

Fiscal Estimate Narratives

DOR 9/23/2003

LRB Number 03-3136/1	Introduction Number SB-248	Estimate Type Original
Subject Changes to technology zones tax credit		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, businesses that are located in a technology zone may be certified by the Department of Commerce to receive tax credits. Commerce certifies the businesses for a portion of the amount of income or franchise tax, real and personal property tax, and sales and use tax paid by the business in a year.

Pass-through entities, such as partnerships, limited liability companies treated as partnerships and subchapter S corporations, have limited income and franchise tax liability at the entity level, since they pass the income, loss and deductions of the entity to their partners, members and shareholders. As a result, pass-through entities do not claim the technology zone credits, but compute the amount of the credit that each partner, member or shareholder may claim in proportion to their ownership interest. The technology zone credit that passes through to the owners does not generally include any amount for income or franchise tax liability since the entity does not generally pay that tax.

Contractors that purchase materials for construction projects pay sales or use taxes on those purchases. The tax paid is undoubtedly passed through in the contract price to the clients for whom the contractors are doing the construction. However, because the client does not pay the sales tax directly, those taxes cannot be used to compute the portion of the technology zone credit based on sales and use taxes.

The bill would replace the portion of the technology zone credit based on income and franchise taxes with a credit for 10% of capital investments made during the taxable year. It would also replace the portion of the credit based on sales and use taxes with a credit for 15% of wages paid for the first 12 months of wages for new full-time jobs in a technology zone. The bill would allow the Department of Commerce, by administrative rule, to reduce the number of hours required for a job to be considered full-time to 1,820 hours per year based on the normal work week of a certified business.

Fiscal Effect

This bill would not increase the \$5 million credit cap for each technology zone, but would likely shorten the time period during which the credits would be used. The Department is unable to determine the fiscal effect resulting from the shortened time period since the credits must be certified by Commerce before the businesses may claim them.

Long-Range Fiscal Implications