

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** Maxwell

3. **Committee** Senate Finance

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

2. **Bill Number** SB 1073

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill 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.

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. The Department of Housing and Community Development ("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 \$2.5 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 is estimated to be \$700,000 for Fiscal Year 2003.

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 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 and large qualified zone residents are granted credits from the \$3 million pool, while small qualified business firms and small qualified zone residents 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." Small qualifying businesses are eligible for a General Business Tax Credit equal to 80% of its tax liability for the first year and 60% for the next nine years. Large qualifying business firms must negotiate their allowable credit amount with DHCD, which cannot exceed the allowable percentages established for small businesses.

Businesses that make an investment in excess of \$100 million and the creation of at least 200 permanent full-time positions in an enterprise zone are classified as a "large qualified zone resident." Any qualified zone resident not designated as a large business firm is considered a "small qualified zone resident."

Under the Real Property Investment Tax Credit, a “small qualified zone resident” can claim a credit of 30% of qualified zone improvements that are a rehabilitation and/or expansion of real property. The total qualified zone improvements must equal or exceed \$50,000, and the assessed value of the facility immediately prior to the rehabilitation or expansion. For new construction, the 30% credit is available if the cost of the new construction is at least \$250,000. The costs eligible for new construction include the cost of buildings, but exclude land. This credit is refundable, but the total credit available to a qualified zone resident is limited to \$125,000 in any five-year period.

Under the Zone Investment Credit, a large qualified zone resident can claim a credit of up to 5% of a qualified zone investment that includes qualified zone improvements and the cost of machinery, tools, and equipment used in manufacturing. The percentage of the credit is negotiated with DHCD. Unused credits may be carried forward indefinitely.

In 1999, the General Assembly enacted legislation that increased the maximum number of enterprise zones from 50 to 55 and required that five zones designated after July 1, 1999 be established in a locality with an unemployment rate at least 50% higher than the statewide unemployment rate or within a planning district that has an unemployment rate that is at least 1% higher than the state average.

In 2000, the General Assembly enacted legislation that increased the maximum number of enterprise zones from 55 to 60 and required that five zones designated after July 1, 2000 be established in a locality with an unemployment rate at least 50% higher than the statewide unemployment rate.

Proposed Legislation

This bill would require that any enterprise zones designated on or after July 1, 2001, to be placed within urban areas with revitalization needs. However, localities with high unemployment that apply for an enterprise zone would still have preference over the localities provided for in this bill.

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.

Other Legislation

House Bill 1801 is identical to this bill.

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 2119 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 zones located within localities that rank among the top 25% of localities under fiscal stress as measured by the Commission on Local Government.

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 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 provided that at least 50% of the cost of qualified zone improvements are made in an enterprise zone area located within localities that rank among the top 25% of localities under fiscal stress as measured by the Commission on Local Government.

cc: Secretary of Finance

Date: 1/26/01/dtm

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