



# **New York State Qualified Emerging Technology Company Tax Credit**

## **Utilization and Impact Assessment**

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**George E. Pataki**  
**Governor**



**Russell W. Bessette, M.D.**  
**Executive Director**

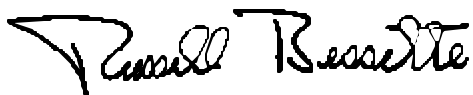
## **MESSAGE FROM THE EXECUTIVE DIRECTOR**

It is my pleasure to provide a copy of the Qualified Emerging Technology Company Tax Credit Utilization and Impact Assessment. This report is a summary for the year 2000, the latest data available.

The Qualified Emerging Technology Company Tax Credits for employment and capital equipment were enacted in 1998 to stimulate the attraction, creation and expansion of research-oriented emerging technology companies in New York State.

The purpose of this report is to provide a brief overview of the credits available, the utilization of these credits, and to assess and report the impact of these credits on employment, research and development expenditures and capital investments in qualified emerging technology companies pursuant to section 3102-e(2) of the Public Authorities Law.

NYSTAR is proud of the many accomplishments of the Qualified Emerging Technology Company Credits and it anticipates even greater accomplishments in the future.

A handwritten signature in black ink, reading "Russell Bessette". The signature is written in a cursive, flowing style.

**Russell W. Bessette, M.D.**

## **I. INTRODUCTION**

The Qualified Emerging Technology Company Tax Credits for employment and capital equipment were enacted in 1998 to stimulate the attraction, creation and expansion of research oriented emerging technology companies in New York State. The Qualified Emerging Technology Company (QETC) employment tax credit is targeted specifically to create and retain high paying technology jobs. The QETC capital tax credit directly promotes capital investments in research oriented emerging technology companies.

The purpose of this report is to provide a brief overview of the credits available, the utilization of these credits, and to assess and report the impact of these credits on employment, research and development expenditures and capital investments in qualified emerging technology companies pursuant to section 3102-e(2) of the Public Authorities Law.

As stipulated, NYSTAR is required to prepare a report analyzing the effectiveness of the QETC tax credits in light of their influence on the start-up, growth, and retention of emerging technology companies in the State, on job growth within high technology companies, and on the expansion of collaborative research and development undertaken by industry and academia.

The New York State Department of Taxation and Finance provided NYSTAR with aggregate statistics, pursuant to existing legal requirements for confidentiality of taxpayer records, on the number of taxpayers applying for such credits, the number of employees employed full-time by qualified emerging technology companies, and the total amount and the amount of incremental basic research payments, made to a qualified organization.

The report is being delivered to the Governor, the Speaker of the Assembly, the Temporary President of the Senate, and the chairpersons of the Assembly Committee on Economic Development, Job Creation, Commerce and Industry and the Senate Committee on Commerce, Economic Development and Small Business.

## **II. BASE REQUIREMENTS**

To qualify for any credit as a QETC, a company must have total annual product sales of \$10 million or less. In addition, an emerging technology company must either have primary products or services that are classified as emerging technologies or have sufficient research and development activities in New York State. Sufficient implies that the ratio of research and development expenditures to net sales exceeds the national average for firms engaged in research of 3.8 percent, as determined by the National Science Foundation. Technologies classified as emerging include:

(1) Advanced materials and processing technologies that involve the development, modification, or improvement of one or more materials or methods to produce devices and structures with improved performance characteristics or special functional attributes, or to activate, speed up, or otherwise alter chemical, biochemical, or medical processes. Such technologies shall include, but not be limited to, the following: metal alloys, metal matrix and ceramic composites, advanced polymers, thin films, membranes, superconductors, electronic and photonic materials, bioactive materials, bio-processing, genetic engineering, catalysts, waste emissions reduction and waste processing technologies;

(2) Engineering, production, and defense technologies that involve knowledge-based control systems and architectures advanced fabrication and design processes, equipment, and tools, or propulsion, navigation, guidance, nautical, aeronautical and astronautical ground and airborne systems, instruments, and equipment. Such technologies shall include, but not be limited to, the following: computer-aided design and engineering, computer-integrated manufacturing, robotics and automated equipment, integrated circuit fabrication and test equipment, sensors, biosensors, signal and image processing, medical and scientific instruments, precision machining and forming, biological and genetic research equipment, environmental analysis, remediation, control, and prevention equipment, defense command and control equipment, avionics and controls, guided missile and space vehicle propulsion units, military aircraft, space vehicles, and surveillance, tracking, and defense warning systems;

(3) Electronic and photonic devices and components for use in producing electronic, optoelectronic, mechanical equipment and products of electronic distribution with interactive media content. Such technologies shall include, but not be limited to, the following: microprocessors, logic chips, memory chips, lasers, printed circuit board technology, electroluminescent, liquid crystal, plasma, and vacuum fluorescent displays, optical fibers, magnetic and optical information storage, optical instruments, lenses, and filters, simplex and duplex data bases, and solar cells;

(4) Information and communication technologies, equipment and systems that involve advanced computer software and hardware, visualization technologies, and human interface technologies. Such technologies shall include, but not be limited to, the following: operating and applications software, artificial intelligence, computer modeling and simulation, high-level software languages, neural networks, processor architecture, animation and full-motion video, graphics hardware and software, speech and optical character recognition, high-volume information storage and retrieval, data

compression, broadband switching, multiplexing, digital signal processing, and spectrum technologies; and

(5) Remanufacturing technologies, which shall be defined as processes whereby eligible commodities are restored to their original performance standards and are thereby diverted from the solid waste stream, retaining the majority of components that have been through at least one life cycle and replacing consumable portions to enable such commodities to be restored to their original functions. For the purposes of this subdivision, "eligible commodities" shall mean commodities (excluding paper) used in conjunction with or as a part of equipment performing the functions of facsimile machines, photocopiers, printers, duplication equipment, or any combination thereof, including, but not limited to the following: magnetic ink character recognition cartridges, photo conductor assemblies, electrostatic cartridges, thermal imaging cartridges, toner cartridges, ink jet cartridges, and printer cartridges. Provided further, that "eligible commodities" shall also include equipment used to record single frame images on film, where such equipment and film are marketed and sold as a single integrated consumer product, and where such equipment and film may be submitted in whole to a photograph processor for the purposes of processing.

### **III. JOB RETENTION AND CREATION**

To qualify for a QETC employment tax credit, the average number of individuals employed by a company must be at least 101 percent of the base period employment. A QETC employment tax credit of \$1,000 per new full time employee in the current year is available to QETC for a period of three consecutive years. New employees are full time employees in the current year minus full time employment in the base period. From the latest data available, 28 companies claimed credits totaling slightly over \$1 million in the 2000 tax liability year.

When calculating the QETC employment tax credit, taxpayers report their base-period and current tax year employment figures directly on the credit form (see Form DTF-621 in Appendix). According to 2000-tax year information, the most recent year for which data is available, taxpayers reported 718 employees for the three-year base period. For 2000-tax year employment, taxpayers reported 1,574 employees. Overall, QETCs reported employment increases totaling over 850 employees.

### **IV. CAPITAL CREDIT, RESEARCH AND DEVELOPMENT EXPENDITURES**

To qualify for a QETC capital tax credit, a qualified investment, or contribution of property to a QETC in exchange for an interest in the QETC, is required (see Form DTF-622 in Appendix). Credits of 10 percent of qualified

investments up to \$150,000 in a QETC are available to investors that agree to maintain the investment for a period of four years after the tax year the credit is first claimed. Credits of 20 percent of qualified investments up to \$300,000 in a QETC are available to investors that agree to maintain the investment for a period of nine years after the tax year the credit is first claimed.

From the latest data available for 2000, there are no investors that have utilized this credit. As stated above, to qualify for tax credits, QETCs have to pass one of two tests:

1. An emerging technology sales to total sales ratio test; or
2. A research and development funds to net sales ratio test.

If a taxpayer satisfies one of these tests, they typically do not complete the information for the other test. The majority of QETCs in the 2000 tax year qualified under the emerging technology sales to total sales ratio test. Therefore, data on research and development funds is limited. However, based on only those taxpayers who qualified under the research and development funds to net sales ratio test, QETCs reported approximately \$55.7 million in research and development expenditures.

## **V. CONCLUSION**

The Qualified Emerging Technology Company tax credits have been successful in creating and retaining high technology jobs, stimulating investment in technology companies, generating research and development activity, and growing the New York State technology economy. For the year 2000, QETC employment tax credits have resulted in the retention and creation of approximately 1,574 jobs. During the same period QETCs have reported more than \$55 million in research and development expenditures.

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# **APPENDIX**



**DTF-621**

New York State Department of Taxation and Finance

**Claim for QETC Employment Credit**

Tax Law — Articles 9-A and 22

2003 calendar-year filers check box: ☐

Other filers enter tax period:

beginning

ending

Name

Taxpayer identification number (as shown on page 1 of your tax return)

File this form with corporate franchise tax return Form CT-3, CT-3-S, or CT-3-S-A, or file with personal income tax return Form IT-201, IT-203, IT-204, or IT-205.

Check the tax year for which the qualified emerging technology company (QETC) employment credit is being claimed on this return: ☐ 1<sup>st</sup> ☐ 2<sup>nd</sup> ☐ 3<sup>rd</sup>**Line A** — Partner in a partnership, S corporation shareholder, or a beneficiary of an estate or trust:enter your share of the QETC employment credit (see instructions) ..... **A.** 

Business name

Identification number

**Schedule A — Eligibility requirements** All the questions in Schedule A pertain to the tax year for which the credit is claimed.**Part I — Location and sales****1** Is the company located in New York State? ..... Yes ☐ No ☐**2** Are the total annual product sales of the company \$10,000,000 or less? ..... Yes ☐ No ☐If you answered *Yes* to questions 1 and 2, continue with Part II. If you answered *No* to either question 1 or 2, you do not qualify for a QETC credit for the current tax year. If you have QETC carryforward from a previous tax year, continue with Schedule C.**Part II — QETC business activities****Primary products and services****3** Does the company have products or services that may be classified as emerging technologies? ..... Yes ☐ No ☐If *Yes*, enter in the box below a description of the company's emerging technology products or services and continue with line 4.

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If *No*, skip lines 4 through 7 and continue with question 8.**4** Enter the gross receipts or sales from the company's emerging technology products or services described on line 3 ..... • **4.** **5** Enter the gross receipts or sales from all the company's products or services ..... • **5.** **6** Divide the amount on line 4 by the amount on line 5 and enter the result as a percentage ..... • **6.**  %**7** Is the percentage entered on line 6 greater than 50%? ..... Yes ☐ No ☐If you answered *Yes* to question 7, skip lines 8 through 12 and continue with Part III. If you answered *No* to question 7, continue with question 8.**Research and development activities****8** Does the company have research and development activities in New York State? ..... Yes ☐ No ☐If *No*, you cannot claim this credit. If you have QETC carryforward from a previous tax year, continue with Schedule C.**9** Enter the amount of research and development funds ..... • **9.** **10** Enter the amount of net sales ..... • **10.** **11** Research and development funds percentage (divide the amount on line 9 by the amount on line 10 and enter the result) .. • **11.**  %**12** Does the percentage entered on line 11 equal or exceed 3.8%? ..... Yes ☐ No ☐If you answered *Yes* to question 12, you are a QETC. Continue with Part III.If you answered *No* to question 12, you are **not** a QETC and cannot claim this credit.

If you are claiming a QETC credit carryforward from a previous year, continue with Schedule C.

**Part III — Computation of average number of full-time employees in New York State for the current tax year and three-year base period**

Current tax year	March 31	June 30	Sept. 30	Dec. 31	Total
Number of full-time employees in New York State					

<b>13</b> Average number of full-time employees in New York State for the current tax year ( <i>see instructions</i> ) .....	<b>13.</b>	
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Number of full-time employees in New York State for three-year base period	March 31	June 30	Sept. 30	Dec. 31	Total
First year					
Second year					
Third year					
Total number of full-time employees in New York State for the three-year base period .....					

<b>14</b> Average number of full-time employees in New York State for the three-year base period. The average number of employees on line 14, once computed, remains the same for each of the three tax years for which the credit is claimed ( <i>see instructions</i> ) .....	<b>14.</b>	
<b>15</b> Percentage of employment for full-time employees in New York State ( <i>divide line 13 by line 14</i> ) .....	<b>15.</b>	%

**If your percentage of employment for full-time employees in New York State on line 15 is less than 101%, do not complete Schedule B; you do not qualify for the QETC employment credit. (Complete Schedule C if applicable.)**

If your percentage of employment is at least 101%, continue with Schedule B.

**Schedule B — Computation of credit for the current tax year**

<b>16</b> Enter the amount from line 13 ( <i>complete</i> Additional information for Schedule B — Employee listing <i>below</i> ) .....	<b>16.</b>	
<b>17</b> Enter the amount from line 14 .....	<b>17.</b>	
<b>18</b> Subtract line 17 from line 16 .....	<b>18.</b>	
<b>19</b> Credit per employee .....	<b>19.</b>	\$1,000
<b>20</b> Credit computed for the current tax year ( <i>multiply line 18 by line 19; see instructions</i> ) .....	<b>20.</b>	

**Additional information for Schedule B — Employee listing**

List below each employee used to compute the average number of full-time employees on line 13.

Employee's name	Social security number	Employee's name	Social security number

Attach additional sheets if necessary.

**Schedule C — Computation of QETC employment credit allowed for the current tax year****Part I — Computation of available QETC employment credit**

21 QETC employment credit carryforward from preceding tax year <i>(see instructions)</i> .....	• 21.	
22 QETC employment credit computed for the current tax year from line 20 <i>(see instructions)</i> .....	• 22.	
23 QETC employment credit available for the current tax year <i>(add lines 21 and 22)</i> .....	• 23.	

**Part II — Computation of QETC employment credit limitation**

24 Current year's tax <i>(see instructions)</i> .....	24.	
25 Enter other credits used <i>(see instructions)</i> .....	25.	
26 Balance of tax <i>(subtract line 25 from line 24)</i> .....	26.	
27 Article 9-A taxpayers: enter the tax on minimum taxable income base or fixed dollar minimum <i>(from Form CT-3, line 71 or line 74, whichever is larger; or Form CT-3-A, line 71 or line 74, whichever is larger)</i> Article 22 taxpayers: enter "0" .....	27.	
28 Amount of credit needed to reduce tax to the minimum amount allowable. Article 9-A taxpayers: subtract line 27 from line 26 <i>(if less than 0, enter "0")</i> . If your franchise tax on Form CT-3, line 78; or Form CT-3-A, line 77; is the tax on minimum taxable income base or fixed dollar minimum, enter "0." Article 22 taxpayers: enter the amount from line 26 .....	• 28.	

**Part III — Computation of QETC employment credit used for the current tax year**

29 QETC employment credit used for the current tax year <i>(enter line 23 or line 28 amount, whichever is less; see instructions)</i> .....	▶ • 29.		.	
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**Part IV — Computation of QETC employment credit carryforward**

30 QETC employment credit available as a carryforward <i>(subtract line 29 from line 23; see instructions)</i> .....	• 30.	
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**Part V — Computation of refundable QETC employment credit**

31 Qualified new QETC businesses only <i>(see instructions)</i> : refund of QETC employment credit <i>(enter line 23 or line 30 amount, whichever is less; see instructions)</i> .....	▶ • 31.		.	
32 Unused QETC employment credit carried forward after refund <i>(subtract line 31 from line 30)</i> .....	• 32.			



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DTF-622

New York State Department of Taxation and Finance

Claim for QETC Capital Tax Credit

Tax Law – Articles 9-A and 22

2003 calendar-yr. filers, check box ☐  
Other filers enter tax period:

beginning

ending

Name	Taxpayer identification number (as shown on page 1 of your tax return)
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File this form with corporation franchise tax return Form CT-3, CT-3-A, CT-3-S, CT-3-S-A, or personal income tax return Form IT-201, IT-203, IT-204, or IT-205

Line A – Partner in a partnership, shareholder of a New York S corporation, or beneficiary of an estate or trust: enter your share of the qualified emerging technology company (QETC) capital tax credit (see instructions) .....

A		
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Business name	Identification number
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Schedule A – Computation of credit

Part I – Computation of credit for qualified investments to be held four years (Attach additional sheets if necessary.)

A Name of certified QETC	B Date of investment	C Amount of investment
1 Amount of qualified investments (add column C amounts) .....	1.	
2 Credit percentage (10%) .....	2.	.10
3 Credit for qualified investments to be held four years (multiply line 1 by line 2) .....	3.	

Part II – Computation of credit for qualified investments to be held nine years (Attach additional sheets if necessary.)

A Name of certified QETC	B Date of investment	C Amount of investment
4 Amount of qualified investments (add column C amounts) .....	4.	
5 Credit percentage (20%) .....	5.	.20
6 Credit for qualified investments to be held nine years (multiply line 4 by line 5) .....	6.	

Schedule B – Limitations of QETC capital tax credit

Part I – Fifty percent limitation

7 Tax from Forms CT-3, CT-3-A, IT-201, IT-203, or IT-205 (see instructions) .....	7.	
8 Multiply line 7 by 50% (.5) .....	8.	

Part II – \$150,000/\$300,000 limitation

	A Qualified investments to be held at least 4 years	B Qualified investments to be held at least 9 years	C Total (add column A + column B)
9 Limitation per section 210.12-F .....	9. \$150,000	\$300,000	
10 Limitations per section 606(r) (see instructions) .....	10.		
11 QETC capital tax credit previously allowed, less any previous recapture ...	11.		
12 QETC capital tax credit still allowable (subtract line 11 from line 9 or line 10) ..	12.		
13 QETC capital tax credit allowable this year (see instructions) ...	13.		

This is a scannable form; please file this original with the Tax Department.

**Part III – Tax on minimum taxable income base and fixed dollar minimum limitation (Article 9-A only)**

<b>14</b> Tax from Form CT-3, line 78, or Form CT-3-A, line 77 (If your franchise tax on Form CT-3, line 78, or Form CT-3-A, line 77, is the tax on minimum taxable income base or fixed dollar minimum, do not complete lines 15 through 17, and enter "0" on line 18) .....	<b>14.</b>	
<b>15</b> Enter other credits used (see instructions) .....	<b>15.</b>	
<b>16</b> Balance of tax (subtract line 15 from line 14) .....	<b>16.</b>	
<b>17</b> Tax on minimum taxable income base or fixed dollar minimum (Form CT-3, line 71 or line 74, whichever is larger, or Form CT-3-A, line 71 or line 74, whichever is larger) .....	<b>17.</b>	
<b>18</b> Amount of credit needed to reduce tax to the minimum amount allowable (Subtract line 17 from line 16. If line 17 is greater than line 16, enter "0" on line 18.) .....	<b>18.</b>	

**Schedule C – Recapture of credit (see instructions)****Part I – Recapture of credit for qualified investments to be held four years** (Attach additional sheets if necessary.)

<b>A</b> Tax year QETC capital tax credit originally allowed	<b>B</b> Amount of QETC capital tax credit originally allowed	<b>C</b> Recapture percentage (see instructions)	<b>D</b> Recapture of credit (column B × column C)
		%	
		%	
<b>19</b> Recapture of credit for qualified investments to be held four years (add column D amounts) .....			<b>19.</b>

**Part II – Recapture of credit for qualified investments to be held nine years** (Attach additional sheets if necessary.)

<b>A</b> Tax year QETC capital tax credit originally allowed	<b>B</b> Amount of QETC capital tax credit originally allowed	<b>C</b> Recapture percentage (see instructions)	<b>D</b> Recapture of credit (column B × column C)
		%	
		%	
<b>20</b> Recapture of credit for qualified investments to be held nine years (add column D amounts) .....			<b>20.</b>
<b>21</b> Total recapture of credit (add lines 19 and 20; enter here and on line 25 below; S corporations, partnerships, and estates and trusts, see instructions) .....			<b>21.</b>

**Schedule D – Computation of QETC capital tax credit and carryover**

<b>22</b> Total QETC capital tax credit computed this year (enter line 13, column C amount) .....	<b>22.</b>	
<b>23</b> Unused QETC capital tax credit from preceding tax years (see instructions) .....	<b>23.</b>	
<b>24</b> Total QETC capital tax credit (add lines 22 and 23) .....	<b>24.</b>	
<b>25</b> Total recapture of QETC capital tax credit (see instructions) .....	<b>25.</b>	
<b>26</b> Net QETC capital tax credit (subtract line 25 from line 24 and enter here; if line 25 is greater than line 24, <b>do not</b> enter an amount on line 26; go to line 27) .....	<b>26.</b>	
<b>27</b> Net recapture amount (subtract line 24 from line 25 and enter here; see instructions) ..	<b>27.</b>	
<b>28</b> QETC capital tax credit used this year (enter the smallest of line 8, line 18, or line 26 here and on Form CT-3, line 100a; or Form CT-3-A, line 101a. Article 22 taxpayers, enter the smaller of line 8 or line 26 here and on Form IT-201-ATT, line 55; Form IT-203-B, line 41; or Form IT-205, line 10) .....	<b>28.</b>	
<b>29</b> QETC capital tax credit available for carryforward (subtract line 28 from line 26) .....	<b>29.</b>	

**This is a scannable form; please file this original with the Tax Department.**