
URBAN ENTERPRISE ZONES QUESTIONS AND ANSWERS

GENERAL

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

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

2. **What is an Urban Enterprise Zone?**

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

3. **Where are Urban Enterprise Zones usually located?**

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

4. **What is an Urban Enterprise Zone-impacted business district?**

Answer- It is an economically-distressed business district that has been negatively impacted by the presence of two or more adjacent Urban Enterprise Zones in which 50% less sales tax is collected.

5. **What is the Urban Enterprise Zone Authority?**

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

6. **How does the Authority designate zones?**

Answer - Upon the enacting of legislation by the State Legislature providing the creation of additional Urban Enterprise Zones, the Authority, by reviewing applications of cities, may designate those municipalities that fulfill the required criteria. The decision is based upon the need of the city for economic development; the unemployment rate; the percentage of families on welfare; the potential benefits shown by the application; and similar factors.

7. **How does the authority designate Urban Enterprise Zones-impacted business districts?**

Answer- A municipality must demonstrate to the Authority that its business district is economically distressed and is being negatively impacted by the presence of two or more adjacent enterprise zones in which a 50% lower sales tax rate is collected. In making its decision of whether to designate a municipality as an Urban Enterprise Zone-impacted business district, the Authority will consider whether the district is located in a municipality which is between two municipalities each of which has an enterprise zone and whether the borders of the two enterprise zones of the adjacent municipalities are contiguous to the border of the applicant municipality.

8. When does a designated zone become effective?

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

9. How many zones have been established?

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

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

The legislation was amended in 1996 to include seven additional zones. They were all predetermined and include East Orange, Guttenberg, Hillside, Irvington, North Bergen, Pemberton and West New York. The legislation was amended again in 2002 to include 3 more zones. They include Bayonne City, Roselle Borough, and a joint zone consisting of North Wildwood City, Wildwood City, Wildwood Crest Borough, and West Wildwood Borough. Legislation was amended again in 2004 to include Gloucester City and New Brunswick, creating a total of 32 zones in 37 municipalities.

10. How does a business become certified as a "qualified business" in an Urban Enterprise Zone or in an Urban Enterprise Zone-impacted business district?

Answer - By making application to the local municipal zone coordinator on an Authority application form. The local coordinator verifies that the business is within the zone or district and forwards the application to the Authority at 650 South Broad Street, P.O. Box 822, Trenton, New Jersey 08625-0822 for review and approval.

11. What tests are used by the Authority to decide whether a business shall be certified in a zone or a district?

Answer - Generally, that the business will create new employment in the municipality containing the zone or district, and will not create unemployment elsewhere in the state (including that municipality). Also, certification is conditional upon the business having no outstanding State tax obligations (P.L. 2006, c. 34, section 3.)

12. What preliminary tests must all businesses meet?

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

13. What are the employment tests?

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

- (a) Residents within the zone, the district, within another zone or within a qualifying municipality; or
- (b) Unemployed for at least six months prior to being hired and residing in New Jersey, or recipients of New Jersey public assistance programs for at least six months prior to being hired; or

(c) Determined to be low-income individuals pursuant to the Workforce Investment Act of 1998.

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

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

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

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

The expenditures must be at least \$5,000 for a business with 10 or fewer employees, with an additional \$500 per employee up to the maximum of 49. The corporation is entitled to an 8% investment credit against the Corporation Business Tax for the tax year in which the expenditure is made. The credit may be carried over (see question 26). Corporate tax benefits are unavailable to qualified businesses located within an Urban Enterprise Zone-impacted business district.

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

Answer - No. Benefits are effective from the date of certification. Also, renewal of qualified business status must be made annually. (See, also, answer 38 below).

16. What are the benefits in a zone?

Answer - Briefly, the right to buy taxable tangible personal property (except motor vehicles, parts or supplies), and most services (except telecommunications services), without sales tax; credits against the Corporation Business Tax for certain businesses hiring certain new employees; and an award for certain new employees, based upon employment insurance tax paid. Also, qualified retail businesses may, on certification by the Division of Taxation, collect sales tax at half rate on most taxable sales of tangible personal property. Qualified UEZ manufacturers may apply for a sales and use tax exemption on natural gas and electricity consumed at the certified location.

17. What are the benefits available to a qualified business within an Urban Enterprise Zone-impacted business district?

Answer- The only benefit available to qualified business located within the Urban Enterprise Zone-impacted business district is the entitlement to collect sales tax at half rate on most taxable sales of tangible personal property.

18. What are Unemployment Insurance Based Awards?

(Administered by the New Jersey Department of Community Affairs in conjunction with the NJ Department of Labor)

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

The award applies only to those full-time employees (30 hours or more/week) whose gross salaries are less than \$4,500 per quarter and is calculated according to a specific schedule. Contact the Department of Labor at (609) 633-6400 ext. 3482. The award is unavailable to businesses located within an Urban Enterprise Zone-impacted business district.

19. Are businesses ever denied recertification?

Answer - Yes. If a qualified business is unable to maintain the number of employees it had when it met the employment tests required for qualification, the business no longer meets the criteria for being a qualified business and the business loses its UEZ or UEZ-impacted business district benefits. Also, certification is conditional upon the business having no outstanding State tax obligations (P.L. 2006, c. 34, section 3.) The Local Coordinators in the zones or districts will answer questions about re-qualification.

20. When do the benefits available to Urban Enterprise Zone-impacted business districts terminate?

Answer- When the duration of one or more of the enterprise zones adjacent to the Urban Enterprise Zone-impacted business district expires but the Urban Enterprise Zone-impacted business district continues to be adjacent to one or more remaining enterprise zones, the Authority will review the designation of the Urban Enterprise Zone-impacted business district. If upon conducting a hearing, the Authority finds that the business district continues to be economically distressed and negatively impacted by the remaining adjacent enterprise zone, the Urban Enterprise Zone-impacted business district designation shall be continued. The designation of the Urban Enterprise Zone-impacted business district will terminate automatically when the duration of the last enterprise zone adjacent to the district ends.

CORPORATION BUSINESS TAX

21. How is the new employee tax credit granted?

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

22. What is the difference between the two credits?

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

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

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

23. How long must the new employee be employed?

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

For example, if a corporation is on a calendar year, it can hire new employees between April 20, 2000 and December 31, 2000. None of them can result in a 2000 credit, whether employed more than 6 months, or less, in 2000. Any qualifying employees hired in 2000 who work continuously through June 30, 2001 (6 months) can result in the credit for the 2001 tax-year C.B.T. return.

24. How is this credit claimed?

Answer - To claim the credit, an employer must file a completed CBT Form 300 with the New Jersey Corporation Business Tax Return (CBT-100). The credit is claimed on page one (1) of the return. The Form 300 can be obtained through the Forms Request System, (800) 323-4400.

25. How much credit is allowed?

Answer - There is no maximum limit on the credit. However, only 50% of the tax otherwise due may be offset by the credit in any tax year. Also, the minimum tax of \$500.00 must be paid.

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

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

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

Answer - The UEZ Act provides in pertinent part:

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

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

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

28. **Is there any other tax benefit if a corporation is not eligible for the employee tax credit?**

Answer- A corporation tax credit is available to qualified small businesses (under 50 employees) that were in business in the zone prior to designation of the zone and that make an investment in the zone. These businesses may obtain an eight percent investment credit, to be applied against corporation business tax, by entering into an agreement, approved by the Urban Enterprise Zone Authority, with the zone city, to make an investment in the zone, which contributes substantially to the economic attractiveness of the zone. These expenditures may include improvement of the appearance or customer facilities of its place of business or improvements in landscaping, recreation, police and fire protection, etc., in the zone. To claim the Investment Tax Credit, file a completed CBT Form 301 with the Corporation Business Tax Return (CBT-100).

SALES TAX EXEMPTION

NOTE: Because of amendments enacted by P.L. 2006, c. 34, only a "small qualified business" may use a UZ-5-SB certificate of exemption from sales and use tax. Other qualified businesses must pay sales and use tax and then apply for a tax refund with the Division of Taxation. The UZ-4 certificate, on the other hand, is still valid for every qualified business ("small" or not), as discussed below.

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

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

- 30. Are any taxable services exempt?**

Answer - Most services performed for a qualified business at its zone location are exempt. Examples are repair, janitorial and maintenance services of all kinds. However, telecommunications services (see question 31), repairs of motor vehicles (see question 34) and utility service, are not exempt.

NOTE: The following services, to the extent they are taxable as of October 1, 2006, qualify for exemption if used exclusively at the qualified business location: information services, landscaping services, installation of floor coverings, laundry services (see question 45 below) and investigation and security services (includes alarm monitoring services). Services or fees that are not exempt (that are not used exclusively by the business at its zone location) include: limousine services, furnishing space for storage, parking fees and fees for membership to a health, sporting or shopping club.

- 31. Does the purchase exemption apply to telecommunications services?**

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

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

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

NOTE: P.L. 2004, c.65, amended the UEZ law to create -- only for qualified businesses employing 250 or more people in the zone (or "vertically integrated" qualified businesses in a redevelopment area collectively employing 250 or more in the zone) -- a sales and use tax exemption for purchases of gas, electricity, and gas and electricity utility services. Also, at least 50% of the zone employees must be directly employed in the manufacturing process.

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

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

34. **Is there exemption for motor vehicles, parts and repairs for motor vehicles, parking fees, limousine services or armored car services?**

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

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

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

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

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

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

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

To obtain a UZ-5-SB, a qualified business must complete the UZ-5-SB-A application to certify that the business has less than \$10,000,000 (effective March 2009) in annual gross receipts in the prior tax year (for all locations, in and out of the zones). The UZ-5-SB-A must be completed in addition to the application for qualification or the application for recertification. It is part of the UEZ application package; also, it is available from the Division of Taxation at: www.state.nj.us/treasury/taxation.

38. **If a qualified business does not qualify for the UZ-5-SB exemption certificate, may the business apply for a refund of New Jersey sales and use tax on its qualifying purchases?**

Answer - Yes, by submitting a refund application and attaching proper documentation of the purchases and payment of sales and use tax. The application for refund (Form A-3730-UEZ) may be downloaded at http://www.state.nj.us/treasury/taxation/pdf/other_forms/uez/a3730uez_claimin.pdf. The refund form should be submitted quarterly, but no later than one year from the purchase invoice date. The A-3730-UEZ refund eligibility includes purchases made in the year prior to qualification as a UEZ business (for businesses ineligible for UZ-5-SB)."

The qualified business should continue to use the ST-3 exemption certificate for purchases for resale and the ST-4 exemption certificate for qualifying "exempt use" purchases, such as purchases of manufacturing equipment or "wrapping supplies." Also, as discussed below, the qualified business may provide the UZ-4 to its contractors for the contractors' qualifying purchases.

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

Answer - Materials, supplies and services for the exclusive use in erecting structures or building on, or improving, altering or repairing the real property of a qualified business located in the zone that are purchased for the benefit of the business property located in the zone are exempt, whether purchased by the qualified business or a contractor. (See question below.)

The UZ-4 contractor's exempt purchase certificate is not affected by P.L. 2006, c. 34, and is still valid for all qualified businesses, including those that do not qualify for the UZ-5-SB. If the materials, supplies or services are purchased by a contractor (or a subcontractor), the contractor completes a UZ-4,

obtainable only from the qualified business. After completing the UZ-4, the contractor may issue copies to its vendors or its subcontractors. Any subcontractor must attach its name, address and certificate of authority number (in addition to the name, address and number of the contractor) and then give the UZ-4 and attachments to its vendors. If a qualified business directly makes a purchase of building or landscaping materials, rather than its contractor (including a landscaper), the qualified business may use the UZ-5-SB for exemption if it is a small qualified business, or pay sales and use tax and apply for a refund if it is not a small qualified business.

40. **A contractor (or developer), which is a qualified business, buys building materials for construction on, or repair of, property of an owner who is not a qualified business (or property intended to be sold or rented). Does the contractor's exemption apply?**

Answer - No. The construction material exemption is available only if the property owner is a qualified business, and intends to retain use of the property. Any contractor, however, may purchase materials from a UEZ qualified reduced-rate vendor, in a face-to-face transaction, and qualify to pay reduced rate sales tax. For qualifying reduced rate purchases, there is no requirement of use in the zone or purchase by a UEZ qualified business; both individuals and businesses may qualify for being charged the UEZ reduced rate sales tax. For details on the ordering, delivery and other requirements, see the "Reduced Sales Tax Collection" portion of this publication.

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

Answer - No. The construction material exemption does not apply to equipment used by the contractor.

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

Answer - No, the vendor does not need to be located in a zone.

43. **Is there an exemption for advertising material?**

Answer - Yes, as long as the advertising material is used exclusively at the place of business in the zone. This includes handbills, flyers, sales catalogs, etc., for distribution at the zone place of business, but does not include items used for mailing to customers in New Jersey. Direct mail processing services also are not exempt from any sales or use tax due.

44. **Can a UEZ business apply for a refund of sales tax on transactions made after the business became qualified but before it received the exemption certificates?**

Answer - Yes. If the UEZ Authority has certified a business as a UEZ "qualified business," the business is entitled to the sales tax exemption provided by the UEZ Act, for purchases (including rentals) delivered to the business during the qualification period.

45. **Are tailoring, laundering, dry cleaning and similar services eligible for exemption?**

Answer - A "qualified business" will be exempt from sales tax on cleaning, pressing, tailoring and similar services for linens, drapes, carpets, upholstery, etc, if they will be used only at the place of business in the zone. Also, a qualified business is exempt from sales tax on janitorial services performed at its business location in the zone.

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

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

47. Are the sales tax benefits available to businesses located in an Urban Enterprise Zone-impacted business district?

Answer- No sales tax purchase or use benefits are available. However, exemptions in the law for any business still apply; e.g., sale for resale exemption. The only benefit available to qualified businesses located within the Urban Enterprise Zone-impacted business district is the ability to collect sales tax at a reduced rate of 50% on most items of tangible personal property.

48. What is the UEZ Energy Sales & Use Tax Exemption Program for Manufacturers?

Answer - UEZ-Certified manufacturing facilities with at least 250 full-time employees, at least 50% of whom are in the manufacturing process, may apply for an exemption from the sales & use taxes on the electricity and natural gas, and their transport, consumed by the Certified firm at that site. Firms may also apply as a "group" in order to meet the 250 full-time employee requirement if they are "vertically integrated" and are in the same Redevelopment Zone.

49. How long is the exemption valid? What if an application is not approved?

Answer - As long as a firm remains Certified, the exemption is generally valid until the next Recertification date (if approved within less than six months of Recertification, the exemption may be granted for a longer time). If an application cannot be approved, a firm will be given the opportunity to withdraw the application, otherwise, they must wait 90 days to re-apply.

50. How does a company apply?

Answer - Please contact your UEZ Coordinator who has the expertise to coordinate your benefits. If you are unable to obtain an application that way, you may contact the New Jersey Economic Development Authority Office at 866-534-7789.

REDUCED SALES TAX COLLECTION

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

Answer - 50% of the regular sales tax rate.

52. **Are qualified businesses located within an Urban Enterprise Zone-impacted business district eligible to collect sales tax at a reduced rate of 50%?**

Answer- Yes. Collecting sales tax at the reduced rate is the only benefit available to qualified businesses located within an Urban Enterprise Zone-impacted business district.

53. **How does a reduced rate vendor qualify?**

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

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

54. **When may application be made?**

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

55. **How long is the certification effective?**

Answer - The UZ-2 is valid for the duration of the qualified business's certification year. When the UEZ Authority recertifies the business as a "qualified business" a new UZ-2 is automatically sent.

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

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

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

Answer - Yes. Parts, but not services, may be eligible for the reduced rate sales tax - if the vendor meets the retail requirements discussed in question 50 and itemizes the parts separately from any service charges on the bill.

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

Answer - Yes. The retail sales tax on the sale of alcoholic beverages, cigarettes, and energy do not qualify for the reduced sales tax rate. For alcoholic beverages, cigarettes, manufacturing machinery, equipment or apparatus, and energy, sales tax must always be collected at the full rate. (Non-subscription magazines and periodicals, taxable as of October 1, 2006, are eligible for the reduced rate if the face-to-face transaction and other requirements are met.)

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

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

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

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

Storage space and safety deposit box rentals are "services" (not eligible for reduced sales tax rate). Also, the following services or fees, taxable as of October 1 of 2006, are ineligible for reduced rate sales tax: furnishing storage space; information services; security and investigation services; landscaping improvement services; floor covering installation; non-clothing laundry, dry cleaning, tailoring and similar services; fees for membership to a health, athletic or shopping club; tanning, massage or tattooing services; limousine services; and parking fees.

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

Answer - Yes. Sales tax law defines a sale as including the rental or leasing of personal property.

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

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

If you file the New Jersey/New York combined Sales Tax ST-20 and ST-21, you must file those and the UZ-50. On the UZ-50, report only New Jersey sales (both the regular rate sales and the reduced rate sales). On the ST-20 and ST-21, report only New York sales.

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

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

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

Answer - Only if the customer picks up the order at the store in the zone, and the business is not primarily a mail or telephone order business. All sales of tangible personal property, which qualify for the reduced rate, must be "face-to-face" transactions at the store. In addition, the merchandise must be delivered from inventory at the location in the zone, and not (for example) delivered by drop-shipment from a supplier.

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

Answer - No. Delivery may be made by the vendor, or by a carrier for the vendor, to a destination within or outside of the zone, as long as the property was ordered in person at the location in the zone and the property was delivered from the location in the zone. Reduced sales tax also applies to handling, packing, shipping and other delivery charges for the reduced sales tax transaction.

66. Is the reduced rate limited to customers located in the zone or district?

Answer - No. The residence or location of the customer has no bearing on the application of the reduced rate to a "face-to-face" sale of tangible personal property in a zone or district, as long as the order is picked up by the customer, or is delivered to a New Jersey address from inventory at the location in the zone or district. Further, all contractors and other businesses may qualify to be charged reduced sales tax, the same as individual purchasers. (NOTE: Reduced sales tax does not apply to "out-of-state" sales, because no New Jersey sales tax is collected.)

Purchases by qualified businesses - A qualified business that does not have a UZ-5-SB certificate may be charged reduced sales tax, if the purchase meets the face-to-face transaction and other reduced sales tax requirements; the qualified business may then apply for a refund of the reduced sales tax on qualifying purchases. If, however, the buyer is a small qualified business providing a copy of a UZ-5-SB certificate, the purchase may be exempt from sales tax in accordance with the certificate (vendor retains a copy of the signed and dated certificate.)

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

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

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

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

IMPORTANT

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

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

NOTE: The law is found at N.J.S.A. 52:27H-60 through 27H-89.