

Fiscal Estimate Narratives
DOR 3/17/2005

LRB Number	05-1297/4	Introduction Number	AB-208	Estimate Type	Original
Subject					
Job opportunity building development zones					

Assumptions Used in Arriving at Fiscal Estimate

The bill would create a rural enterprise development zone program with three refundable credits: a rural enterprise development zone jobs credit, a rural enterprise development income credit and a rural enterprise development capital gains credit. With a refundable credit, any amount of credit not used to offset tax liability in the year the credit is claimed is paid as a refund to the claimant.

Under the bill, the Department of Commerce may designate up to 10 rural enterprise development zones and certify businesses in the zone for tax credits. The rural enterprise zones must be in areas that do not exceed 5,000 acres and do not include any part of a first class city or a city with a population greater than 200,000. Commerce must consider indicators of economic need and of the likelihood that the zone designation would help the area achieve increased economic opportunity and expansion, infrastructure improvements, reduced regulatory burdens and increased job training opportunities in the zone. Designation as a zone could last no more than 12 years.

The bill would authorize Commerce to certify a business for tax benefits if it begins operations in a zone or relocates to a zone. A business relocating from another location in the state must increase full-time employees in the zone by at least 10% or make a capital investment in property in the zone equal to at least 10% of the business's gross revenue in the preceding tax year.

The Rural Enterprise Development Income Credit

Under the rural enterprise development income credit, a refundable credit would be available against the individual income tax for an amount equal to 20% of the income an individual derives from the operation of any trade or business in a zone, multiplied by 6.5%. Businesses operating in a zone would not need to be certified by Commerce to claim this credit.

The Rural Enterprise Development Capital Gains Credit

Under the rural enterprise development capital gains credit, a refundable credit would be available to offset the individual income tax for a portion of the capital gains on personal and real property used by a certified business in a zone. Under current law, 60% of the net long term gain from the sale of assets held for at least one year is excluded from income. The credit under the bill would equal the amount of gain not excluded under current law, times 6.5%.

The Rural Enterprise Development Zone Jobs Credit

Under the rural enterprise development zone jobs credit, a refundable credit would be available to offset individual and corporate income and franchise taxes. The credit would be for a portion of payroll expenses, property taxes, sales and use taxes and training expenses.

The payroll portion of the credit would be calculated by determining the lesser of the increase in zone payroll over the base year, the year prior to the designation of the zone, or the increase in state apportioned payroll over the base year, less the amount determined by multiplying the increase in the number of full-time employees in the zone from the base year times \$30,000, then multiplied times 7%.

A supplemental portion of the credit would be available for property taxes paid on personal property in the zone in the taxable year, for sales and use taxes for taxable tangible personal property and services used or consumed primarily in the zone in the taxable year, and for training expenses for any full-time employees of the business to improve the skills of the employees, to train them in the use of new technologies or to train employees in their first full-time job. In addition, if all of the claimant's payroll and business-related property were located in the zone, additional credit would be available, equal to 20% of the zone payroll and adjusted basis of property at the time it was placed in service in the zone, times 6.5% for individuals or 7.9% for corporations.

An estimate of the fiscal effect of this bill is not available. However, given the scope of the refundable credits, the Department believes the fiscal effect would be substantial, and could total several million dollars per year, or more.

Long-Range Fiscal Implications