

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Suit

3. **Committee** Senate Labor and Commerce

4. **Title** Enterprise Zone Program

2. **Bill Number** HB 466

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would allow certain eligible businesses to carryover Enterprise Zone General Business and Real Property Improvement Tax Credits earned but not certified because the total amount of credits on enterprise zone applications exceed the annual \$19 million cap. The carryover would be limited to five taxable years.

The effective date of this bill is not specified.

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

7. Budget amendment necessary: No

8. Fiscal implications:

The Department of Taxation would incur minimal administrative costs to implement this bill.

The Department of Housing and Community Development ("DHCD") anticipates the total value of the credits under the current program will exceed the \$19 million cap for the 2002 program year. Because this bill would expand the availability of enterprise zone incentives to credits that were not approved in previous year, the total value of the enterprise zone credits approved would add to the amount by which the total value of credits exceed the \$19 cap. As such, this bill would have no impact on General Fund revenue.

9. Specific agency or political subdivisions affected:

Department of Housing and Community Development
Department of Taxation

10. Technical amendment necessary: None.

11. Other comments:

Generally

In 1982, the General Assembly established the Virginia Enterprise Zone program (formerly the Urban 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 20 years from the date of zone designation. Virginia law permits the designation of 60 enterprise zones. Currently, 56 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, the Zone Investment Tax Credit, and job grants.

Under the General Business Tax Credit, a business that invests \$15 million or more and creates at least 50 jobs in an enterprise zone is 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."

The Real Property Improvement Tax Credit is available to any "small qualified zone resident" (a qualified zone resident that is not designated as a "large qualified zone resident"). A "large qualified zone resident" is a qualified zone resident that makes qualified zone investments exceeding \$100 million and creates at least 200 permanent full-time positions.

The maximum amount of tax credits DHCD can currently certify 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. Unallocated amounts of credits from an oversubscribed pool can be allocated from any available unsubscribed amount in the other pool.

Proposed Legislation

Under this bill, small qualified business firms and small qualified zone residents would be able to carryforward the amount of Enterprise Zone General Business and Real Property Improvement Tax Credits earned but not previously certified when the annual maximum amount of tax credits that can be authorized by DHCD has been oversubscribed.

A small qualified business firm or small qualified zone resident would be permitted to carryover the earned but uncertified credits for up to five taxable years. Each qualified

business firm or small qualified zone resident would be required to make an annual application to DHCD in order to have the amount of their carryover credit certified. The applications for carryover credits would be added to applications for new credits in determining whether the annual maximum limitation has been oversubscribed.

Other Legislation

House Bill 351 and **House Bill 1064** would increase the maximum number of enterprise zones available for designation from 60 to 70. The bill would also require that the next 10 enterprise zones designated after July 1, 2002, be established in localities that do not currently have an enterprise zone.

House Bill 467 would make enterprise zone projects that consist of up to 80% residential usage eligible for enterprise zone incentives.

House Bill 485 would eliminate the requirement that the owner or tenant conduct a trade or business at a facility in an enterprise zone at which such owner or tenant makes qualified real property improvements.

cc: Secretary of Finance

