

FYI – For Your Information

Aircraft Manufacturer New Employee Credit

GENERAL INFORMATION

For tax years beginning on or after January 1, 2006, but prior to January 1, 2017, an income tax credit of \$1,200 per employee is available for hiring qualified new aviation zone employees to aircraft manufacturers located in a Colorado aviation development zone. [§39-35-104, C.R.S.]

Any excess credit is not refundable but may be carried forward for a period of up to 5 years.

NEW AVIATION ZONE EMPLOYEE

“Aviation zone employee” is a person who is employed by the taxpayer and whose primary place of work is in the operation of an aircraft manufacturer’s facility located in an aviation development zone. A person shall be deemed to be so employed if he or she performs duties at the facility on a regular, full-time basis. Full-time is defined as working at least 35 hours per week. Part-time employees do not qualify as aviation zone employees. A “new aviation zone employee” is an aviation zone employee that is hired by a facility that employs ten or more employees, and such hire increases the overall employment at the facility above previous employment levels.

Leased Employees

- i) Prior to August 3, 2007, leased employees or employees from a temporary service do not qualify as aviation zone employees.
- ii) On or after August 3, 2007, leased employees will qualify as aviation zone employees if the work-site employer or the employee leasing company withholds Social Security, Medicare, and income taxes under either of their own federal and state taxpayer identification numbers.

Computing the number of new aviation zone employees

The number of aviation zone employees at an aircraft manufacturer’s facility during a year is the average of the number of employees at the facility on the last business day of each month during the tax year.

Example: Corrigan Aviation Company starts a new aircraft manufacturing facility in March 2006. The number of employees at the end of each month is as follows: Jan-0, Feb-0, March-17, April-20, May-19, June-21, July-21, Aug-30, Sept-26, Oct-26, Nov-31, Dec-32. The number of aviation zone employees for 2006 is 20.25 (243/12).

Replacement facility. If an aircraft manufacturer relocates to an aviation development zone after January 1, 2006, the number of qualifying new aviation zone employees shall not include the average number of individuals employed in the operation of the previous facility during the two taxable years preceding the taxable year in which the move was made by the manufacturer.

Existing facility. In the case of an aviation development zone facility that is already in operation on January 1, 2006, the number of qualifying new aviation zone employees shall not include the average number of individuals employed in the operation of the facility during the two taxable years preceding tax year 2006.

Sale of an existing facility. When an aviation development zone facility is sold or otherwise transferred to a new owner, the base number of employees used by the previous owner will become the new owner’s base when computing the credit.



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COMPUTING THE CREDIT

The credit is \$1,200 times the increase in the average number of aviation zone employees for the tax year over the previous base number of employees at that facility. The base number will be the largest of:

- The highest average number of aviation zone employees in any previous tax year beginning on or after January 1, 2006;
- For a replacement facility, the average number of individuals employed in the operation of the previous facility during the two taxable years preceding the taxable year in which commercial operations begin at the new facility;
- For an existing facility, the average number of individuals employed in the operation of the facility during the two taxable years preceding tax year 2006.

Example: Airmaker Company begins operations in an aviation zone in 2007. The average employment for 2007 is 8.4 employees. They do not qualify for a credit in 2007 because the number of new aviation zone employees for the year is less than ten.

Airmaker Company's average employment in the aviation zone increases to 13.5 in 2008. The 2008 credit is \$6,120, computed by taking the difference between the 2008 average employment (13.5) and the base number of employees (8.4) times the \$1,200 credit amount.

Airmaker Company's average employment in the aviation zone increases to 16.1 in 2009. The 2009 credit is \$3,120, computed by taking the difference between the 2009 average employment (16.1) and the base number of employees (13.5) times the \$1,200 credit amount.

Airmaker Company's average employment in the aviation zone decreases to 15.4 in 2010. There is no credit for 2010 because the average number of aviation zone employees is less than the base number of employees.

Airmaker Company's average employment in the aviation zone increases to 17.5 in 2011. The 2011 credit is \$1,680, computed by taking the difference between the 2011 average employment (17.5) and the base number of employees (16.1) times the \$1,200 credit amount. Note that the base number of employees did not change as a result of the decrease in employment in 2010.

Example: Wrongway Inc. moves an existing facility to an aviation development zone in March 2008. The number of full-time employees at the facility is as follows:

	2006	2007	2008	2009
Jan	23	26	31	37
Feb	23	27	30	38
Mar	24	25	30	36
Apr	24	27	35	38
May	23	28	35	39
Jun	25	29	35	39
Jul	25	30	33	39
Aug	26	30	35	39
Sep	26	30	36	39
Oct	26	30	37	40
Nov	26	30	37	39
Dec	<u>26</u>	<u>33</u>	<u>37</u>	<u>39</u>
Total	297	345	411	462

Wrongway Inc.'s average number of employees during the two tax years preceding the relocation is 26.75 $[(297 + 345)/24]$, which becomes the base number of employees for the facility. The average number of aviation zone employees for 2008 is 29.17, the total number of employees on the last day of March through December (350) divided by 12. Note that the employment numbers for January and February 2008 are not included in this computation because the facility was not located in the aviation development zone during those months. The credit available for 2008 is \$2,904, $(29.17 - 26.75) \times \$1,200$.

Wrongway Inc.'s average number of aviation zone employees for 2009 is 38.5 $(462/12)$. The credit available for 2009 is \$11,196, $[(38.5 - 29.17) \times \$1,200]$.

MIXED USE FACILITY

No facility or portion of a facility that is involved in the maintenance of aircraft will qualify for the aircraft manufacturer new employee credit. If a facility performs both manufacturing and maintenance functions, only employees working exclusively in the manufacturing portion of the business may qualify for the credit. [§39-35-102(1), C.R.S.]

PASS THROUGH ENTITIES

A partnership, S corporation, or other pass through entity can claim the credit and pass it to its members subject only to that entity's allocation and distribution requirements. The partner or shareholder's name and amount of the credit must be included in the annual progress report filed by the aircraft manufacturer.

DOCUMENTATION

Any aircraft manufacturer that claims an aircraft manufacturer new employee credit must file Form DR 0085 "Aircraft Manufacturer New Employee Credit Progress Report" within 90 days of the end of its income tax year. [§39-35-105, C.R.S.] The report is a public record and available for inspection by any person at the Office of Economic Development, 1625 Broadway, Room 1700, Denver CO 80202. Phone: (303) 892-3840.
www.state.co.us/oed

Pass-through entities must attach Form DR 0086 "Aircraft Manufacturer New Employee Credit Pass-Through Schedule" to the Progress Report filed with the Department of Revenue. This schedule will report the name of each shareholder, partner or member, their social security number or Colorado account number, and the dollar amount of the credit distributed to each member. Form DR 0086 is not a public document and is not available for inspection.

DEFINITIONS

"Aircraft manufacturer" means a business involved in the production of aircraft parts specifically used in the manufacture of aircraft or a business involved in the development of a proof of concept or prototype aircraft, a test and evaluation aircraft, a certification aircraft, or a production aircraft. The term does not include a business or portion of a business involved in the maintenance of aircraft.

"Facility" means any factory or other building in which an aircraft manufacturer conducts business and in which employees of the aircraft manufacturer work on a regular basis.

"Aviation development zone" means any airport in Colorado that is a public-use facility designated by the FAA in its latest National Plan of Integrated Airport Systems (Section 47103 of Title 49, USC), which has registered with the Office of Economic Development. Only the area included within the boundaries of the airport will be included in the zone.

FURTHER INFORMATION

FYIs and commonly used forms are available on the Web at www.taxcolorado.com

For additional income tax information visit the "Tax Information Index" which covers a variety of topics including links to forms, publications, regulations, statutes and general questions and answers. The "Tax Information Index" is located at www.taxcolorado.com

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