

**DEPARTMENT OF TAXATION
2001 Fiscal Impact Statement**

REVISED

1. Patron DeBoer

3. Committee House Finance

4. Title Enterprise Zone Incentives: Real Property
Improvement Tax Credit

2. Bill Number HB 2119

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would increase the maximum Real Property Improvement Tax Credit allowed to a small-qualified zone resident in any five-year period from \$125,000 to \$250,000 in enterprise zone areas located within localities that rank among the top 25% of localities under fiscal stress as measured by the Commission on Local Government.

The effective date of this bill is not specified.

6. Fiscal Impact Estimates are: Tentative. (See Line 8.)

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2000-01	\$0	GF
2001-02	\$0	GF
2002-03	<\$700,000>	GF

Budget amendment necessary: No.

8. Fiscal implications:

The administrative costs for the Department of Taxation to administer this bill are minimal.

The earliest any business located in one of these new zones could apply for zone credits would be for the May 1, 2002 application deadline for the 2001 program year. Because approvals for these credits would not be issued until June 2002, General Fund revenues would not be impacted until Fiscal Year 2003. DHCD anticipates the total value of the credits to reach \$18.3 for the 2001 program year. Because this bill would increase the amount of credits for which applications are made to DHCD by an estimated \$2.1 million, the total value of the enterprise zone credits would be expected to exceed the \$19 cap for the 2001 program year. As such, the maximum impact of this bill would be

\$700,000 for Fiscal Year 2003. The revenue impact in future years would decrease unless the current \$19 cap is expanded.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Housing and Community Development
Commission on Local Government

10. Technical amendment necessary: No.

11. Other comments:

Generally

In 1982, the General Assembly established the Virginia Enterprise Zone program to stimulate business and industrial growth in designated enterprise zones. The state program stimulates revitalization by offering regulatory flexibility and a series of tax credits and grants. An enterprise zone is a distinct geographical area designated by the Governor and stays in effect for twenty years from the date of zone designation. Virginia law permits the designation of 60 enterprise zones. Currently, 52 zones have been designated.

The Enterprise Zone Program is administered by the Department of Housing and Community Development (DHCD). The incentives available under the program are the General Business Tax Credit, the Real Property Improvement Tax Credit, and the Zone Investment Tax Credit.

The maximum amount of tax credits DHCD can currently authorize is subject to an annual fiscal limitation of \$19 million. This annual limitation takes the form of two distinct credit "pools" of \$3 million and \$16 million. Large qualified business firms are granted credits from the \$3 million pool, while small qualified business firms are granted credits from the \$16 million pool.

Businesses investing \$15 million or more and creating 50 jobs in an enterprise zone are classified as a "large qualified business firm." Any qualified business firm not designated as a large business firm is considered a small qualified business firm.

Proposed Legislation

This bill would increase the maximum amount of the Real Property Improvement Tax Credit that could be claimed in any five-year period by small qualified business firms located in enterprise zones in a city or county that ranks in the top 25% of localities in terms of fiscal stress as measured by the most recent rankings of the Commission on Local Government.

Currently, a small qualified business firm can receive a credit of up to \$125,000 for real property improvements made to its facility within an enterprise zone. Under this bill, the maximum credit that could be earned in any five-year period would increase to \$250,000 for small qualified business firms in enterprise zones identified by the Commission on Local Government.

Other Legislation

House Bill 1801 and **Senate Bill 1073** would require that any enterprise zones designated on or after July 1, 2001, to be placed within urban areas with revitalization needs. The bill would also increase the maximum Real Property Improvement Tax Credit allowed to a small-qualified zone resident in any five-year period from \$125,000 to \$250,000.

House Bill 2007 and **Senate Bill 1418** would allow the Governor to designate an enterprise zone area within each county and city that does not meet the required economic criteria.

House Bill 2635 and **Senate Bill 999** would automatically incorporate any town with a population not exceeding 3,500 into an enterprise zone located in an adjacent county.

Senate Bill 1130 is essentially the same as this bill with different language.

cc: Secretary of Finance

Date: 1/21/01/dtm

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