

# DEPARTMENT OF TAXATION

## 2011 Fiscal Impact Statement

1. **Patron** Delores L. McQuinn

3. **Committee** House Finance

4. **Title** Local Defense Manufacturing Zones

2. **Bill Number** HB 2215

**House of Origin:**

  X   **Introduced**

      **Substitute**

      **Engrossed**

**Second House:**

      **In Committee**

      **Substitute**

      **Enrolled**

**5. Summary/Purpose:**

This bill would authorize local governing bodies to create, by ordinance, one or more defense manufacturing zones, inside which localities would be permitted to grant tax incentives and provide certain regulatory flexibility for a maximum period of ten years. The bill would also authorize the adoption of a local enterprise zone development taxation program for the defense manufacturing zone, regardless of whether the defense manufacturing zone has been designated by the Governor as an enterprise zone, and would make the laws that apply to enterprise zones also applicable to defense manufacturing zones.

The effective date of this bill is not specified.

**6. Budget amendment necessary:** No.

**7. Fiscal Impact Estimates are:** Not available. (See Line 8.)

**8. Fiscal implications:**

This bill would have no impact on state revenues. This bill may initially result in a local revenue decrease for those localities that elect to enact defense manufacturing zone programs, to the extent that such programs grant tax incentives or reduce fees imposed by that locality.

**9. Specific agency or political subdivisions affected:**

All localities

**10. Technical amendment necessary:** No.

## 11. Other comments:

### Virginia Enterprise Zone Program

The Virginia Enterprise Zone Program was created in 1982 to form a partnership between state and local governments to stimulate job creation, private investment, and revitalization of distressed Virginia localities. The act focused on state and local tax credits to assist areas designated as enterprise zones. Cities and counties that applied for, and were granted the designation, were able to receive tax credits for businesses situated in the zones.

In 2005, the General Assembly passed legislation (House Bill 2570, Chapter 884 and Senate Bill 983, Chapter 863, 2005 Acts) to phase out the existing system for enterprise zone tax credits and replaced it with the Enterprise Zone Grant Program. The Enterprise Zone Act expired on July 1, 2005; however, all enterprise zones that were in effect as of July 1, 2005 would continue until the end of their 20 year designation period. Under the Enterprise Zone Grant Program, localities are able to apply for grants from the Department of Housing and Community Development and are allowed to offer a variety of tax incentives when applying for an enterprise zone designation.

Localities applying for enterprise zone designation are required to submit local incentives to stimulate real property improvements and the creation of new jobs. These incentives include, but are not limited to i) reduction in permit fees for businesses, ii) reduction in user fees, iii) reduction in BPOL license tax, iv) partial exemption of real property taxes for rehabilitative or refurbishing real property within the Enterprise Zone, and v) adoption of local enterprise development tax programs.

### Local Enterprise Zone Development Taxation Program

A local enterprise zone development taxation program allows a specified percentage of real estate and machinery and tools tax revenue resulting from the incremental increase in the assessed value of real estate and machinery and tools located within an enterprise zone to be allocated to the Local Enterprise Zone Development Fund. This fund is used for grants aimed at attracting businesses to an enterprise zone or enhancing governmental services within an enterprise zone. Localities are currently authorized to adopt a local enterprise zone development taxation program for a locally designated technology zone, regardless of whether the technology zone has been designated as an enterprise zone.

### Proposal

This bill would authorize local governing bodies to create, by ordinance, one or more defense manufacturing zones, inside which localities would be permitted to grant tax incentives and provide certain regulatory flexibility. The tax incentives permissible under the bill would include, but not be limited to reduction of permit fees, reduction of user fees, and reduction of any type of gross receipts tax. Localities would be authorized to provide such incentives for a maximum period of ten years. The extent and duration of the

incentive proposals would need to conform to the requirements of the Constitutions of Virginia and the United States.

In addition, localities would be authorized to offer regulatory flexibility in such zones, including, but not limited to special zoning for the district, permit process reform, exemption from ordinances, and any other incentive adopted by ordinance. Under the terms of the bill, localities could offer these regulatory incentives for a maximum period of ten years.

The bill would also authorize the adoption of a local enterprise zone development taxation program for the defense manufacturing zone, regardless of whether the defense manufacturing zone has been designated by the Governor as an enterprise zone, and would make the laws that apply to enterprise zones also applicable to defense manufacturing zones. Under the terms of the bill, the establishment of a defense manufacturing zone would not preclude the area from also being designated as an enterprise zone or technology zone.

### Similar Bills

**Senate Bill 970** is identical to this bill.

**Senate Bill 969** would authorize local governments to establish local defense production zones in which tax incentives and regulatory flexibility are provided for a maximum period of ten years.

**House Bill 1822** and **Senate Bill 999** (identical) would create a separate classification of machinery and tools designed and used directly in manufacturing or processing materials, components, or equipment for national defense, and would authorize localities to tax this separate class at a rate less than the rate generally applicable to machinery and tools. The bill would also authorize local governments to establish local defense production zones that offer incentives and regulatory flexibility for the design, development, or production by a defense production business of materials, components, or equipment for national defense, and would authorize the locality to adopt a local enterprise zone development taxation program for the defense manufacturing zone.

cc : Secretary of Finance

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