZ BOOKLET
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RENAISSANCE ZONE ACT EXEMPTIONS AND TAX CREDITS



**This booklet contains
Schedule RZ
and its instructions**

Schedule RZ is a supplemental form that must be completed and attached to the North Dakota tax return by taxpayers claiming an income exemption or tax credit under the North Dakota Renaissance Zone Act.

ND Tax
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The North Dakota Renaissance Zone Act authorizes a North Dakota city to apply to the state for designation of part of the city as a renaissance zone. The Act provides income and property tax incentives to individuals and businesses for making qualified investments in a North Dakota renaissance zone.

Division of Community Services

The North Dakota Commerce Department's Division of Community Services is responsible for administering the Act's provisions on the establishment and operation of a zone, and the review and approval of zone projects. Go to the Division of Community Services' web site for information on —

- Latest list of cities with a zone.
- Person(s) to contact in each zone city.
- How to set up and operate a zone.

The website address is **www.communityservices.nd.gov/communitydevelopment**. You may also call 701.328.5300, or write to the Division of Community Services, PO Box 2057, Bismarck, ND 58502-2057.

2015 Legislative Changes

The 2015 North Dakota Legislature made the following changes to the law governing the renaissance zone program:

- **Size of a renaissance zone**—For a city with a population up to 5,000, the maximum allowable size of a zone was increased from 23 to 34 blocks. For a city with a population greater than 5,000, which is allowed an additional block for each additional 5,000 in population, the maximum allowable size of a zone was increased from 38 to 49 blocks. For purposes of establishing a city's population, the most recent federal census estimate published since the last federal decennial census may be used.
- **Renaissance fund organization investment tax credit**—The maximum amount of tax credits allowed to all taxpayers in all tax years for investments made in renaissance fund organizations was increased from \$8.5 million to \$10.5 million.

For more information about these changes, contact the North Dakota Commerce Department's Division of Community Services--see "Division of Community Services" above for contact information.

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Where to get help

If you have questions about the tax incentives under the Act or the completion of Schedule RZ:

Call

| | |
|--|--------------|
| Individuals | 701.328.1247 |
| Partnerships, S corporations trusts, and estates | 701.328.1258 |
| C corporations and financial institutions | 701.328.1249 |

Speech or hearing impaired—call Relay North Dakota at 1.800.366.6888

E-mail

Individuals, estates, trusts, partnerships, and S corporations—

individualtax@nd.gov

C corporations and financial institutions—

corptax@nd.gov

Write

ND Office of State Tax Commissioner
600 E. Boulevard Ave., Dept. 127
Bismarck, ND 58505-0599

Website

www.nd.gov/tax

2016 Schedule RZ instructions

General information

Purpose of form

Schedule RZ is a supplemental schedule that must be completed by a taxpayer claiming any of the income tax incentives available under the North Dakota Renaissance Zone Act. All five pages of Schedule RZ must be attached to the taxpayer's North Dakota tax return.

For detailed information about the available income tax incentives under the Act, see the Renaissance Zone Tax Incentives Guideline on the Office of State Tax Commissioner's web site at www.nd.gov/tax.

Definitions

Unless stated otherwise in these instructions, the following definitions apply:

Act—means the Renaissance Zone Act under North Dakota Century Code ch. 40-63.

Local zone authority—means the governing body of the city in which the zone is located, or the entity designated by the city governing body to promote, develop, and manage the zone.

Parcel of property—means a specific piece of real property consisting of land and the buildings, fixtures, structures, and improvements affixed to the land.

Passthrough entity—means an S corporation, limited liability company not taxed as a corporation, general partnership, limited partnership, limited liability partnership, limited liability limited partnership, or similar entity that passes its income, deductions, and credits to its owners. However, it does not include a cooperative or a real estate investment trust.

Renaissance fund organization—means an entity established by a city for the sole purpose of raising funds to invest in and provide financing to zone projects and other projects located in a renaissance zone.

Taxpayer—means an individual, estate, trust, corporation, passthrough entity, or other entity subject to North Dakota income tax under N.D.C.C. ch. 57-38.

Zone—means a state-approved renaissance zone created under the Act.

Zone project—means a qualifying transaction with respect to a parcel of property that is approved by both the local zone authority and the North Dakota Commerce Department's Division of Community Services.

Zone project property—means the portion of a parcel of property that has been approved as a zone project.

Eligibility for tax incentives

Except for the tax credit for investing in a renaissance fund organization, eligibility for the tax incentives is dependent on having a zone project.

Zone project

A taxpayer must apply to the local zone authority for approval of a proposed transaction as a zone project. For more information on eligible transactions and how to apply for a zone project, contact the local zone authority for the zone in which the project will be located prior to entering the transaction.

Zone project approval letter

Upon final approval of a zone project, the North Dakota Commerce Department's Division of Community Services will issue a final zone project approval letter to the local zone authority, a copy of which is also provided to the taxpayer. Among other things, the letter will include the following:

- Project number assigned to the project by the local zone authority.
- Description of the tax incentive(s) allowed for the project. *(This does not include any property tax exemption that may be granted at the local government level.)*
- The starting date of the 5-year exemption or credit period, if applicable.

The information in the final zone project approval letter will be needed to complete Schedule RZ. A copy of the final zone project approval letter must be attached to the North Dakota tax return along with Schedule RZ. If a taxpayer did not receive a copy of the letter or misplaces it, the taxpayer must contact the local zone authority to obtain one.

For certain projects, the Division of Community Services will issue a preliminary approval letter. The purpose of the preliminary letter is to allow the taxpayer to proceed with the eligible transaction or begin the rehabilitation work. The final zone project approval letter is issued after the Division of Community Services determines that the project has satisfied the criteria for eligibility.

Passthrough entity. In the case of a passthrough entity, the copy of the zone project approval letter must be attached to the entity's tax return. The owners of the passthrough entity do not attach a copy of the zone project approval letter to their North Dakota tax returns.

Passthrough entity

If the taxpayer is a passthrough entity, the amount of the exemption or credit must be determined at the passthrough entity level and passed through to the owners according to their respective interests in the entity. Schedule RZ must be completed by the entity and attached to Form 58 or Form 60. The total amount of the exemption or credit must be reported on Schedule K of the applicable return. Each owner's share of the exemption or credit must be reported on North Dakota Schedule K-1. See the instructions to Form 58 or Form 60 for more information.

Exception for certain S corporations. In the case of an S corporation that is being taxed as a C corporation under an election pursuant to N.D.C.C. § 57-38-01.35, the business or investment income exemption under the Act is claimed as a deduction on the corporation's North Dakota income tax return (Form 40) **and** is passed through to its shareholders according to their respective interests in the corporation. ***The credits under the Act, however, may not be passed through to its shareholders.*** On or before the due date or extended due date

of Form 40, the corporation must provide each of its shareholders with a notice containing the following:

- **The heading:** Renaissance Zone Shareholder Notice.
- **The statement:** This notice contains information that is important to the preparation of your North Dakota income tax return. For instructions on how to report this information on our North Dakota income return, obtain Schedule RZ from the North Dakota Office of State Tax Commissioner. Attach a copy of this notice to your North Dakota income tax return.
- Name, address, and federal employer identification number (FEIN) of the corporation.
- Tax year of the corporation to which the income exemption relates.
- Name and social security number (or FEIN) of the shareholder.
- Shareholder's share of the business or investment income exemption.

Passthrough entity owner. If you own an interest in a passthrough entity, the entity must provide you with a North Dakota Schedule K-1 showing your share of the entity's income exemption or tax credit. However, if you are a shareholder of an S corporation that elected to be taxed as a C corporation under N.D.C.C. § 57-38-01.35, you will receive a Renaissance Zone Shareholder Notice instead of a North Dakota Schedule K-1, which will show your share of the corporation's income exemption only.

If you receive a North Dakota Schedule K-1 or Renaissance Zone Shareholder Notice, claim your share of the income exemption or tax credit on your North Dakota income tax return as follows:

1. Enter your share of the exemption or credit on the applicable line of Schedule RZ. A separate line is provided in Parts 1, 4, 5, and 6 of Schedule RZ on which to report an exemption or tax credit passed through to you by a passthrough entity. Also complete Part 7 of Schedule RZ.
2. Attach Schedule RZ and a copy of the North Dakota Schedule K-1 or Renaissance Zone Shareholder Notice to your North Dakota income tax return.

Priority of exemptions and credits

A taxpayer may qualify for more than one tax incentive under the Act. If a taxpayer qualifies for both an income exemption and a tax credit under the Act, the income exemption must be applied first to determine North Dakota taxable income. Then the tax credit must be subtracted from the tax calculated on North Dakota taxable income.

Multiple income exemptions

If a business qualifies for both the business income exemption under the Act and the new or expanding business income exemption under N.D.C.C. ch. 40-57.1, the following steps apply:

1. Choose which of the two exemptions to apply first.
2. Calculate the amount of the exemption to be applied first by multiplying the total North Dakota net income of the business by the first exemption's apportionment factor (*see "Apportionment factor" below*).

3. Subtract the amount of the first exemption (*determined in step 2*) from the total North Dakota net income of the business to determine the amount of the North Dakota net income that remains.
4. Calculate the amount of the exemption to be applied second by multiplying the remaining North Dakota net income (*determined in step 3*) by the second exemption's apportionment factor (*see "Apportionment factor" below*).

Apportionment factor. For purposes of steps 2 and 4, the "apportionment factor" means the:

- Zone apportionment factor in the case of the business income exemption under the Renaissance Zone Act. See page 11 for details.
- Apportionment factor prescribed under N.D. Admin. Code § 81-03-01.1-06 in the case of the new or expanding business income exemption under N.D.C.C. ch. 40-57.1.

Multiple tax credits

If you qualify for more than one tax credit under North Dakota law (including the Act), the credits must be applied in the following order:

1. Tax credits that may not be carried back or carried forward to another tax year.
2. Tax credits that may be carried back.
3. Tax credits that may be carried forward.

Note: In the case of an individual, the credit for income tax paid to another state must be applied first in all cases.

Instructions for Part 1

Business or investment income exemption

General instructions

Who should complete

Complete Part 1 if the incentive allowed for the zone project, as specified in the zone project approval letter, is the business or investment income exemption.

If there is more than one project for which this exemption is allowed, complete a separate Schedule RZ, Part 1, for each project.

The business or investment income exemption may be claimed on the following forms—

In the case

| of a(n): | Form |
|-----------------|------|
| Individual | ND-1 |
| Estate or trust | 38 |
| C corporation | 40 |

If the taxpayer is a passthrough entity, see **Passthrough entity** on page 1.

Optional credit election. If certain conditions are met, an individual (Form ND-1) filer who qualifies for the business income exemption may elect to claim a tax credit in lieu of the business income exemption. See the instructions to Part 2 (Business purchase or expansion tax credit) on page 6 for details.

Five-year exemption period

The exemption is allowed in each year of a five-year exemption period that begins on the date specified in the zone project approval letter. The five-year exemption period is a period of sixty consecutive months. Once the 60-month exemption period begins to run, it runs uninterrupted through the end of the 60-month period.

The exemption is allowed over the entire 60-month exemption period even though the life of the renaissance zone itself expires before the end of the 60-month period.

Change in qualifying use. If the zone project property ceases to be used for its qualifying business or investment purpose, the taxpayer is ineligible for the exemption starting with the first day of the month in which the property's use changes.

Transfer of zone project property. The business or investment income exemption and its 60-month exemption period attach to the zone project property. If the zone project property is transferred to another taxpayer before the property's 60-month exemption period expires, the exemption and the unused portion of the 60-month exemption period transfer with the property. The taxpayer who transfers the property is ineligible for the exemption starting on the first day of the month of disposition. If the property is transferred to a taxpayer who also qualifies for the business or investment income exemption with respect to the property, the taxpayer acquiring the property is eligible for the exemption for the unexpired portion of the 60-month exemption period starting on the first day of the month of acquisition.

Amount of income exemption

The amount of income that may be exempted is dependent on whether the zone project property is used for business or investment purposes. The property is considered used for business purposes if it is used in an occupation, trade, profession, or commercial or mercantile enterprise. Property is used for investment purposes if the property is not part of or used in the regular course of any trade or business of the taxpayer. Unless a taxpayer can show otherwise, any property that is purchased, leased, or rehabilitated by a passthrough entity will be presumed to be used for business purposes.

Depending on the facts and circumstances, the distinction between business-use and investment-use will not always be clear. If in doubt as to whether zone project property is used for business or investment purposes, the taxpayer is advised to submit a written request for an opinion to the Office of State Tax Commissioner.

Business use property. If the zone project property is used for business purposes, the amount of the exemption depends on the location of the real property (owned or leased) by the business, the portion of the tax year the taxpayer is eligible for the exemption, and whether or not the zone project primarily consists of the expansion of an existing building. See the instructions to Part 1, lines 8 through 15, of Schedule RZ for the calculation of the exemption amount.

Investment use property. If the zone project property is used for investment purposes, the amount of the exemption equals the actual net income derived from the zone project property during the portion of the tax year the taxpayer is eligible for the exemption. For this purpose, investment income means:

- Net rental income from the lease of the property.
- Taxable portion of a gain from the sale or exchange of the property during the exemption period. In the case of an installment sale contract, the taxpayer may exempt the taxable portion of the gain recognized in each tax year over the life of the contract, even though the 60-month exemption period or the renaissance zone itself expires before all installments are received. However, interest income derived from the installment sale contract is not eligible for the exemption.

The exemption is allowed only to the extent that the investment income is included in North Dakota taxable income. In addition, if the zone project primarily consists of an expansion of an existing building, the exemption amount is limited to an amount attributable to the expanded portion of the building. See the instructions to Part 1, line 16, of Schedule RZ for the calculation of the exemption amount.

Maximum exemption amount per year for zone projects approved on or after August 1, 2013. In any tax year, a taxpayer may exempt no more than \$500,000 of eligible income derived from zone projects approved on or after August 1, 2013. The eligible income amounts attributable to zone projects approved on or after August 1, 2013, that are derived from all business and investment interests held by the taxpayer

during the tax year must be combined for purposes of this limitation. This limitation is accounted for in Part 1, lines 18 and 19, and Part 7, line 1, of Schedule RZ.

Specific line instructions

- If the taxpayer directly owns or leases the zone project property, complete lines 1 through 18 of Part 1. On lines 8 through 18, only include the numbers for the business that owns or leases the zone project property.
- If the taxpayer owns an interest in a passthrough entity, and Part 1 of Schedule RZ is being completed only to claim the taxpayer's share of a business or investment income exemption amount shown on a North Dakota Schedule K-1 received from the passthrough entity, skip lines 1 through 18, and enter the exemption amount on line 19 of Part 1. Include a copy of the North Dakota Schedule K-1 with Schedule RZ. *See "Passthrough entity owner" on page 2 of these instructions for more information.*

Line 1a

Enter the project number assigned to the zone project by the local zone authority, as shown on the final zone project approval letter. If the taxpayer does not have a copy of the final zone project approval letter, contact the local zone authority to obtain one. **Attach a copy of the final zone project approval letter to the North Dakota return.**

Line 1b

Fill in the circle indicating when the zone project received final approval, as shown on the final zone project approval letter.

Line 3

Enter the street address of the zone project property. Include the apartment, suite, or other unit number, if applicable. **Do not** enter a post office box number.

Line 4

If the taxpayer qualified for more than one zone project at the same street address, check the "Yes" box and enter the project numbers for all of them on the line provided on the schedule.

***Note:** If the taxpayer has more than one zone project for which the taxpayer qualifies for the business or investment income exemption, complete a separate Schedule RZ, Part 1, for each project. Add the separately calculated amounts and enter the total in Part 7, line 1, of one of the schedules.*

Line 7

Enter the exemption period start date for the zone project, as shown on the final zone project approval letter. This date establishes the beginning of the five-year (60-month) exemption period that applies to the zone project. This date does not change even if the property is transferred to another taxpayer. See **Five-year exemption period** on page 3 for more information.

Line 8

North Dakota business income

If the taxpayer qualified for the investment income exemption, do not enter any of the investment income on this line—see line 16.

If the taxpayer is claiming both the business income exemption under the Act and the new or expanding business income exemption under N.D.C.C. ch. 40-57.1, see "Multiple income exemptions" on page 2 before completing this line.

If the business incurred a net loss, enter zero. Otherwise, enter a net income as follows:

- **Resident individual**—For a resident individual filing North Dakota Form ND-1, enter the amount from Federal Form 1040, Schedule C or Schedule C-EZ.
- **Nonresident or part-year resident individual**—For a nonresident or part-year resident individual filing North Dakota Form ND-1, enter the amount from Schedule ND-1NR, line 3, Column B.
- **C corporation**—For a C corporation filing North Dakota Form 40, enter the amount from Form 40, page 1, line 6. However, if Schedule CR was completed, enter the amount from Schedule CR, Part 1, line 6 of the applicable column.

- **S corporation**—For an S corporation filing North Dakota Form 60 that carries on 100 percent of its business in North Dakota, enter the amount from Form 60, Schedule KS, line 1.

Regardless of where the corporation carries on its business, if all of its shareholders are full-year residents of North Dakota, enter the amount from Form 60, Schedule KS, line 1.

If the corporation carries on its business both within and without North Dakota (and is required to complete lines 1 through 14 of Schedule FACT, Form 60), **and** all of the shareholders are full-year nonresidents of North Dakota, multiply the amount from Form 60, Schedule KS, line 1, by the apportionment factor from Form 60, Schedule FACT, line 14, and enter the result.

If the corporation's shareholders include both residents and nonresidents of North Dakota, calculate the amount to enter on this line by combining the amounts calculated for the shareholders as follows:

Full-year resident individual, estate, or trust—Include the shareholder's amount from Form 60, Schedule KS, Column 5.

Full-year nonresident individual, estate, or trust—Include the shareholder's amount from Form 60, Schedule KS, Column 6.

Part-year resident individual—Include the sum of the shareholder's amounts attributable to the resident and nonresident portions of the tax year. To calculate the amount for the resident portion of the tax year, multiply the shareholder's amount from Form 60, Schedule KS, Column 5, by a ratio equal to the number of months the shareholder was a resident of North Dakota divided by 12 months. To calculate the amount for the nonresident portion of the tax year, first multiply the shareholder's amount from Form 60, Schedule KS, Column 5, by a ratio equal to the number of months the shareholder was a nonresident of North Dakota divided by 12 months, and then multiply this result by the apportionment factor from Form 60, Schedule FACT, line 14.

- **Partnership**—For a partnership filing North Dakota Form 58 that carries on 100 percent of its business in North Dakota, enter the amount from Form 58, Schedule KP, line 1.

Regardless of where the partnership carries on its business, if all of its partners are individuals, estates, and trusts that are full-year residents of North Dakota, enter the amount from Form 58, Schedule KP, line 1.

If the partnership carries on its business both within and without North Dakota (and is required to complete lines 1 through 14 of Schedule FACT, Form 58), **and** all of the partners are individuals, estates, and trusts that are full-year nonresidents of North Dakota, multiply the amount from Form 58, Schedule KP, line 1, by the apportionment factor from Form 58, Schedule FACT, line 14, and enter the result.

If the partnership's partners include different types of partners—resident individual, nonresident individual, corporation, etc.—calculate the amount to enter on this line by combining the amounts calculated for the partners as follows:

Full-year resident individual, estate, or trust—Include the partner's amount from Form 58, Schedule KP, Column 5.

Full-year nonresident individual, estate, trust—Include the partner's amount from Form 58, Schedule KP, Column 6.

Part-year resident individual—Include the sum of the partner's amounts attributable to the resident and nonresident portions of the tax year. To calculate the amount for the resident portion of the tax year, multiply the partner's amount from Form 58, Schedule KP, Column 5, by a ratio equal to the number of months the partner was a resident of North Dakota divided by 12 months. To calculate the amount for the nonresident portion of the tax year, first multiply the partner's amount from Form 58, Schedule KP, Column 5, by a ratio equal to the number of months the partner was a nonresident of North Dakota divided by 12 months, and then multiply this result by the apportionment factor from Form 58, Schedule FACT, line 14.

Corporation partner—If a partner is a corporation, contact the Office of State Tax Commissioner, Corporation Income Tax Section, for information on how to determine the amount to include.

- **Fiduciary**—For a fiduciary filing North Dakota Form 38 that operates a business as a sole proprietorship, enter the net income from Schedule C or Schedule C-EZ (Form 1040) attached to Federal Form 1041.

Note: For a nonresident estate or trust, enter only that portion of the net income from Schedule C or Schedule C-EZ (Form 1040) that is attributable to North Dakota.

Lines 9a through 9h Zone apportionment factor (business income only)

If all of the taxpayer's business real property in North Dakota is located at the zone project location, skip lines 9a through 9g and enter "1.000000" on line 9h. Then go to line 10.

If only a portion of the taxpayer's business real property in North Dakota is located at the zone project location, complete lines 9a through 9g to calculate the zone apportionment factor to enter on line 9h. The instructions for lines 9a through 9g are on page 11 of these instructions.

Real property includes leaseholds, i.e., real property that the taxpayer is leasing and using in the business.

If the zone project consists of the lease of space in a building for business purposes, and the taxpayer had previously qualified for a zone project for leasing space in the same building for use in the same business, complete lines 9a through 9h. For purposes of completing lines 9a through 9h, do not include the previously leased space or its contents in Column B (Zone project property location).

Lines 11a through 11c Expansion limitation factor

If the project approval date on line 1b is **before August 1, 2013**, skip lines 11a and 11b, and enter "1.000000" on line 11c. Then go to line 12.

If the project approval date on line 1b is **after July 31, 2013**, and if the primary purpose of the zone project is the

expansion of an existing building that the taxpayer owned and used for business purposes prior to applying for the zone project, complete lines 11a through 11c. For this purpose, an "expansion" means adding physical square footage to an existing building to increase the amount of usable space within the building.

Generally, the type of qualifying transaction which may involve an expansion is a purchase with major improvements (see line 5, item b) or a qualified rehabilitation (see line 5, item d). If the primary purpose of the zone project is to make improvements to, or rehabilitate, the existing building, and any expansion of the existing building is only incidental to the larger project, the zone project will not be considered an expansion for purposes of this limitation. In this case, skip lines 11a and 11b, and enter "1.000000" on line 11c. Then go to line 12.

Lines 14a through 14c Exemption period limitation (business income only)

Full-year eligibility. If the taxpayer is eligible for the exemption for the entire tax year, skip lines 14a and 14b, and enter "1.000000" on line 14c. Then go to line 15. This applies if **all** of the following apply:

- The taxpayer is eligible for the business income exemption as of the beginning of the tax year. *See **Five-year exemption period** on page 3.*
- The taxpayer used the zone project property in the business for the entire tax year.
- The 60-month exemption period did not expire during the tax year. This condition is satisfied if the 60th month of the exemption period falls in the last month of the tax year or later.

Partial year eligibility. The taxpayer is eligible for the business income exemption for only part of the tax year if **any** of the following apply:

- The taxpayer became eligible for the business income exemption during the tax year in a month other than the first month of the tax year. *See **Five-year exemption period** on page 3.*

- The taxpayer sold the zone project property, terminated the lease on the zone project property, or permanently withdrew the zone project property from use in the business during the tax year.
- The maximum 60-month exemption period allowed for the zone project property expired during the tax year, and the 60th month is a month other than the last month of the tax year.

If any of the above conditions apply, complete lines 14a through 14c to calculate an exemption period eligibility factor. Enter on line 14a the **smaller** of the following:

- Number of months the taxpayer was eligible for the exemption during the tax year.
- Number of months the taxpayer owned or leased the zone project property during the tax year. If the taxpayer acquired the zone project property during the tax year, include the month of acquisition. If the taxpayer disposed of the zone project property during the tax year, exclude the month of disposition.
- Number of months the zone project property was used in the business during the tax year. If the taxpayer put the zone project property into use in the business during the tax year, include the month in which the zone project property was first put into use in the business. If the taxpayer removed the zone project property from use in the business during the tax year, exclude the month in which the zone project was permanently removed from use in the business.

Line 16 **(investment income only)**

If the taxpayer qualified for the investment income exemption, enter the following on this line:

- Rents, less related expenses, from the zone project property received during the months the taxpayer was eligible for the exemption during the tax year.
- Taxable portion of a gain from the sale or exchange of the zone project property during the exemption period. In the

case of an installment sale contract, the taxpayer may exempt the taxable portion of the gain recognized in each tax year over the life of the contract, even though the exemption period or renaissance zone expires before all installments are received. However, interest income derived from the installment sale contract is not eligible for the exemption.

Expansion project limitation. If the project approval date on line 1b is *after July 31, 2013*, and if the primary purpose of the zone project is the expansion of an existing building that the taxpayer owned and used for investment purposes prior to applying for the zone project, the amount of the exemption is limited. For this purpose, an “expansion” means adding physical square footage to an existing building to increase the amount of usable space within the building.

Generally, the type of qualifying transaction which may involve an expansion is a purchase with major improvements (see line 5, item b) or a qualified rehabilitation (see line 5, item d). If the primary purpose of the zone project is to make improvements to, or rehabilitate, the existing building, and any expansion of the existing building is only incidental to the larger project, the zone project will not be considered an expansion for purposes of this limitation.

If the expansion project limitation applies, complete the following worksheet to calculate the amount to enter on this line:

1. Total eligible investment income 1 _____
2. Square footage added by project..... 2 _____
3. Total square footage of building after expansion..... 3 _____
4. Divide line 2 by line 3..... 4 _____
5. Investment income exemption. Multiply line 1 by line 4. Enter this amount on line 16 of Part 1 5 _____

Instructions for Part 2

Business purchase or expansion tax credit

General instructions

Who should complete

Complete Part 2 **only if** all of the following conditions are met:

- The taxpayer is an individual (Form ND-1) filer with a zone project that qualified for the business income exemption.
- The zone project consists of a purchase, lease, or improvement of real property used in a business owned and operated as a sole proprietorship by the individual.
- The underlying purpose of the zone project is to purchase, expand, or make leasehold improvements to the business.
- The zone project is located in a renaissance zone city with a population of no more than 2,500.
- The zone project's cost is over \$75,000.
- The individual elects to claim the business purchase or expansion credit in lieu of the business income exemption (in Part 1 of Schedule RZ).

Making the election. To make the election, complete Part 2 of Schedule RZ and attach Schedule RZ to Form ND-1. For the election to be valid, Form ND-1 must be filed on or before its due date or extended due date. The election is irrevocable and binding over the zone project's entire five-year exemption period.

Amount of tax credit

The tax credit is equal to \$2,000 per year over a five-year credit period—see “Five-year credit period” below. If the credit exceeds the individual's tax, the unused portion is not refundable and may not be carried over and used on a subsequent tax year's return.

Five-year credit period

This credit is allowed in each year of a five-year credit period that begins on the same date the business income exemption begins, as specified in the zone project approval letter. The five-year credit period is a period of sixty consecutive months, consisting of five 12-month periods. A \$2,000 credit is allowed in each 12-month period. With respect to the individual's tax year, if the individual is not eligible for the credit for the entire tax year, a credit of \$166.67 (\$2,000 divided by 12) is allowed for each month of eligibility during the tax year.

Once the 60-month credit period begins to run with respect to the zone project property, it runs uninterrupted through the end of the 60-month credit period. The credit is allowed over the entire 60-month credit period even if the renaissance zone itself expires. If the property is permanently withdrawn from business use, the individual is ineligible for the credit starting on the first day of the month in which the withdrawal occurs.

Transfer of zone project property. The tax credit and its 60-month credit period attach to the zone project property. If the property is transferred to another individual before the end of the 60-month credit period, the individual transferring the property is ineligible for the credit starting with the month of disposition. If the property is transferred to another qualifying individual before the end of the 60-month credit period, the individual acquiring the property is eligible for the credit for the unexpired portion of the 60-month credit period.

Specific line instructions

Line 1

Fill in the circle on this line to indicate eligibility for the credit in Part 2, Schedule RZ, and to irrevocably elect to take the credit in lieu of the business income exemption in Part 1, Schedule RZ.

Line 2

Enter the project number assigned to the zone project by the local zone authority, as shown on the final zone project approval letter. If the taxpayer does not have a copy of the final zone project approval letter, contact the local zone authority to obtain one.

Attach a copy of the final zone project approval letter to the North Dakota return.

Line 4

Enter the street address of the zone project property. Include the suite or unit number, if applicable. **Do not** enter a post office box number.

Line 5

If the taxpayer qualified for more than one zone project at the same street address, check the "Yes" box and enter the project numbers for all of them on the line provided on the schedule.

Line 8

Enter the five-year exemption period start date for the zone project, as shown on the final zone project approval letter. This date establishes the beginning of the five-year credit period that applies to the zone project property. This date does not change even if the property is transferred to another taxpayer. See **Five-year credit period** on this page for more information.

Line 9

Credit period limitation

Full-year eligibility. If the taxpayer is eligible for the credit for the entire tax year, enter "12" on line 9 and go to line 10. The taxpayer is eligible for the credit for the entire tax year if **all** of the following apply:

- The taxpayer was eligible for the credit as of the beginning of the tax year. See **Five-year credit period** on this page.
- The taxpayer used the zone project property in the business for the entire tax year.

- The 60-month credit period did not expire during the tax year. This applies if the 60th month of the credit period falls in the last month of the tax year or later.

Partial-year eligibility. The taxpayer is eligible for the credit for only part of the tax year if **any** of the following apply:

- The taxpayer became eligible for the credit during the tax year in a month other than the first month of the tax year. See **Five-year credit period** on this page.
- The taxpayer ceases to use the zone project property for business purposes during the tax year.
- The 60-month credit period expired during the tax year, and the 60th month is not the last month of the tax year.

If any of the above conditions apply, enter on line 9 the number of months the taxpayer is eligible for the credit during the tax year. Enter the **smaller** of the following:

- Number of months the taxpayer was eligible for the credit during the tax year.
- Number of months the taxpayer owned or leased the zone project property during the tax year. If the taxpayer acquired the zone project property during the tax year, include the month of acquisition. If the taxpayer disposed of the zone project property during the tax year, exclude the month of disposition.
- Number of months the zone project property was used in the business during the tax year. Include the month in which the zone project property was first put into use in the business, and exclude the month in which the zone project was permanently removed from use in the business.

Instructions for Part 3

Single-family residence tax credit

General instructions

Who should complete

Complete Part 3 if the incentive allowed for the zone project, as specified in the zone project approval letter, is the single-family residence tax credit. This credit is only allowed to an individual on Form ND-1.

Five-year credit period

The credit is allowed in each year of a five-year credit period. The five-year credit period is a period of sixty consecutive months, consisting of five 12-month periods. The \$10,000 credit is allowed in each of the five 12-month periods. If the individual is not eligible for the tax credit for the entire tax year, a credit equal to \$833.33 (\$10,000 divided by 12) is allowed for each month of eligibility during the tax year.

Once the 60-month credit period begins to run, it runs uninterrupted through the end of the 60-month credit period. The credit is allowed over the entire 60-month credit period even if the renaissance zone itself expires before the end of the 60-month credit period.

Transfer of zone project property. The tax credit and its five-year credit period attach to the single-family residence. If the residence is transferred to another taxpayer before the five-year credit period expires, the tax credit and the unused portion of the five-year credit period transfer with the property. The individual who transfers the residence is ineligible for the tax credit starting with the month of disposition. If the residence is transferred to another individual who also qualifies for the tax credit with respect to the residence, the individual acquiring the property is eligible

for the tax credit for the unexpired portion of the five-year credit period starting with the month of acquisition.

Change in primary place of residence.

If an individual who qualifies for the tax credit with respect to a single-family residence ceases to use it as the primary place of residence, i.e., as the legal residence, during the five-year credit period, the individual is ineligible for the tax credit starting with the first day of the month in which the change occurs.

Specific line instructions

Line 1

Enter the project number assigned to the zone project by the local zone authority, as shown on the final zone project approval letter. If the taxpayer does not have a copy of the final zone project approval letter, contact the local zone authority to obtain one. **Attach a copy of the final zone project approval letter to the North Dakota return.**

Line 3

Enter the street address of the zone project property. **Do not** enter a post office box number.

Line 4

If the taxpayer qualified for more than one zone project at the same street address, check the "Yes" box and write the project numbers for all of them on the line provided on the schedule.

Line 9

Enter the five-year credit period start date for the zone project, as shown on the final zone project approval letter. This date establishes the beginning of the five-year credit period that applies to the zone project property. This date does not change even if the property is transferred to another taxpayer. **See *Five-year credit period* on this page.**

Line 10

Credit period limitation

Full-year eligibility. If the taxpayer is eligible for the tax credit for the entire tax year, enter "12" on line 10 and go to line 11. The taxpayer is eligible for the credit for the entire tax year if **all** of the following apply:

- The taxpayer was eligible for the credit as of the beginning of the tax year. **See *Five-year credit period* on this page.**
- The taxpayer used the zone project property as his or her primary place of residence for the entire tax year.
- The 60-month credit period did not expire during the tax year. This applies if the 60th month of the credit period falls in the last month of the tax year or later.

Partial-year eligibility. The taxpayer is eligible for the credit for only part of the tax year if **any** of the following apply:

- The taxpayer became eligible for the credit during the tax year in a month other than the first month of the tax year. **See *Five-year credit period* on this page.**
- The taxpayer sold or otherwise disposed of the residence during the tax year.
- The taxpayer established another residence as his or her primary place of residence during the tax year.
- The 60-month credit period expired during the tax year, and the 60th month is not the last month of the tax year.

If any of the above conditions apply, enter on line 10 the number of months the taxpayer is eligible for the credit during the tax year. Enter the **smaller** of the following:

- Number of months the taxpayer is eligible for the credit during the tax year.
- Number of months the taxpayer owned and occupied the residence during the tax year. If the taxpayer acquired the residence during the tax year, include the month in which the taxpayer took title to the residence or first occupied it, whichever occurs last. If the taxpayer disposed of the residence during the tax year, exclude the month of disposition.
- Number of months the residence was used as the primary place of residence.

Instructions for Part 4

Historic property preservation or renovation tax credit

General instructions

Who should complete

Complete Part 4 if the incentive allowed for the zone project, as specified in the zone project approval letter, is the historic property preservation or renovation tax credit.

This credit may be claimed on the following forms:

In the case

| of a(n): | Form |
|-----------------|------|
| Individual | ND-1 |
| Estate or trust | 38 |
| C corporation | 40 |

If the taxpayer is a passthrough entity, see **Passthrough entity** on page 1.

When to claim credit

The first year the tax credit must be claimed is the tax year in which the preservation or renovation work is completed, as specified in the final zone project approval letter. If the entire credit cannot be used in the tax year in which it is first claimed, the unused credit may be carried over for up to five tax years.

Specific line instructions

- If the taxpayer directly owns the zone project property, complete lines 1 through 11 of Part 4.
- If the taxpayer owns an interest in a passthrough entity, and Part 4 of Schedule RZ is being completed only to claim the taxpayer's share of the historic property preservation or renovation tax credit shown on a North Dakota Schedule K-1 received from the

passthrough entity, skip lines 1 through 6c, and enter the credit amount on line 7 of Part 4. Include a copy of the North Dakota Schedule K-1 with Schedule RZ. *See "Passthrough entity owner" on page 2 of these instructions for more information.*

Line 1

Enter the project number assigned to the zone project by the local zone authority, as shown on the final zone project approval letter. If the taxpayer does not have a copy of the final zone project approval letter, contact the local zone authority to obtain one. **Attach a copy of the final zone project approval letter to the North Dakota return.**

Line 3

Enter the street address of the project property. Include the apartment, suite, or other unit number, if applicable. **Do not** enter a post office box number.

Line 4

If the taxpayer qualified for more than one zone project at the same street address, check the "Yes" box and write the project numbers for all of them on the line provided on the schedule.

Note: If the taxpayer has more than one zone project for which the taxpayer qualifies for the historic property preservation or renovation tax credit, complete a separate Schedule RZ for each project. Add the separately calculated amounts and enter the total in Part 7, line 4, of one of the schedules.

Line 7

Enter the historic property preservation or renovation tax credit from North Dakota Schedule K-1. See **Passthrough entity** on page 1 for more information. **Attach a copy of the North Dakota Schedule K-1.**

Line 10

Current year credit

Enter on this line the portion of the total available tax credit (on line 9) that is being used to reduce the 2016 tax liability. If there is a tax credit carryforward from a prior tax year (on line 8), use the credits in the order that is most beneficial.

If the taxpayer is a passthrough entity, enter the total amount from line 9, and skip line 11. **Except for passthrough entities, attach a statement showing how the amount entered on this line was determined.**

Line 11

Carryforward to 2017

If the total available tax credit on line 9 exceeds the amount on line 10, enter on this line the portion of the excess that is eligible for carryover to the 2017 tax year.

Except for passthrough entities, attach a statement showing how the amount entered on this line was determined.

Instructions for Part 5

Renaissance fund organization investment tax credit

General instructions

Who should complete

Complete Part 5 if the taxpayer made a qualifying investment in a renaissance fund organization (RFO), as evidenced by the North Dakota Renaissance Fund Organization Investment Reporting Form that was issued to the taxpayer by the RFO.

This credit may be claimed on the following forms—

In the case

| of a(n): | Form |
|-----------------|------|
| Individual | ND-1 |
| Estate or trust | 38 |
| C corporation | 40 |

If the taxpayer is a passthrough entity, see **Passthrough entity** on page 1.

When to claim credit

The first year the tax credit must be claimed is the tax year in which the investment was made. The date of the investment is shown on the investment reporting form. If the entire credit cannot be used in the tax year in which it is first claimed, the unused credit may be carried over for up to five tax years.

Disqualifying redemption

The tax credit is disallowed and must be repaid to the state by a taxpayer if the taxpayer originally made the investment and the taxpayer redeems the investment within ten years of making it. For this purpose, "redeem" means that the taxpayer initiates a transaction with the RFO in which the taxpayer receives cash or property in return for the stock or other investment interest. A disqualifying redemption does not occur if a taxpayer transfers part or all of an investment interest to a third party, nor does it occur if the RFO initiates the transaction.

If there is a disqualifying redemption, the RFO must complete another North Dakota Renaissance Fund Organization Investment Reporting Form and submit it to the Office of State Tax Commissioner. A copy of the completed form must be given to the taxpayer.

Repayment of disallowed credit. A credit disallowed as the result of a disqualifying redemption must be repaid to the state. The repayment must be made with the North Dakota income tax return filed for the tax year in which the redemption occurred. No penalty or interest applies to a timely repayment of the disallowed credit. **Do not** file an amended return or use Schedule RZ to report the redemption.

If a taxpayer makes a disqualifying redemption, the taxpayer must contact the Office of State Tax Commissioner for instructions on how to report the redemption on the North Dakota tax return.

Specific line instructions

- If the taxpayer made the investment, complete lines 1 through 8 of Part 5.

- If the taxpayer owns an interest in a passthrough entity, and Part 5 of Schedule RZ is being completed only to claim the taxpayer's share of the renaissance fund organization investment tax credit shown on a North Dakota Schedule K-1 received from the passthrough entity, skip lines 1 through 3, and enter the credit amount on line 4 of Part 5. Include a copy of the North Dakota Schedule K-1 with Schedule RZ. *See "Passthrough entity owner" on page 2 of these instructions for more information.*

Line 1

Enter the name of the renaissance zone city having the renaissance fund organization in which the taxpayer made the investment. This city will be identified on the North Dakota Renaissance Fund Organization Investment Reporting Form received from the renaissance fund organization.

Line 4

Enter the RFO investment tax credit from North Dakota Schedule K-1. See **Passthrough entity** on page 1 for more information. **Attach a copy of the North Dakota Schedule K-1.**

Line 7

Current year credit

Enter on this line the portion of the total available tax credit (on line 6) that is being used to reduce the 2016 tax liability. If there is a tax credit carryforward from a prior tax year (on line 5), use the credits in the order that is most beneficial.

If the taxpayer is a passthrough entity, enter the total amount from line 6, and skip line 8. **Except for passthrough entities, attach a statement showing how the amount entered on this line was determined.**

Line 8

Carryforward to 2017

If the total available tax credit on line 6 exceeds the amount on line 7, enter on this line the portion of the excess that is eligible for carryover to the 2017 tax year.

Except for passthrough entities, attach a statement showing how the amount entered on this line was determined.

Instructions for Part 6

Nonparticipating property owner credit

General instructions

Who should complete

Complete Part 6 if the incentive allowed for the zone project, as specified in the zone project approval letter, is the nonparticipating property owner credit.

This credit may be claimed on the following forms:

In the case

| of a(n): | Form |
|-----------------|-----------|
| Individual | Form ND-1 |
| Estate or trust | 38 |
| C corporation | 40 |

If the taxpayer is a passthrough entity, see **Passthrough entity** on page 1.

When to claim credit

The first year the tax credit must be claimed is the tax year in which the related zone project is completed, as specified in the final zone project approval letter issued to the nonparticipating property owner. If the entire credit cannot be used in the tax year in which it is first claimed, the unused credit may be carried over for up to five tax years.

Specific line instructions

- If the taxpayer directly owns the zone project property, complete lines 1 through 10 of Part 6.
- If the taxpayer owns an interest in a passthrough entity, and Part 6 of Schedule RZ is being completed only to claim the taxpayer's share of the nonparticipating property owner tax credit shown on a North Dakota Schedule K-1 received from the passthrough entity, skip lines 1

through 5, and enter the credit amount on line 6 of Part 6. Include a copy of the North Dakota Schedule K-1 with Schedule RZ. *See “Passthrough entity owner” on page 2 of these instructions for more information.*

Line 1

Enter the project number assigned to the zone project by the local zone authority, as shown on the final zone project approval letter. If the taxpayer does not have a copy of the final zone project approval letter, contact the local zone authority to obtain one. **Attach a copy of the final zone project approval letter to the North Dakota return.**

Line 3

Enter the street address of the nonparticipating property owner's project property. Include the apartment, suite, or other unit number, if applicable. **Do not** enter a post office box number.

Line 4

If the taxpayer qualified for more than one zone project at the same street address, check the “Yes” box and write the project numbers for all of them on the line provided on the schedule.

Line 6

Enter the nonparticipating property owner credit from North Dakota Schedule K-1. See **Passthrough entity** on page 1 for more information. **Attach a copy of the North Dakota Schedule K-1.**

Line 9**Current year credit**

Enter on this line the portion of the total available tax credit (on line 8) that is being used to reduce the 2016 tax liability. If the taxpayer is a passthrough entity, enter the total amount from line 8, and skip line 10. **Except for passthrough entities, attach a statement showing how the amount entered on this line was determined.**

Line 10**Carryforward to 2017**

If the total available tax credit on line 8 exceeds the amount on line 9, enter on this line the portion of the excess that is eligible for carryover to the 2017 tax year. **Except for passthrough entities, attach a statement showing how the amount entered on this line was determined.**

Instructions for calculating the zone apportionment factor (for Part 1, lines 9a-9h)

General instructions

These instructions explain how to calculate the zone apportionment factor for Part 1, lines 9a through 9h.

Factor in general

The zone apportionment factor is a fraction composed of the following:

- Numerator (Column B)**

The numerator includes the average value of the owned and rented properties that are used at the business's zone project location.

Exception for certain rented property.

If the zone project consists of the rental of space in a building for business purposes, and the taxpayer had previously qualified for a zone project for renting space in the same building for use in the same business, do not include in the numerator the space leased for the previous zone project and any owned or rented property located in that space.

- Denominator (Column A)**

The denominator includes the average value of all owned and rented properties used in the business in North Dakota.

Determining average value of property.

See the specific line instructions for lines 9a through 9g later in this section for how to determine the average value of the property.

Property includable in zone

apportionment factor. The zone apportionment factor must include all North Dakota real and tangible personal property owned and rented that is used in the regular course of the taxpayer's business during the tax period.

Real and tangible personal property includes land, buildings, machinery, stocks of goods, equipment, and other tangible property. It does not include coin and currency.

Property used in the business. Property is used in the business if it is actually used, available for use, or capable of being used in the regular course of the business during the tax period. This includes the following:

- Inventoriable goods in process.
- Property held as reserves or standby facilities, or property held as a reserve source of materials.
- Property under construction if actually used in the regular course of the business, but only to the extent of the value attributable to its use. In the case of an improvement to an existing business that is approved as a zone project, personal property that is purchased for purposes of the improvement and becomes an integral part of the business real property is excluded from the zone factor until completion of the improvement project.

Property required to be included in the zone apportionment factor must remain in the zone apportionment factor until its permanent withdrawal is established by an identifiable event, such as its sale or the lapse of an extended period of time (normally five years) during which the property is held for sale.

Property used at zone project location.

Property is included in the numerator of the zone apportionment factor if it is physically located and used at the zone project location. Property in transit on the last day of the tax year and mobile or movable property is considered to be located and used at the zone project location in the following situations:

- The property is in transit between separate physical locations of the same business and the property's destination is the zone project location.
- The property is in transit between a buyer and seller and, based on the taxpayer's regular accounting practices, is included in the denominator of the zone factor, and the property's final destination is the zone project location.

- The mobile or movable property, such as construction equipment, trucks, or leased electronic equipment, is assigned to the zone project location. This includes an automobile assigned to a traveling employee who is assigned to the zone project location.

Specific line instructions

Lines 9a through 9e

In **Column A** (Total North Dakota property), enter on the applicable line the average value of the business's tangible assets that are owned and located in North Dakota. In **Column B** (Zone project property only), enter the portion of the amount in Column A that is physically located and used at the zone project location. See "Exception for certain rented property" under **Factor in general for treatment of tangible assets owned and located in certain rented property**.

Determining the average value of owned property. The average value of owned property must be determined by adding the original cost (or other basis used for federal income tax purposes) of the property as properly reported on the books of the business on the first and last days of the tax year and dividing the sum by two.

Depreciation, amortization, and depletion must be disregarded. Include capital additions or improvements made during the tax year in this calculation. Also note the following:

- Inventory of stock of goods must be valued using the valuation method used for federal income tax purposes.
- Property acquired by gift or inheritance must be valued at its basis for depreciation purposes under federal income tax law.
- Leasehold improvements are considered property owned by the lessee regardless of whether the lessee is entitled to remove the improvements or the improvements revert to the lessor when the lease expires. Value at the original cost of the improvements.

Monthly averaging exception. If the averaging method described above does not properly reflect the average value of the property, the tax commissioner may require or allow averaging on a monthly basis. This method will generally be applied in the following situations:

- There are substantial fluctuations in the values of the property during the tax year.
- The property is acquired after the beginning of the tax year.
- The property is disposed of before the end of the tax year.

Example of monthly averaging

Assume the following property values determined as of the end of each month:

| | |
|-----------|-------------------|
| January | \$ 2,000 |
| February | 2,000 |
| March | 3,000 |
| April | 3,500 |
| May | 4,500 |
| June | 10,000 |
| July | 15,000 |
| August | 17,000 |
| September | 23,000 |
| October | 25,000 |
| November | 13,000 |
| December | 2,000 |
| Total | <u>\$ 120,000</u> |

The average value of the property for the tax year is \$10,000 (\$120,000 divided by 12).

Line 9f Rented property

For rented property, enter in **Column A** (Total North Dakota property) the amount determined by multiplying the net annual rental rate by eight. In **Column B** (Zone project property only), enter the portion of the amount in Column A that is attributable to the rented property physically located and used at the zone project location. See "Exception for certain rented property" under **Factor in general**.

Note: Leasehold improvements are considered property owned by the lessee regardless of whether the lessee is entitled to remove the improvements or the improvements revert to the lessor when the lease expires. See the instructions to lines 9a through 9e.

Net annual rental rate. The net annual rental rate for an item of rented property equals the annual rental rate paid less any subrents received from subtenants. If the taxpayer received subrents, the following apply:

- Do not deduct the subrents from the annual rental rate if they constitute income earned in the regular course of the business.
- If the subrents produce a negative or clearly inaccurate value for any item of rented property, another method that properly reflects the value of the rented property may be required by the tax commissioner or requested by the taxpayer. For this purpose, the resulting value must not be less than an amount which bears the same ratio to the annual rental rate paid for the rented property as the fair market value of that portion of the rented property used by the taxpayer bears to the total fair market value of the rented property.

Annual rental rate. Generally, the annual rental rate means the amount paid as rent for the rented property for a twelve month period. If the property is rented for a term of less than twelve months, the annual rental rate equals the rent paid for the actual rental term during the tax year. If property is rented for a term of twelve or more months and the current tax year covers a period of less than twelve months because of a reorganization or change of accounting period, etc., the rent paid for the short tax year must be annualized.

Rent. Rent means the actual sum of money or other consideration payable, directly or indirectly, by the taxpayer or for the taxpayer's benefit for the use of the rented property, including the following:

- Any amount payable for the use of real or tangible personal property, or any part thereof, whether designated as a fixed sum of money or as a percentage of sales, profits, or otherwise.
- Any amount payable as additional rent or in lieu of rent, such as interest, taxes, insurance, repairs or any other items which are required to be paid by the terms of the lease or other arrangement. This does not include an amount paid as a service charge, such

as for utilities or janitorial services. If a payment includes both rent and other unsegregated charges, the amount of rent must be determined by considering the relative values of the rent and the other items.

Rent does not include incidental day-to-day expenses, such as hotel accommodations or daily automobile rentals.

Exception to net annual rental rate method. If the use of the net annual rental rate method produces a negative or clearly inaccurate value, or where rented property is used by the taxpayer at no charge or rented at a nominal rate, the net annual rental rate for the property must be determined on the basis of a reasonable market rental rate for the property.

**RZ Schedule for Renaissance Zone Income
Exemption and Tax Credits***Attach to
Form ND-1, 38,
40, 58, or 60*

Taxpayer's name as shown on tax return

Social security number (or FEIN, if applicable)

Part 1 Business or investment income exemption

▶ See the instructions for Part 1 on page 3 of the instruction booklet.

▶ If the taxpayer directly owns or leases the zone project property, complete lines 1 through 18 of Part 1. On lines 8 through 18, only include the numbers for the business that owns or leases the zone project property.

▶ If the taxpayer is completing Schedule RZ, Part 1, only to claim a business or investment income exemption shown on a North Dakota Schedule K-1, skip lines 1 through 18, and enter the income exemption amount on page 2, Part 1, line 19.

1. a. Project number assigned by the local zone authority (*Attach a copy of the final zone project approval letter*)
- b. This project was approved by the local zone authority: ☐ Before August 1, 2013 ☐ After July 31, 2013
2. Renaissance zone city in which the zone project property is located _____
3. Street address of zone project property _____
4. Does taxpayer have more than one zone project at the address shown on line 3 above? ☐ Yes ☐ No
If yes, enter all of the project numbers here _____
5. Type of qualifying transaction (*from final zone project approval letter*):
a ☐ Purchase b ☐ Purchase with major improvements c ☐ Lease d ☐ Qualified rehabilitation
e ☐ Public utility infrastructure changes f ☐ Leasehold improvements
6. If a or c is checked on line 5, enter the date on which title to the property was obtained or the date the lease took effect, whichever applies. If b, d, e, or f is checked on line 5, enter the date the improvement or rehabilitation work was completed 6 _____
7. Exemption period start date (*from final zone project approval letter*) 7 _____
- ▶ If the zone project property is being used solely for investment purposes, skip lines 8 through 15, and go to line 16. See instructions for what is considered investment use.
8. North Dakota business income for 2016 tax year (*See instructions for the amount to enter on this line*) . . . 8 _____
- ▶ If less than 100% of the taxpayer's North Dakota business real property is located at the zone project location, complete lines 9a through 9h; otherwise, enter "1.000000" on line 9h and go to line 10.
- | | Column A
All property in
North Dakota | Column B
Property at zone
project location |
|--|---|--|
| 9. Enter the average value at original cost of each of the following real and tangible personal property items used in the business: | | |
| a. Inventories | 9a _____ | _____ |
| b. Buildings and other fixed assets | 9b _____ | _____ |
| c. Depletable assets | 9c _____ | _____ |
| d. Land | 9d _____ | _____ |
| e. Other assets (<i>Attach a statement identifying assets</i>) | 9e _____ | _____ |
| f. Rented property (<i>Annual rent x 8</i>) | 9f _____ | _____ |
| g. Total property (<i>Add lines 9a through 9f</i>) | 9g _____ | _____ |
| h. Zone apportionment factor (<i>Divide line 9g, Column B, by line 9g, Column A</i>) | | 9h _____ |
| 10. North Dakota business income attributable to zone project (<i>Multiply line 8 by line 9h</i>) | | 10 _____ |
- ▶ See the instructions to lines 11a through 11c before completing them.
11. a. Amount of square feet added by the zone project 11a _____
b. Total square footage of building after expansion 11b _____
c. Expansion limitation factor (*Divide line 11a by line 11b*) 11c _____
12. Balance of North Dakota business income attributable to zone project (*Multiply line 10 by line 11c*)
Enter the amount from this line on page 2, Part 1, line 13 12 _____
- ▶ Attach all 5 pages of Schedule RZ to the North Dakota income tax return

2016 Schedule RZ, page 2

Taxpayer's name as shown on tax return _____

Social security number (or FEIN, if applicable) _____

Part 1 continued

13. Enter the amount from page 1, Part 1, line 12 **13** _____
- ▶ See the instructions to lines 14a through 14c before completing them.
14. a. Number of months of eligibility for the exemption during the 2016 tax year **14a** _____
- b. Number of months in taxpayer's 2016 tax year **14b** _____
- c. Exemption period eligibility factor (*Divide line 14a by line 14b*) **14c** _____
15. North Dakota business income exemption for this project (*Multiply line 13 by line 14c*) **15** _____
16. Investment income exemption for this project (*See instructions*) **16** _____
17. Total business or investment income exemption (*Add lines 15 and 16*) **17** _____
18. **Income exemption from directly-owned zone project property.** Enter the amount from line 17 on line 18a or line 18b, whichever applies.
- a. If the project approval date on page 1, Part 1, line 1b, is **before August 1, 2013**, enter the amount from line 17 here and on page 5, Part 7, line 1a **18a** _____
- b. If the project approval date on page 1, Part 1, line 1b, is **after July 31, 2013**, enter the amount from line 17 here and on page 5, Part 7, line 1d **18b** _____
- ▶ Complete line 19 only if the taxpayer is claiming a renaissance zone income exemption from a North Dakota Schedule K-1.
19. **Income exemption from a passthrough entity.** Enter the amount from the North Dakota Schedule K-1 on line 19a or line 19b, whichever applies.
- a. For projects approved **before August 1, 2013**, enter the amount here and on page 5, Part 7, line 1b. **19a** _____
- b. For projects approved **after July 31, 2013**, enter the amount here and on page 5, Part 7, line 1e. **19b** _____

Part 2 Business purchase or expansion tax credit

▶ See the instructions for Part 2 on page 6 of the instruction booklet.

1. Fill in this circle only if the taxpayer is eligible for this credit and is irrevocably electing to claim it instead of the business income exemption ▶ ☐
2. Project number assigned by the local zone authority (*Attach a copy of the final zone project approval letter*) _____
3. Renaissance zone city in which the zone project is located _____
4. Street address of zone project property _____
5. Does taxpayer have more than one zone project at the address shown on line 4 above? ☐ Yes ☐ No
If yes, enter all of the project numbers here _____
6. Type of qualifying transaction (*from final zone project approval letter*):
a ☐ Purchase of new business b ☐ Expansion of existing business c ☐ Leasehold improvement
7. If a is checked on line 6, enter the date on which title to the property was obtained. If b or c is checked on line 6, enter the date the expansion or leasehold improvement work was completed **7** _____
8. Credit period start date (*from final zone project approval letter*) **8** _____
- ▶ See the instructions to line 9 before completing it.
9. Number of months of eligibility for the credit for the 2016 tax year **9** _____
10. Business purchase or expansion tax credit. If the number on line 9 is less than 12, multiply the number on line 9 by \$166.67; otherwise, enter \$2,000. Enter the amount from this line on page 5, Part 7, line 2 **10** _____

▶ Attach all 5 pages of Schedule RZ to the North Dakota income tax return

Taxpayer's name as shown on tax return _____

Social security number (or FEIN, if applicable) _____

Part 3 Single-family residence tax credit

► See the instructions for Part 3 on page 8 of the instruction booklet.

1. Project number assigned by the local zone authority (*Attach a copy of final zone project approval letter*) _____
2. Renaissance zone city in which the zone project is located _____
3. Street address of zone project property _____
4. Does taxpayer have more than one zone project at the address shown on line 3 above? ☐ Yes ☐ No
If yes, enter all of the project numbers here _____
5. Type of qualifying transaction (*from final zone project approval letter*):
a ☐ Purchase b ☐ Qualified rehabilitation
6. If a is checked on line 5, enter the date on which title to the qualifying property was obtained 6 _____
7. If a is checked on line 5, enter the date on which the taxpayer first occupied the qualifying property 7 _____
8. If b is checked on line 5, enter the date on which the rehabilitation work was completed 8 _____
9. Credit period start date (*per final zone project approval letter*) 9 _____
- See instructions to line 10 before completing it.
10. Number of months of eligibility for this credit for the 2016 tax year 10 _____
11. Single-family residence tax credit. If the number on line 10 is less than 12, multiply the number on line 10 by \$833.33; otherwise, enter \$10,000. Enter the amount from this line on page 5, Part 7, line 3 11 _____

Part 4 Historic property preservation or renovation tax credit

► See the instructions for Part 4 on page 9 of the instruction booklet.

1. Project number assigned by the local zone authority (*Attach a copy of final zone project approval letter*) _____
2. Renaissance zone city in which the zone project is located _____
3. Street address of zone project property _____
4. Does taxpayer have more than one zone project at the address shown on line 3 above? ☐ Yes ☐ No
If yes, enter all of the project numbers here _____
5. Total amount paid to preserve or renovate the qualifying historic property 5 _____
6. a. Multiply line 5 by 25% (.25) 6a _____
b. Maximum tax credit per project 6b 250,000
c. Enter the smaller of line 6a or line 6b 6c _____
7. Historic tax credit from a passthrough entity (*Attach copy of North Dakota Schedule K-1*) 7 _____
8. Carryforward from 2015 tax year (*from 2015 Schedule RZ, Part 4, line 11*) 8 _____
9. Total available credit (*Add lines 6c, 7 and 8*) 9 _____
10. Credit for 2016 tax year (*See instructions*) (*Attach statement*) Enter here and on page 5, Part 7, line 4 . . 10 _____
11. Carryforward to 2017 tax year (*See instructions*) (*Attach statement*) 11 _____

► Attach all 5 pages of Schedule RZ to the North Dakota income tax return

Taxpayer's name as shown on tax return

Social security number (or FEIN, if applicable)

Part 5 Renaissance fund organization (RFO) investment tax credit

► See the instructions for Part 5 on page 9 of the instruction booklet.

1. Renaissance zone city having the RFO in which the investment was made _____
2. Amount invested in the RFO during the 2016 tax year *(Attach a copy of the Renaissance Fund Organization Investment Reporting Form received from the RFO)* 2 _____
3. Multiply line 2 by 50% (.50) 3 _____
4. RFO tax credit from a passthrough entity *(Attach copy of North Dakota Schedule K-1)* 4 _____
5. Carryforward from 2015 tax year *(from 2015 Schedule RZ, Part 5, line 8)* 5 _____
6. Total available credit *(Add lines 3, 4, and 5)* 6 _____
7. Credit for 2016 tax year *(See instructions) (Attach statement)* Enter here and on page 5, Part 7, line 5 . . . 7 _____
8. Carryforward to 2017 tax year *(See instructions) (Attach statement)* 8 _____

Part 6 Nonparticipating property owner tax credit

► See the instructions for Part 6 on page 10 of the instruction booklet.

1. Project number assigned by the local zone authority *(Attach a copy of final zone project approval letter)* _____
2. Renaissance zone city in which the zone project is located _____
3. Street address of zone project property _____
4. Does taxpayer have more than one zone project at the address shown on line 3 above? ☐ Yes ☐ No
If yes, enter all of the project numbers here _____
5. Approved cost of making utility changes *(from final zone project approval letter)* 5 _____
6. Nonparticipating property owner tax credit from a passthrough entity *(Attach copy of North Dakota Schedule K-1)* 6 _____
7. Carryforward from 2015 tax year *(from 2015 Schedule RZ, Part 6, line 10)* 7 _____
8. Total available credit *(Add lines 5, 6, and 7)* 8 _____
9. Credit for 2016 tax year *(See instructions) (Attach statement)* Enter here and on page 5, Part 7, line 6 . . . 9 _____
10. Carryforward to 2017 tax year *(See instructions) (Attach statement)* 10 _____

► Attach all 5 pages of Schedule RZ to the North Dakota income tax return

Part 7 Exemption and tax credit summary

- **Interest in multiple zone projects.** A separate Schedule RZ (for Parts 1 through 6) must be completed for each zone project. If more than one Schedule RZ is completed for the tax year, add the separate amounts from all of the Schedule RZ forms and enter the total on the appropriate line of Part 7 on only one of the Schedule RZ forms.

1. Business or investment income exemption:

Projects approved before August 1, 2013

- a. Exemption amount from directly-owned property from Part 1, line 18a **1a** _____
- b. Exemption amount from passthrough entity from Part 1, line 19a **1b** _____
- c. Business or investment income exemption for projects approved before August 1, 2013.
Add lines 1a and 1b. Enter this amount on the 2016 North Dakota return as instructed below **1c** _____

| If filing: | Enter amount from line 1c on: |
|---------------------|---|
| Form ND-1 | Schedule ND-1SA, line 1 |
| Form 38 | Form 38, Tax Computation Schedule, line 4d |
| Form 40 | Form 40, line 10, or Schedule CR, Part I, line 10 |
| Form 58 | Form 58, Schedule K, line 4a |
| Form 60 | Form 60, Schedule K, line 2a |

Projects approved after July 31, 2013

- d. Exemption amount from directly-owned property from Part 1, line 18b **1d** _____
- e. Exemption amount from passthrough entity from Part 1, line 19b **1e** _____
- f. Add lines 1d and 1e. **1f** _____
- g. Maximum exemption per year for projects approved after July 31, 2013. . . . **1g** 500,000
- h. Business or investment income exemption for projects approved after July 31, 2013. Enter lesser of line 1f or line 1g. Enter this amount on the 2016 North Dakota return as instructed below **1h** _____

| If filing: | Enter amount from line 1h on: |
|---------------------|---|
| Form ND-1 | Schedule ND-1SA, line 1 |
| Form 38 | Form 38, Tax Computation Schedule, line 4d |
| Form 40 | Form 40, line 10, or Schedule CR, Part I, line 10 |
| Form 58 | Form 58, Schedule K, line 4b |
| Form 60 | Form 60, Schedule K, line 2b |

2. Business purchase or expansion tax credit from Part 2, line 10 **2** _____
3. Single-family residence tax credit from Part 3, line 11 **3** _____
4. Historic property preservation or renovation tax credit from Part 4, line 10 **4** _____
5. Renaissance fund organization investment tax credit from Part 5, line 7 **5** _____
6. Nonparticipating property owner tax credit from Part 6, line 9 **6** _____
7. Total renaissance zone credit. Add lines 2 through 6. Enter this amount on the 2016 North Dakota return as instructed below **7** _____

| If filing: | Enter amount from line 7 on: |
|---------------------|--|
| Form ND-1 | Schedule ND-1TC, line 2 |
| Form 38 | Form 38, page 1, line 3 |
| Form 40 | Form 40, Schedule TC, line 11, or Schedule CR, Part III, line 11 |
| Form 58 | Form 58, Schedule K, line 7 |
| Form 60 | Form 60, Schedule K, line 4 |