North Dakota Office of State Tax Commissioner

2010 **Schedule RZ** booklet

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.

North Dakota Renaissance Zones

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Tax Commissioner

28706

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, financial institution, and property tax incentives to individuals and businesses for making qualified investments in a North Dakota renaissance zone.

Cities with zones

According to the information provided by the North Dakota Commerce Department's Division of Community Services, as of October 11, 2010, the following cities have a state-approved renaissance zone:

- Ashley
- Beach
- Bismarck
- Bottineau
- Bowman
- Buffalo
- Cando
- Carrington
- Casselton
- Cooperstown
- Crosby
- Devils Lake
- Dickinson
- Ellendale
- Enderlin
- Fargo
- Grafton
- Grand Forks
- Gwinner
- Hankinson
- Hannaford
- Harvey
- Hazen
- Hebron
- Hope
- Jamestown
- Kenmare
- Lakota
- Langdon
- Lisbon
- Mandan
- Mayville
- Milnor
- Minot
- Munich
- New Rockford
- Northwood
- Rolla
- Rugby
- Underwood
- Valley City
- Velva
- Wahpeton
- Washburn
- Watford City
- West Fargo
- Westhope
- Williston
- Wishek

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 web site address is **www.communityservices.nd.gov/community/renaissance-zone**. You may also call (701) 328-5300, or write to the Division of Community Services, PO Box 2057, Bismarck, ND 58502-2057.

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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, estates, trusts, partnerships, and S corporations **(701) 328-1247**

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

Web site

www.nd.gov/tax

2010 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 or financial institution tax incentives available under the North Dakota Renaissance Zone Act. All four pages of Schedule RZ must be attached to the taxpayer's North Dakota tax return.

For detailed information about the available 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. Click on Miscellaneous Tax Forms and Publications > Renaissance Zone Forms and Publications.

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 a partnership, S corporation, or limited liability company treated like a partnership or S corporation. This 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 to make investments in cities with a renaissance zone.

Taxpayer—means an individual, estate, trust, partnership, corporation, limited liability company, or other entity subject to N.D.C.C. ch. 57-35.3 (financial institution tax) or N.D.C.C. ch. 57-38 (income tax).

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 zone project is a transaction in a zone that is approved by both the local zone authority and the North Dakota Commerce Department's Division of Community Services. A taxpayer must apply to the local zone authority for approval of a proposed transaction as a zone project. In general, eligible transactions include the purchase, lease, or rehabilitation of residential or commercial real property in a zone.

Local zone authority. For more information on applying 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 determined 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.

Prior to the issuance of the final zone project approval letter, the Division of Community Services in some cases will issue a preliminary letter. The purpose of the preliminary letter is to allow the taxpayer to proceed with the purchase, lease, or rehabilitation work. The final zone project approval letter is issued only after the Division of Community Services determines that the project has satisfied the criteria for eligibility.

Passthrough entity. In the case of a partnership, S corporation, or limited liability company treated like a partnership or S corporation, the copy of the approval letter must be attached to the entity's tax return. The owners of the passthrough entity do not attach a copy of the approval letter to their North Dakota tax returns.

Passthrough entity

If the taxpayer is a partnership that files Form 58, or is an S corporation that files Form 60, the amount of the exemption or credit must be determined at the passthrough entity level and passed through to the owners in proportion to their respective interests in the entity. This also applies to a limited liability company treated like a partnership or an S corporation. 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 North Dakota Form 58 or Form 60, whichever applies.

Each owner's share of the exemption or credit must be reported on North Dakota Schedule K-1. See the instructions to the North Dakota Form 58 or Form 60 for more information.

Exception for financial institution. If a partnership, S corporation, or limited liability company treated like a partnership or S corporation is subject to the North Dakota financial institution tax under N.D.C.C. ch. 57-35.3, the business or investment income exemption under the Act is claimed as a deduction on the entity's North Dakota financial institution tax return (Form 35) and is passed through to the owners in proportion to their respective interests in the entity. ***The credits under the Act, however, may not be passed through to the entity's owners.*** On or before the due date (or extended due date) of Form 35, the entity must provide each of its owners with a notice containing the following:

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

Passthrough entity owner. If you own an interest in a partnership, S corporation, or a limited liability company treated like a partnership or S corporation, 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 the entity is subject to the North Dakota financial institution tax under N.D.C.C. ch. 57-35.3, you will receive a Renaissance Zone Passthrough Member Notice instead of a North Dakota Schedule K-1, which will show your share of the entity's income exemption only. If you receive a North Dakota Schedule K-1 or Renaissance Zone Passthrough Member Notice, claim your share of the income exemption or tax credit on your North Dakota 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 Passthrough Member Notice to your North Dakota 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 below)*.
3. Subtract the amount of the first exemption *(determined in step 2 above)* 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 above)* by the second exemption's apportionment factor *(see 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.*

Financial institution minimum payment

The tax incentives under the Act do not affect the $50.00 minimum payment required of a financial institution under N.D.C.C. § 57-35.3-03.

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 income exemption, or
- Investment income exemption.

If there is more than one project for which either of the above exemptions 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
Financial institution	35

If the taxpayer is a partnership, S corporation, or a limited liability company treated like a partnership or S corporation, see **Passthrough entity** on page 1.

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 is withdrawn from its qualifying business or investment use, the taxpayer is ineligible for the exemption starting with the first day of the month in which the property is withdrawn from its qualifying use.

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 with 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 with 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 sole proprietorship, partnership, C corporation, S corporation, or limited liability company 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 exemption amount is determined as follows:

1. Determine the business income attributable to the zone project property by multiplying the total North Dakota net income derived from the business by the zone apportionment factor. See page 11 for how to calculate the zone apportionment factor.
2. The amount of business income attributable to the zone project property *(determined in step 1 above)* must be multiplied by a ratio equal to the number of months of exemption eligibility during the tax year divided by the number of months in the tax year.

The amount of business income that may be exempted is calculated in Part 1, lines 9 through 13, of Schedule RZ.

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 tax year while 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.

The amount of investment income that may be exempted is entered in Part 1, line 15, of Schedule RZ.

Specific line instructions

Note: Passthrough entity owner
If the taxpayer owns an interest in a partnership, S corporation, or limited liability company treated like a partnership or S corporation, and the taxpayer is completing Schedule RZ only to claim the taxpayer's share of the business or investment income exemption passed through to the taxpayer by the entity, enter the taxpayer's name and applicable identification number at the top of page 1 of Schedule RZ. Enter the exemption amount on lines 14 and 16 of Part 1. Do not make an entry on lines 1 through 13 and 15. Complete Part 7 as instructed. Attach Schedule RZ and a copy of the North Dakota Schedule K-1 or Renaissance Zone Passthrough Member Notice to the taxpayer's return. See **Passthrough entity owner** on page 2 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 2
Enter the name of the renaissance zone city where the zone project is located.

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 8
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 9
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 15.

Note: If you are 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.

The amount to enter on this line depends on the type of North Dakota return filed by the taxpayer. If any amount determined for a taxpayer is a net loss, the amount to enter is zero. Enter the amount as follows:

- **Resident individual—**For a resident individual filing North Dakota Form ND-1, enter the net income from the 2010 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 the 2010 Schedule ND-1NR, line 3, Column B.
- **C corporation—**For a C corporation filing North Dakota Form 40, enter the amount from the 2010 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 the 2010 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 the 2010 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 the 2010 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 full-year residents of North Dakota, full-year nonresidents of North Dakota, or part-year residents of North Dakota, or any combination of these, calculate the amount to enter on this line by combining the amounts calculated for the shareholders as follows:

  Full-year resident—Include the shareholder's amount from the 2010 Form 60, Schedule KS, Column 5.

  Full-year nonresident—If an individual, include the shareholder's amount from the 2010 Form 60, Schedule KS, Column 6. If an estate or trust, include the North Dakota distributive share of the amount from the 2010 Form 60, Schedule KS, Column 5.

  Part-year resident—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 the 2010 Form 60, Schedule KS, Column 5, by a ratio equal to the number of months of North Dakota

residence divided by 12 months. To calculate the amount for the nonresident portion of the tax year, first multiply the shareholder's amount from the 2010 Form 60, Schedule KS, Column 5, by a ratio equal to the number of months not a resident 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 the 2010 Form 58, Schedule KP, line 1.

  Regardless of where the partnership carries on its business, if all of its partners are full-year residents of North Dakota, enter the amount from the 2010 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 full-year nonresidents of North Dakota, multiply the amount from the 2010 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 full-year or part-year resident individuals, full-year nonresident individuals, estates, trusts, or corporations, or any combination of these, calculate the amount to enter on this line by combining the amounts calculated for the partners as follows:

  Full-year resident—Include the partner's amount from the 2010 Form 58, Schedule KP, Column 5.

  Full-year nonresident—Include the partner's amount from the 2010 Form 58, Schedule KP, Column 6.

  Part-year resident—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 the 2010 Form 58, Schedule KP, Column 5, by a ratio equal to the number of months of North Dakota residence divided by 12 months. To calculate the amount for the nonresident portion of the tax year, first multiply the partner's amount from the 2010 Form 58, Schedule KP, Column 5, by a ratio equal to the number of months not a resident of North Dakota divided by 12 months; and then multiply this result by the apportionment factor from Form 58, Schedule FACT, line 14.

- **Non-individual partner—**If a partner is an estate or trust, include the North Dakota distributive share of the amount from the 2010 Form 58, Schedule KP, Column 5. If a partner is a corporation, contact the Office of State Tax Commissioner, Corporation Income Tax Section, for assistance with determining the corporation's North Dakota distributive share of income.

- **Financial institution—**For a financial institution filing North Dakota Form 35, enter the amount from the 2010 Form 35, page 1, line 6 less line 9.

- **Fiduciary—**For a fiduciary filing North Dakota Form 38 that operates a business as a sole proprietorship, enter the net income from the Schedule C or Schedule C-EZ (Form 1040) attached to the 2010 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 10a through 10h 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 10a through 10g and enter 1.000000 on line 10h. Then go to line 11.

If only a portion of the taxpayer's business real property in North Dakota is located at the zone project location, complete lines 10a through 10g to calculate the zone apportionment factor to enter on line 10h. The instructions for lines 10a through 10g 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 10a through 10h. For purposes of completing lines 10a through 10h, do not include the previously leased space or its contents in Column B (Zone project property location).

Lines 12a through 12c Exemption period limitation (business income only)

Full-year eligibility. If the taxpayer is eligible for the exemption for the entire tax year, skip lines 12a and 12b, and enter 1.000000 on line 12c. Then go to line 13. 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 12a through 12c to calculate an exemption period eligibility factor. Enter on line 12a the ***smaller*** of the following:

- Number of months in the 60-month exemption period available as of the beginning of the tax year. If the 60-month exemption period began in this tax year, use 60 months.
- 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 14

Enter on this line the taxpayer's share of the business or investment income exemption amount from a partnership, S corporation, or limited liability company treated like a partnership or S corporation. See **Passthrough entity** on page 1 for more information.

Attach a copy of the North Dakota Schedule K-1 or Renaissance Zone Passthrough Member Notice.

Line 15 (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.

Instructions for Part 2

Business purchase or expansion tax credit

General instructions

Who should complete

Complete Part 2 if the incentive allowed for the zone project, as specified in the zone project approval letter, is the business purchase or expansion tax credit, which was elected in lieu of the business income exemption.

This credit is only allowed to an individual on Form ND-1.

Five-year credit period

This credit is allowed in each year of a five-year credit period that begins on the date 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. The $2,000 credit is allowed in each of the five 12-month periods. If the individual is not eligible for the credit for the entire tax year, a credit equal to $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 title to the zone project 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 on the first day of the month in which title passes. If the zone project property is transferred to another qualifying individual before the end of the 60-month credit period, the individual acquiring the zone project property is eligible for the credit for the unexpired portion of the 60-month credit period.

Specific line instructions

Line 1

Enter the project number assigned to the zone project by the local zone authority. The project number is 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.

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

Line 2

Enter the name of the renaissance zone city where the zone project property is located.

Line 3

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 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.

Line 8

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 page 6 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 page 6.*
- 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 condition is satisfied 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 page 6.*
- The taxpayer sold the zone project property or permanently withdrew the zone project property from business use 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 in the 60-month exemption period available as of the beginning of the tax year. If the 60-month credit period began in this tax year, use 60 months.
- Number of months the taxpayer owned 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 2

Enter the name of the renaissance zone city where the zone project property is located.

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 page 7 for more information.

Line 10
Credit period limitation
The credit is allowed for only that portion of the tax year for which the taxpayer is eligible for the credit.

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

- The taxpayer is eligible for the credit as of the beginning of the tax year.

  *See **Five-year credit period** on page 7.*
- 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 condition 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 page 7.*
- The taxpayer sold the residence 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. This is the ***smaller*** of the following:

- Number of months in the 60-month credit period available as of the beginning of the tax year. If the 60-month period began in this tax year, use 60 months.
- 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
Financial institution	35

If the taxpayer is a partnership, S corporation, or a limited liability company treated like a partnership or S corporation, see **Passthrough entity** on page 1.

When to claim credit

The first year this 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 credit exceeds the taxpayer's tax liability for 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

Note: Passthrough entity owner
If the taxpayer owns an interest in a partnership, S corporation, or limited liability company treated like a partnership or S corporation, and the taxpayer is completing Schedule RZ only to claim the taxpayer's share of the historic property preservation or renovation tax credit passed through to the taxpayer by the entity, enter the taxpayer's name and applicable identification number at the top of page 3 of Schedule RZ. Enter the credit amount from North Dakota Schedule K-1 on line 7 of Part 4. Do not make an entry on lines 1 through 6c. Complete lines 8 through 11. Complete Part 7 as instructed. Attach Schedule RZ and a copy of North Dakota Schedule K-1 to the return. See **Passthrough entity owner** on page 2 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 2
Enter the name of the renaissance zone city where the zone project is located.

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 2010 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 partnership, S corporation, or limited liability company treated like a partnership or S corporation, 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 2011
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 2011 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
Financial institution	35

If the taxpayer is a partnership, S corporation, or a limited liability company treated like a partnership or S corporation, see **Passthrough entity** on page 1.

When to claim credit
The first year this 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 credit exceeds the taxpayer's tax liability for 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 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

Note: Passthrough entity owner
If the taxpayer owns an interest in a partnership, S corporation, or limited liability company treated like a partnership or S corporation, and the taxpayer is completing Schedule RZ only to claim the taxpayer's share of the renaissance fund organization investment tax credit passed through to the taxpayer by the entity,

enter the taxpayer's name and applicable identification number at the top of page 3 of Schedule RZ. Enter the credit amount from North Dakota Schedule K-1 on line 4 of Part 5. Do not make an entry on lines 1 through 3. Complete lines 5 through 8. Complete Part 7 as instructed. Attach Schedule RZ and a copy of North Dakota Schedule K-1 to the return. See **Passthrough entity owner** on page 2 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 2010 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 partnership, S corporation, or limited liability company treated like a partnership or S corporation, 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 2011

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 2011 tax year.

Except for passthrough entites, 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
Financial institution	35

If the taxpayer is a partnership, S corporation, or a limited liability company treated like a partnership or S corporation, see **Passthrough entity** on page 1.

When to claim credit

The first year this 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 credit exceeds the tax liability for 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

Note: Passthrough entity owner

If the taxpayer owns an interest in a partnership, S corporation, or limited liability company treated like a partnership or S corporation, and the taxpayer is completing Schedule RZ only to claim the taxpayer's share of the nonparticipating property owner credit passed through to the taxpayer by the entity, enter the taxpayer's name and applicable identification number at the top of page 4 of Schedule RZ. Enter the credit amount from North Dakota Schedule K-1 on line 6 of Part 6. Do not make an entry on lines 1 through 5. Complete lines 7 through 9. Complete Part 7 as instructed. Attach Schedule RZ and a copy of North Dakota Schedule K-1 to the return. See **Passthrough entity owner** on page 2 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 2

Enter the name of the renaissance zone city where the zone project is located.

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 2010 tax liability. If the taxpayer is a partnership, S corporation, or limited liability company treated like a partnership or S corporation, enter the total amount from line 8, and skip line 10.

Schedule **RZ** North Dakota Office of State Tax Commissioner

Schedule for renaissance zone income exemption and tax credits

2010

Attach to Form ND-1, 35, 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 booklet.**

Project Number

1. Project number assigned by the local zone authority *(Attach a copy of final zone project approval letter)* . . . . . **1** _____

2. Renaissance zone city in which the zone property is located _____

3. Street address of 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 *(per 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 title to the property was obtained or the effective date of the lease . . . . . **6** _____

7. If **b, d, e, or f** is checked on line 5, enter the date the improvement or rehabilitation work was completed . . . . . **7** _____

8. Exemption period start date *(per final zone project approval letter)* . . . . . **8** _____

▶ **If the taxpayer qualified for this exemption because the zone project property is being used for investment purposes, skip lines 9 through 13 and go to line 14.**

9. North Dakota business income for 2010 tax year *(See page 4 of instructions for the amount to enter on this line)* . . . . . **9** _____

▶ **Is 100% of the North Dakota business real property located at the zone project location? For this purpose, include real property that is leased for use in the business.**

- **If yes, skip lines 10a through 10g, and enter 1.000000 on line 10h.**
- **If no, complete lines 10a through 10h. See instructions on page 11.**

10. Enter the average value at original cost of each of the following real and tangible personal property items used in this business:

		Column A Total North Dakota property	Column B Zone project property location
a. Inventories	**10a**	_____	_____
b. Buildings and other fixed assets	**10b**	_____	_____
c. Depletable assets	**10c**	_____	_____
d. Land	**10d**	_____	_____
e. Other assets *(Attach a statement identifying these assets)*	**10e**	_____	_____
f. Rented property *(Annual rent x 8)*	**10f**	_____	_____
g. Total property *(Add lines 10a through 10f)*	**10g**	_____	_____

h. Zone apportionment factor *(Divide line 10g, Column B, by line 10g, Column A)* . . . . . **10h** _____

11. North Dakota business income attributable to zone project property *(Multiply line 9 by factor on line 10h)* . . . . . **11** _____

▶ **Is taxpayer eligible for this exemption for all of the 2010 tax year? See page 5 of instructions.**

- **If yes, skip lines 12a and 12b, and enter 1.000000 on line 12c.**
- **If no, complete lines 12a through 12c. See instructions on page 5 for number of months to enter on line 12a.**

12. a. Number of months of eligibility for the exemption during the 2010 tax year . . . . . **12a** _____

b. Number of months in taxpayer's 2010 tax year . . . . . **12b** _____

c. Exemption period eligibility factor for 2010 tax year *(Divide line 12a by line 12b)* . . . . . **12c** _____

13. Business income exemption for this project *(Multiply line 11 by factor on line 12c)* . . . . . **13** _____

14. Income exemption from a passthrough entity *(Attach copy of North Dakota Schedule K-1 or Renaissance Zone Passthrough Member Notice)* . . . . . **14** _____

15. Investment income exemption for this project *(See instructions)* . . . . . **15** _____

16. Total business or investment income exemption for 2010 tax year *(Add lines 13, 14, and 15)*
Enter the result here and on page 4, Part 7, line 1, of this schedule . . . . . **16** _____

▶ **Attach all 4 pages of Schedule RZ to the North Dakota return**

Taxpayer's name as shown on tax return _____ Social security number (or FEIN, if applicable) _____

Part 2 Business purchase or expansion tax credit

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

Project Number

1. Project number assigned by the local zone authority *(Attach a copy of final zone project approval letter)* . . . . . 1 _____
2. Renaissance zone city in which the project is located _____
3. Street address of 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 *(per final zone project approval letter)*:

   a ○ Purchase **b** ○ Purchase with major improvements **c** ○ Expansion **d** ○ Leasehold improvements
6. If **a** is checked on line 5, enter the date title to the qualifying property was obtained . . . . . 6 _____
7. If **b, c, or d** is checked on line 5, enter the date the improvement or expansion work was completed . . . . . 7 _____
8. Credit period start date *(per final zone project approval letter)* . . . . . 8 _____

   ▶ **See page 7 for instructions to line 9 before attempting to complete it.**
9. Number of months of eligibility for this credit for the 2010 tax year . . . . . 9 _____
10. Business purchase or expansion tax credit for the 2010 tax year. Enter the applicable amount *(as explained below)* here and on page 4, Part 7, line 2, of this schedule . . . . . 10 _____
    - If "12" was entered on line 9, enter $2,000 on line 10.
    - If a number less than "12" was entered on line 9, multiply the number on line 9 by $166.67, and enter the result on line 10.

Part 3 Single-family residence tax credit

▶ **See the instructions for Part 3 on page 7 of the booklet.**

Project Number

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 project is located _____
3. Street address of 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 *(per final zone project approval letter)*:

   a ○ Purchase **b** ○ Qualified rehabilitation
6. If **a** was checked on line 5, enter the date title to the qualifying property was obtained . . . . . 6 _____
7. If **a** was checked on line 5, enter the date on which the taxpayer first occupied the qualifying property . . . . . 7 _____
8. If **b** was 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 page 8 for instructions to line 10 before attempting to complete it.**
10. Number of months of eligibility for this credit for the 2010 tax year . . . . . 10 _____
11. Single-family residence tax credit for the 2010 tax year. Enter the applicable amount *(as explained below)* here and on page 4, Part 7, line 3, of this schedule . . . . . 11 _____
    - If "12" was entered on line 10, enter $10,000 on line 11.
    - If a number less than "12" was entered on line 10, multiply the number on line 10 by $833.33, and enter the result on line 11.

▶ **Attach all 4 pages of Schedule RZ to the North Dakota return**

Taxpayer's name as shown on tax return _____ Social security number (or FEIN, if applicable) _____

Part 4 Historic property preservation or renovation tax credit

▶ **See the instructions for Part 4 on page 8 of the booklet.**

Project Number

1. Project number assigned by the local zone authority *(Attach a copy of final zone project approval letter)* . . . . . 1 _____
2. Renaissance zone city in which the project is located _____
3. Street address of 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 lesser 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 2009 tax year *(from 2009 Schedule RZ, Part 4, line 11)* . . . . . 8 _____
9. Total available credit *(Add lines 6c, 7 and 8)* . . . . . 9 _____
10. Credit for 2010 tax year *(See instructions)* ***(Attach statement)*** Enter here and on page 4, Part 7, line 4, of this schedule 10 _____
11. Carryforward to 2011 tax year *(See instructions)* ***(Attach statement)*** . . . . . 11 _____

Part 5 Renaissance fund organization (RFO) investment tax credit

▶ **See the instructions for Part 5 on page 9 of the booklet.**

1. Renaissance zone city having the RFO in which investment was made _____
2. Amount invested in the RFO during the 2010 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 2009 tax year *(from 2009 Schedule RZ, Part 5, line 8)* . . . . . 5 _____
6. Total available credit *(Add lines 3, 4, and 5)* . . . . . 6 _____
7. Credit for 2010 tax year *(See instructions)* ***(Attach statement)*** Enter here and on page 4, Part 7, line 5, of this schedule 7 _____
8. Carryforward to 2011 tax year *(See instructions)* ***(Attach statement)*** . . . . . 8 _____

▶ **Attach all 4 pages of Schedule RZ to the North Dakota return**

Taxpayer's name as shown on tax return _____ Social security number (or FEIN, if applicable) _____

Part 6 Nonparticipating property owner credit

▶ **See the instructions for Part 6 on page 10 of the booklet.** **Project Number**

1. Project number assigned by the local zone authority *(Attach a copy of final zone project approval letter)* . . . . . 1 _____
2. Renaissance zone city in which the project is located _____
3. Street address of 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. Costs to make utility changes *(enter approved costs shown on final zone project approval letter)* . . . . . 5 _____
6. Nonparticipating property owner credit from a passthrough entity *(Attach copy of North Dakota Schedule K-1)* . . . . . 6 _____
7. Carryforward from 2009 tax year *(from 2009 Schedule RZ, Part 6, line 9)* . . . . . 7 _____
8. Total available credit *(Add lines 5, 6, and 7)* . . . . . 8 _____
9. Credit for 2010 tax year *(See instructions)* ***(Attach statement)*** Enter here and in Part 7, line 6, of this schedule . . . . . 9 _____
10. Carryforward to 2011 tax year *(See instructions)* ***(Attach statement)*** . . . . . 10 _____

Part 7 Exemption and tax credit summary

▶ **See the instructions for Part 7 on page 11 of the booklet.**

1. Business or investment income exemption *(from Part 1, line 16)* See the instructions on page 11 for where to enter this amount on the North Dakota return . . . . . 1 _____
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 credit *(from Part 6, line 9)* . . . . . 6 _____
7. Renaissance zone credit *(Add lines 2 through 6)* See the instructions on page 11 for where to enter this amount on the North Dakota return . . . . . 7 _____

▶ **Attach all 4 pages of Schedule RZ to the North Dakota return**

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

Line 10
Carryforward to 2011
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 2011 tax year.

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

Instructions for Part 7

Exemption and credit summary

Specific line instructions

Line 1
Business or investment income exemption
Enter the amount from this line on the 2010 North Dakota return as follows:

- **Individual**—For an individual filing Form ND-1, enter the exemption amount on Schedule ND-1SA, line 1.
- **Regular corporation**—For a regular corporation filing Form 40, enter the exemption amount on page 1, line 10, or Schedule CR, line 10, whichever applies.
- **S corporation**—For an S corporation filing Form 60, enter the exemption amount on page 3, Schedule K, line 2. Also report each shareholder's share of this amount on the shareholder's North Dakota Schedule K-1 (Form 60).
- **Financial institution**—For a financial institution filing Form 35, enter the exemption amount on page 1, line 11.
- **Partnership**—For a partnership filing Form 58, enter the exemption amount on page 3, Schedule K, line 4. Also report each partner's share of this amount on the partner's North Dakota Schedule K-1 (Form 58).
- **Fiduciary**—For a fiduciary for an estate or trust, where the income exemption relates to income included in the fiduciary's federal taxable income, enter the exemption amount on page 2, line 4d.

Line 7
Total tax credit
Enter the total tax credit from this line on the 2010 North Dakota return as follows:

- **Individual**—For an individual filing Form ND-1, enter the credit on Schedule ND-1TC, line 2.
- **Regular corporation**—For a regular corporation filing Form 40, enter the credit on page 4, Schedule TC, line 9, or Schedule CR, line 9.
- **S corporation**—For an S corporation filing Form 60, enter the credit on page 3, Schedule K, line 4. Also report each shareholder's share of this amount on the shareholder's North Dakota Schedule K-1 (Form 60).
- **Financial institution**—For a financial institution filing Form 35, see Schedule TC, lines 1 through 3.
- **Partnership**—For a partnership filing Form 58, enter the credit on page 3, Schedule K, line 7. Also report each partner's share of this amount on the partner's North Dakota Schedule K-1 (Form 58).
- **Fiduciary**—For a fiduciary filing Form 38, include the credit on page 1, line 3.

Instructions for calculating the zone apportionment factor
(for Part 1, lines 10a-10h)

General instructions

These instructions explain how to calculate the zone apportionment factor for Part 1, lines 10a through 10h.

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 10a through 10g 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 10a through 10e

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	$ 120,000

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

Line 10f
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 10a through 10e.*

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.