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SENATE BILL NO. 820

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Senate Committee on Finance
on January 22, 1997)

(Patron Prior to Substitute—Senator Hawkins)

A BILL to amend and reenact §§ 58.1-3, 59.1-271, 59.1-279, 59.1-280, 59.1-280.1, and 59.1-280.2 of the Code of Virginia and to amend the Code of Virginia by adding a section numbered 59.1-282.4, relating to the Enterprise Zone Act; penalty.

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-3, 59.1-271, 59.1-279, 59.1-280, 59.1-280.1, and 59.1-280.2 of the Code of Virginia are amended and reenacted and that the Code of Virginia is amended by adding a section numbered 59.1-282.4, as follows:

§ 58.1-3. Secrecy of information; penalties.

A. Except in accordance with proper judicial order or as otherwise provided by law, the Tax Commissioner or agent, clerk, commissioner of the revenue, treasurer, or any other state or local tax or revenue officer or employee, or any former officer or employee of any of the aforementioned offices shall not divulge any information acquired by him in the performance of his duties with respect to the transactions, property, including personal property, income or business of any person, firm or corporation. Such prohibition specifically includes any copy of a federal return or federal return information required by Virginia law to be attached to or included in the Virginia return. Any person violating the provisions of this section shall be guilty of a Class 2 misdemeanor. The provisions of this subsection shall not be applicable, however, to:

1. Matters required by law to be entered on any public assessment roll or book;

2. Acts performed or words spoken or published in the line of duty under the law;

3. Inquiries and investigations to obtain information as to the process of real estate assessments by a duly constituted committee of the General Assembly, or when such inquiry or investigation is relevant to its study, provided that any such information obtained shall be privileged;

4. The sales price, date of construction, physical dimensions or characteristics of real property, or to any information required for building permits;

5. Copies of or information contained in an estate's probate tax return, filed with the clerk of court pursuant to § 58.1-1714, when requested by a beneficiary of the estate or an heir at law of the decedent.

B. Nothing contained in this section shall be construed to prohibit the publication of statistics so classified as to prevent the identification of particular reports or returns and the items thereof or the publication of delinquent lists showing the names of taxpayers who are currently delinquent, together with any relevant information which in the opinion of the Department may assist in the collection of such delinquent taxes. This section shall not be construed to prohibit a local tax official from disclosing whether a person, firm or corporation is licensed to do business in that locality and divulging, upon written request, the name and address of any person, firm or corporation transacting business under a fictitious name. Additionally, notwithstanding any other provision of law, the commissioner of revenue is authorized to provide, upon written request stating the reason for such request, the Tax Commissioner with information obtained from local tax returns and other information pertaining to the income, sales and property of any person, firm or corporation licensed to do business in that locality.

C. Notwithstanding the provisions of subsection A or B or any other provision of this title, the Tax Commissioner is authorized to: (i) divulge tax information to any commissioner of the revenue, director of finance or other similar collector of county, city or town taxes who, for the performance of his official duties, requests the same in writing setting forth the reasons for such request; (ii) provide to the Commissioner of the Department of Social Services, upon written request, information on the amount of income reported by persons on their state income tax returns who have applied for public assistance benefits as defined in § 63.1-87; (iii) provide to the Executive Director of the State Education Assistance Authority, upon written request, the names and home addresses of those persons identified by the Authority as having defaulted on loans guaranteed by the Authority; (iv) provide current address information upon request to state agencies and institutions for their confidential use in facilitating the collection of accounts receivable, and to the clerk of a circuit or district court for their confidential use in facilitating the collection of fines, penalties and costs imposed in a proceeding in that court; (v) provide to the Commissioner of the Virginia Employment Commission, after entering into a written agreement, such tax information as may be necessary to facilitate the collection of unemployment taxes and overpaid benefits; (vi) provide to the Alcoholic Beverage Control Board, upon entering into a written agreement, such tax information as may be necessary to facilitate the collection of state and local taxes and the administration of the alcoholic beverage control laws; (vii) provide to the Director of the

60 State Lottery Department such tax information as may be necessary to identify those lottery ticket
61 retailers who owe delinquent taxes; (viii) provide to the Department of the Treasury for its confidential
62 use such tax information as may be necessary to facilitate the location of owners of unclaimed property;
63 (ix) provide to the State Corporation Commission, upon entering into a written agreement, such tax
64 information as may be necessary to facilitate the collection of taxes and fees administered by the
65 Commission; (x) provide to the Executive Director of the Potomac and Rappahannock Transportation
66 Commission for its confidential use such tax information as may be necessary to facilitate the collection
67 of the motor vehicle fuel sales tax; ~~and~~ (xi) provide to the Executive Secretary of the Charitable Gaming
68 Commission such tax information as may be necessary to identify those applicants for registration as a
69 supplier of charitable gaming supplies who have not filed required returns or who owe delinquent taxes;
70 *and (xii) provide to the Department of Housing and Community Development for its confidential use*
71 *such tax information as may be necessary to facilitate the administration of the Enterprise Zone Act*
72 *(§ 59.1-270 et seq.).* The Tax Commissioner is further authorized to enter into written agreements with
73 duly constituted tax officials of other states and of the United States for the inspection of tax returns, the
74 making of audits, and the exchange of information relating to any tax administered by the Department
75 of Taxation. Any person to whom tax information is divulged pursuant to this section shall be subject to
76 the prohibitions and penalties prescribed herein as though he were a tax official.

77 D. Notwithstanding the provisions of subsection A or B or any other provision of this title, the
78 commissioner of revenue is authorized to provide, upon written request stating the reason for such
79 request, the chief executive officer of any county or city with information furnished to the commissioner
80 of revenue by the Tax Commissioner relating to the name and address of any dealer located within the
81 county or city who paid sales and use tax, for the purpose of verifying the local sales and use tax
82 revenues payable to the county or city. The commissioner of revenue is authorized to provide to the
83 Department of Professional and Occupational Regulation for its confidential use the name, address, and
84 amount of gross receipts of any person, firm or entity subject to a criminal investigation of an unlawful
85 practice of a profession or occupation administered by the Department of Professional and Occupational
86 Regulation, only after the Department of Professional and Occupational Regulation exhausts all other
87 means of obtaining such information. Any person to whom tax information is divulged pursuant to this
88 section shall be subject to the prohibitions and penalties prescribed herein as though he were a tax
89 official.

90 This section shall not be construed to prohibit a local tax official from imprinting or displaying on a
91 motor vehicle local license decal the year, make, and model and any other legal identification
92 information about the particular motor vehicle for which that local license decal is assigned.

93 E. Notwithstanding any other provisions of law, state agencies and any other administrative or
94 regulatory unit of state government shall divulge to the Tax Commissioner or his authorized agent, upon
95 written request, the name, address, and social security number of a taxpayer, necessary for the
96 performance of the Commissioner's official duties regarding the administration and enforcement of laws
97 within the jurisdiction of the Department of Taxation. The receipt of information by the Tax
98 Commissioner or his agent which may be deemed taxpayer information shall not relieve the
99 Commissioner of the obligations under this section.

100 F. Additionally, it shall be unlawful for any person to disseminate, publish, or cause to be published
101 any confidential tax document which he knows or has reason to know is a confidential tax document. A
102 confidential tax document is any correspondence, document, or tax return that is prohibited from being
103 divulged by subsection A, B, C, or D of this section *or by § 59.1-282.4.* This prohibition shall not apply
104 if such confidential tax document has been divulged or disseminated pursuant to a provision of law
105 authorizing disclosure. Any person violating the provisions of this subsection shall be guilty of a Class 2
106 misdemeanor.

107 § 59.1-271. Definitions.

108 As used in this chapter:

109 "Business firm" means any ~~business entity authorized to do business in the Commonwealth of~~
110 ~~Virginia and subject to the state income tax on net corporate rate income (§ 58.1-400 et seq.), or a~~
111 ~~public service company subject to a franchise or license tax on gross receipts, or a bank, mutual savings~~
112 ~~bank, savings institution, or a corporation, partnership, electing small business (Subchapter S)~~
113 ~~corporation, limited liability company, or sole proprietorship authorized to do business in this~~
114 ~~Commonwealth and subject to tax imposed under Articles 2 (§ 58.1-320 et seq.) and 10 (§ 58.1-400 et~~
115 ~~seq.) of Chapter 3, Chapter 12 (§ 58.1-1200 et seq.), Article 1 (§ 58.1-2500 et seq.) of Chapter 25, or~~
116 ~~Article 2 (§ 58.1-2620 et seq.) of Chapter 26 of Title 58.1.~~

117 "Department" means the Department of Housing and Community Development.

118 "Enterprise zone" means an area declared by the Governor to be eligible for the benefits of this
119 chapter.

120 "Enterprise zone incentive grant" or "grant" means a grant provided pursuant to § 59.1-282.1.

121 "Local zone administrator" means the chief executive of the county, city, or town in which an

enterprise zone is located, or his designee.

"Qualified business firm" means a business firm designated as a qualified business firm by the Department pursuant to § 59.1-279.

§ 59.1-279. Eligibility.

A. Any business firm may be designated a "qualified business firm" for purposes of this chapter if:

1. (i) It establishes within an enterprise zone a trade or business not previously conducted in the Commonwealth by such taxpayer; and (ii) forty percent or more of the employees employed at the business firm's establishment or establishments located within the enterprise zone either have incomes below eighty percent of the median income for the jurisdiction prior to employment or are residents of the an enterprise zone.

2. It (i) is actively engaged in the conduct of a trade or business in an area immediately prior to such an area being designated as an enterprise zone; and (ii) increases the average number of full-time employees employed at the business firm's establishment or establishments located within the enterprise zone by at least ten percent over the lower of the preceding two years' employment with no less than forty percent of such increase being employees who either have incomes below eighty percent of the median income for the jurisdiction prior to employment or are residents of the an enterprise zone. Current employees of the business firm that are transferred directly to the enterprise zone facility from another site within the state resulting in a net loss of employment at that site shall not be included in calculating the increase in the average number of full-time employees employed by the business firm within the enterprise zone.

3. It (i) is actively engaged in the conduct of a trade or business in the Commonwealth and relocates to begin operation of a trade or business within an enterprise zone and (ii) increases the average number of full-time employees employed at the business firm's establishment or establishments within the enterprise zone by at least ten percent over the lower of the preceding two years' employment of the business firm prior to relocation with no less than forty percent of such increase being employees who either have incomes below eighty percent of the median income for the jurisdiction prior to employment or are residents of the an enterprise zone. Current employees of the business firm that are transferred directly to the enterprise zone facility from another site within the state resulting in a net loss of employment at that site shall not be included in calculating the increase in the average number of full-time employees employed by the business firm within the enterprise zone.

4. For the purposes of this section, the term "full-time employee" means (i) an individual employed by a business firm and who works the normal number of hours a week as required by the firm or (ii) two or more individuals who together share the same job position and together work the normal number of hours a week as required by the business firm for that one position. For the purposes of this section, the term "jurisdiction" means the county, city or town which made the application under § 59.1-274 to have the enterprise zone. In the case of a joint application, jurisdiction means all parties making such application.

B. After designation as a qualified business firm pursuant to this section, each business firm in an enterprise zone shall submit annually to the Department a statement requesting one or more of the tax incentives provided in § 59.1-280 or § 59.1-282. Such a statement shall be accompanied by an approved form supplied by the Department and completed by an independent certified public accountant licensed by the Commonwealth which states that the business firm met the definition of a "qualified business firm" and continues to meet the requirements for eligibility as a qualified business firm in effect at the time of its designation. A copy of the statement submitted by each business firm to the Department shall be forwarded to the zone administrator.

C. The form referred to in subsection B of this section, prepared by an independent certified public accountant licensed by the Commonwealth, shall be prima facie evidence of the eligibility of a business firm for the purposes of this section, *but the evidence of eligibility shall be subject to rebuttal. The Department or the Department of Taxation or State Corporation Commission, as applicable, may at its discretion require any business firm to provide supplemental information regarding the firm's eligibility (i) as a qualified business firm or (ii) for a tax credit claimed pursuant to this chapter.*

§ 59.1-280. Enterprise zone business tax credit.

A. As used in this section:

"Business tax credit" means a credit against any tax due under Articles 2 (§ 58.1-320 et seq.) and 10 (§ 58.1-400 et seq.) of Chapter 3, Chapter 12 (§ 58.1-1200 et seq.), Article 1 (§ 58.1-2500 et seq.) of Chapter 25, or Article 2 (§ 58.1-2620 et seq.) of Chapter 26 of Title 58.1 due from a business firm.

"Large qualified business firm" means a qualified business firm making qualified zone investments in excess of \$25 million when such qualified zone investments result in the creation of at least 100 permanent full-time positions. "Qualified zone investment" and "permanent full-time position" shall have the meanings provided in subsection A of § 59.1-280.1.

"Small qualified business firm" means any qualified business firm other than a large qualified

183 *business firm.*

184 B. The Department shall certify annually to the Commissioner of the Department of Taxation, or in
185 the case of ~~public service companies~~ (i) *business firms subject to tax under Article 1 (§ 58.1-2500 et*
186 *seq.) of Chapter 25 of Title 58.1 to the Commissioner of Insurance for the State Corporation*
187 *Commission, or (ii) business firms subject to tax under Article 2 (§ 58.1-2620 et seq.) of Chapter 26 of*
188 *Title 58.1 to the Director of Public Service Taxation for the State Corporation Commission, the*
189 *applicability of the business tax credit provided herein for a qualified business firm against any tax due*
190 *under Article 10 (§ 58.1-400 et seq.) of Chapter 3 of Title 58.1 or against any income tax, franchise tax,*
191 *gross receipts tax or shares tax due from a public service company, bank, bank and trust company, trust*
192 *company, insurance company, other than a foreign fire or casualty insurance company, national bank,*
193 *mutual savings bank, savings institution, partnership or sole proprietorship, in an amount equaling . Any*
194 *certification by the Department pursuant to this section shall not impair the authority of the Department*
195 *of Taxation or State Corporation Commission to deny in whole or in part any claimed tax credit if the*
196 *Department of Taxation or State Corporation Commission determines that the qualified business firm is*
197 *not entitled to such tax credit. The Department of Taxation or State Corporation Commission shall*
198 *notify the Department in writing upon determining that a business firm is ineligible for such tax credit.*

199 C. *Small qualified business firms shall be allowed a business tax credit in an amount equal to eighty*
200 *percent of the tax due to the Commonwealth for the first tax year and sixty percent of the tax due the*
201 *Commonwealth for the second tax year through the tenth tax year. However, if the qualified business*
202 *firm makes qualified zone investments (as defined in subsection K of § 59.1-280.1) in excess of \$25*
203 *million and such qualified zone investments result in the creation of at least 100 full-time positions, the*
204 *percentage amounts of the income tax credits available to such qualified business firms under this*
205 *subsection shall be Except as provided in subdivision B 1 of § 59.1-280.2, the total amount of (i)*
206 *business tax credits granted to small qualified business firms under this subsection and (ii) real property*
207 *investment tax credits granted to small qualified zone residents under subsection C of § 59.1-280.1, for*
208 *each fiscal year, shall not exceed five million dollars.*

209 D. *Large qualified business firms shall be allowed a business tax credit in a percentage amount*
210 *determined by agreement between the Department and the large qualified business firm, provided such*
211 *percentage amounts shall not exceed the percentages provided for other small qualified business firms as*
212 *set forth in the preceding sentence subsection C. Except as provided in subdivision B 2 of § 59.1-280.2,*
213 *the total amount of (i) business tax credits granted to large qualified business firms under this*
214 *subsection and (ii) real property investment tax credits granted to large qualified zone residents under*
215 *subsection D of § 59.1-280.1, for each fiscal year, shall not exceed three million dollars.*

216 E. *Any business tax credit not usable may not be applied to future tax years. The total amount of tax*
217 *credits granted to qualified business firms (other than firms that are granted a tax credit under subsection*
218 *J of § 59.1-280.1) under this section and to qualified zone residents under subsection B of § 59.1-280.1,*
219 *for each fiscal year, shall not exceed five million dollars. However, tax credits granted under this section*
220 *to business firms designated as qualified business firms prior to July 1, 1995, shall not be subject to*
221 *inclusion in such the five-million-dollar limitation set forth in subsection C or the three-million-dollar*
222 *limitation set forth in subsection D.*

223 B F. When a partnership or a small business corporation making an election pursuant to Subchapter
224 S of the Internal Revenue Code is eligible for a tax credit under this section, each partner or shareholder
225 shall be eligible for the tax credit provided for in this section on his individual income tax in proportion
226 to the amount of income received by that partner from the partnership, or shareholder from his
227 corporation, respectively. ~~Any qualified business firm having taxable income from business activity, both~~
228 ~~within and without the enterprise zone, shall allocate and apportion its taxable income attributable to the~~
229 ~~conduct of business in accordance with the procedures contained in §§ 58.1-302 through 58.1-420.~~

230 G. Tax credits provided for in this section shall only apply to taxable income of a qualified business
231 firm attributable to the conduct of business within the enterprise zone. *Any qualified business firm*
232 *having taxable income from business activity both within and without the enterprise zone shall allocate*
233 *and apportion its Virginia taxable income attributable to the conduct of business as follows:*

234 1. *The portion of a qualified business firm's Virginia taxable income allocated and apportioned to*
235 *business activities within an enterprise zone shall be determined by multiplying its Virginia taxable*
236 *income by a fraction, the numerator of which is the sum of the property factor and the payroll factor,*
237 *and the denominator of which is two.*

238 a. *The property factor is a fraction. The numerator is the average value of real and tangible*
239 *personal property of the business firm which is used in the enterprise zone. The denominator is the*
240 *average value of real and tangible personal property of the business firm used everywhere in the*
241 *Commonwealth.*

242 b. *The payroll factor is a fraction. The numerator is the total amount paid or accrued within the*
243 *enterprise zone during the taxable period by the business firm for compensation. The denominator is the*
244 *total compensation paid or accrued everywhere in the Commonwealth during the taxable period by the*

business firm for compensation.

2. The property factor and the payroll factor shall be determined in accordance with the procedures established in §§ 58.1-409 through 58.1-413 for determining the Virginia taxable income of a corporation having income from business activities which is taxable both within and without the Commonwealth, *mutatis mutandis*.

3. If a qualified business firm believes that the method of allocation and apportionment hereinbefore prescribed as administered has operated or will operate to allocate or apportion to an enterprise zone a lesser portion of its Virginia taxable income than is reasonably attributable to business conducted within the enterprise zone, it shall be entitled to file with the Department of Taxation a statement of its objections and of such alternative method of allocation or apportionment as it believes to be appropriate under the circumstances with such detail and proof and within such time as the Department of Taxation may reasonably prescribe. If the Department of Taxation concludes that the method of allocation or apportionment employed is in fact inequitable or inapplicable, it shall redetermine the taxable income by such other method of allocation or apportionment as best seems calculated to assign to an enterprise zone the portion of the qualified business firm's Virginia taxable income reasonably attributable to business conducted within the enterprise zone.

§ 59.1-280.1. Enterprise zone real property investment tax credit.

A. As used in this section:

"Large qualified zone resident" means a qualified zone resident making qualified zone investments in excess of \$100 million when such qualified zone investments result in the creation of at least 200 permanent full-time positions.

"Permanent full-time position" means a job of an indefinite duration at a business firm located within an enterprise zone requiring the employee to report for work within the enterprise zone, and requiring either (i) a minimum of thirty-five hours of an employee's time a week for the entire normal year of the business firm's operations, which "normal year" must consist of at least forty-eight weeks, or (ii) a minimum of thirty-five hours of an employee's time a week for the portion of the taxable year in which the employee was initially hired for, or transferred to, the business firm. Seasonal or temporary positions, or a position created when a job function is shifted from an existing location in this Commonwealth to a business firm located within an enterprise zone shall not qualify as permanent full-time positions.

"Qualified zone improvements" means the amount properly chargeable to a capital account for improvements to rehabilitate or expand depreciable real property placed in service during the taxable year within an enterprise zone, provided that the total amount of such improvements equals or exceeds (i) \$50,000 and (ii) the assessed value of the original facility immediately prior to the rehabilitation or expansion. Qualified zone improvements include expenditures associated with any exterior, structural, mechanical, or electrical improvements necessary to expand or rehabilitate a building for commercial or industrial use and excavations, grading, paving, driveways, roads, sidewalks, landscaping or other land improvements. Qualified zone improvements shall include, but not be limited to, costs associated with demolition, carpentry, sheetrock, plaster, painting, ceilings, fixtures, doors, windows, fire suppression systems, roofing and flashing, exterior repair, cleaning, and cleanup.

Qualified zone improvements shall not include:

1. The cost of acquiring any real property or building; however, the cost of any newly constructed depreciable nonresidential real property (excluding land, land improvements, paving, grading, driveways, and interest) shall be considered to be a qualified zone improvement eligible for the credit if the total amount of such expenditure is at least \$250,000 with respect to a single facility.

2. (i) The cost of furnishings; (ii) any expenditure associated with appraisal, architectural, engineering and interior design fees; (iii) loan fees, points, or capitalized interest; (iv) legal, accounting, realtor, sales and marketing, or other professional fees; (v) closing costs, permits, user fees, zoning fees, impact fees, and inspection fees; (vi) bids, insurance, signage, utilities, bonding, copying, rent loss, or temporary facilities incurred during construction; (vii) utility hook-up or access fees; (viii) outbuildings; or (ix) the cost of any well or septic or sewer system.

3. The basis of any property: (i) for which a credit under this section was previously granted; (ii) which was previously placed in service in Virginia by the taxpayer, a related party as defined by Internal Revenue Code § 267 (b), or a trade or business under common control as defined by Internal Revenue Code § 52 (b); or (iii) which was previously in service in Virginia and has a basis in the hands of the person acquiring it, determined in whole or in part by reference to the basis of such property in the hands of the person from whom acquired, or Internal Revenue Code § 1014 (a).

"Qualified zone investments" means the sum of qualified zone improvements and the cost of machinery, tools and equipment used in manufacturing tangible personal property within an enterprise zone. For purposes of this section, machinery, tools and equipment shall only be deemed to include the cost of such property which is placed in service in the enterprise zone on or after July 1, 1995.

306 Machinery, tools and equipment shall not include the basis of any property: (i) for which a credit under
307 this section was previously granted; (ii) which was previously placed in service in Virginia by the
308 taxpayer, a related party as defined by Internal Revenue Code § 267 (b), or a trade or business under
309 common control as defined by Internal Revenue Code § 52 (b); or (iii) which was previously in service
310 in Virginia and has a basis in the hands of the person acquiring it, determined in whole or part by
311 reference to the basis of such property in the hands of the person from whom acquired, or Internal
312 Revenue Code § 1014 (a).

313 "Qualified zone resident" means an owner or tenant of real property located in an enterprise zone
314 who expands or rehabilitates such real property to facilitate the conduct of a trade or business by such
315 owner or tenant within the enterprise zone.

316 "Real property investment tax credit" means a credit against the taxes imposed by Articles 2
317 (§ 58.1-320 et seq.) and 10 (§ 58.1-400 et seq.) of Chapter 3, Chapter 12 (§ 58.1-1200), Article 1
318 (§ 58.1-2500 et seq.) of Chapter 25, or Article 2 (§ 58.1-2620 et seq.) of Chapter 26 of Title 58.1.

319 "Small qualified zone resident" means any qualified zone resident other than a large qualified zone
320 resident.

321 B. For all taxable years beginning on and after July 1, 1995, but before July 1, 2005, a taxpayer
322 qualified zone resident shall be allowed a real property investment tax credit against the taxes imposed
323 by Articles 2 (§ 58.1-320 et seq.) and 10 (§ 58.1-400 et seq.) of Chapter 3, Chapter 12 (§ 58.1-1200),
324 Article 1 (§ 58.1-2500 et seq.) of Chapter 25, or Article 2 (§ 58.1-2620 et seq.) of Chapter 26 of Title
325 58.1, as set forth in this section.

326 B C. For any small qualified zone resident, a real property investment tax credit shall be allowed
327 pursuant to this section in an amount equaling thirty percent of the qualified zone improvements.
328 However Any tax credit granted pursuant to this subsection is refundable; however, in no event shall the
329 cumulative credit allowed to a small qualified zone resident pursuant to this section subsection exceed
330 \$125,000 in any five-year period. The Except as provided in subdivision B 1 of § 59.1-280.2, the total
331 amount of (i) real property investment tax credits granted to small qualified zone residents under this
332 subsection and (ii) business tax credits granted to small qualified business firms under subsection C of
333 § 59.1-280, for each fiscal year, shall not exceed five million dollars.

334 C. "Permanent full-time position" means a job of an indefinite duration at a business firm located
335 within an enterprise zone requiring the employee to report for work within the enterprise zone, and
336 requiring either (i) a minimum of thirty-five hours of an employee's time a week for the entire normal
337 year of the business firm's operations, which "normal year" must consist of at least forty-eight weeks, or
338 (ii) a minimum of thirty-five hours of an employee's time a week for the portion of the taxable year in
339 which the employee was initially hired for, or transferred to, the business firm. Seasonal or temporary
340 positions, or a position created when a job function is shifted from an existing location in this
341 Commonwealth to a business firm located within an enterprise zone shall not qualify as permanent
342 full-time positions.

343 D. "Qualified zone resident" means an owner or tenant of real property located in an enterprise zone
344 who expands or rehabilitates such real property to facilitate the conduct of a trade or business by such
345 owner or tenant within the enterprise zone.

346 E. "Qualified zone improvements" means the amount properly chargeable to a capital account for
347 improvements to rehabilitate or expand depreciable real property placed in service during the taxable
348 year within an enterprise zone, provided that the total amount of such improvements equals or exceeds
349 (i) \$50,000 and (ii) the assessed value of the original facility immediately prior to the rehabilitation or
350 expansion. Qualified zone improvements include expenditures associated with any exterior, structural,
351 mechanical, or electrical improvements necessary to expand or rehabilitate a building for commercial or
352 industrial use and excavations, grading, paving, driveways, roads, sidewalks, landscaping or other land
353 improvements. Qualified zone improvements shall include, but not be limited to, costs associated with
354 demolition, carpentry, sheetrock, plaster, painting, ceilings, fixtures, doors, windows, fire suppression
355 systems, roofing and flashing, exterior repair, cleaning, and cleanup.

356 1. Except as provided in subsection F of this section, qualified zone improvements shall not include
357 the cost of acquiring any real property or building.

358 2. Qualified zone improvements shall not include: (i) the cost of furnishings; (ii) any expenditure
359 associated with appraisal, architectural, engineering and interior design fees; (iii) loan fees, points, or
360 capitalized interest; (iv) legal, accounting, realtor, sales and marketing, or other professional fees; (v)
361 closing costs, permits, user fees, zoning fees, impact fees, and inspection fees; (vi) bids, insurance,
362 signage, utilities, bonding, copying, rent loss, or temporary facilities incurred during construction; (vii)
363 utility hook-up or access fees; (viii) outbuildings; or (ix) the cost of any well or septic or sewer system.

364 3. Qualified zone improvements shall not include the basis of any property: (i) for which a credit
365 under this section was previously granted; (ii) which was previously placed in service in Virginia by the
366 taxpayer, a related party as defined by Internal Revenue Code § 267 (b), or a trade or business under
367 common control as defined by Internal Revenue Code § 52 (b); or (iii) which was previously in service

in Virginia and has a basis in the hands of the person acquiring it, determined in whole or in part by reference to the basis of such property in the hands of the person from whom acquired; or Internal Revenue Code § 1014 (a).

F. For purposes of this section, the cost of any newly constructed depreciable nonresidential real property shall be considered to be a qualified zone improvement eligible for the credit if the total amount of such expenditures is at least \$250,000 with respect to a single facility. For purposes of this subsection, land, land improvements, paving, grading, driveways, and interest shall not be considered to be qualified zone improvements.

D. For any large qualified zone resident, a real property investment tax credit shall be allowed in an amount of up to five percent of such qualified zone investments. The percentage amount of the real property investment tax credit granted to a large qualified zone resident shall be determined by agreement between the Department and the large qualified zone resident, provided such percentage amount shall not exceed five percent. Except as provided in subdivision B 2 of § 59.1-280.2, the total amount of (i) real property investment tax credits granted to large qualified zone residents under this subsection and (ii) business tax credits granted to large qualified business firms under subsection D of § 59.1-280, for each fiscal year shall not exceed three million dollars. The real property investment tax credit provided by this subsection shall not exceed the tax imposed for such taxable year, but any credit not usable for the taxable year generated may be carried over until the full amount of such credit has been utilized.

G. E. The Department shall certify the nature and amount of qualified zone improvements and qualified zone investments eligible for a real property investment tax credit in any taxable year. Only qualified zone improvements and qualified zone investments that have been properly certified shall be eligible for the credit. Any form filed with the Department of Taxation or State Corporation Commission for the purpose of claiming the credit shall be accompanied by a copy of the certification furnished to the taxpayer by the Department. Any certification by the Department pursuant to this section shall not impair the authority of the Department of Taxation or State Corporation Commission to deny in whole or in part any claimed tax credit if the Department of Taxation or State Corporation Commission determines that the taxpayer is not entitled to such tax credit. The Department of Taxation or State Corporation Commission shall notify the Department in writing upon determining that a taxpayer is ineligible for such tax credit.

H. The amount of credit allowed pursuant to subsection B of this section shall not exceed the tax imposed for such taxable year. Any tax credit granted pursuant to subsection B of this section is refundable; however, a taxpayer shall not be eligible to receive more than \$125,000 of tax credits under subsection B of this section within a five-year period.

I. F. In the case of a partnership, limited liability company or S corporation, the term "qualified zone resident" as used in this section means the partnership, limited liability company or S corporation. Credits granted to a partnership, limited liability company or S corporation shall be passed through to the partners, members or shareholders, respectively.

J. In the event that a qualified zone resident (i) makes qualified zone investments in excess of \$100 million and (ii) such qualified zone investments result in the creation of at least 200 permanent full-time positions, then such qualified zone resident shall be eligible for a credit in an amount of up to five percent of such qualified zone investments in lieu of the credit provided by subsection B of this section. The percentage amount of the investment tax credit granted to a qualified zone resident shall be determined by agreement between the Department and the qualified zone resident, provided such percentage amount shall not exceed five percent. The total amount of tax credits granted to qualified zone residents under subsection J, and to qualified business firms under § 59.1-280 for firms granted a tax credit under subsection J of this section, for each fiscal year shall not exceed three million dollars. The percentage amounts of the business income tax credit provided in § 59.1-280 which may be granted to a qualified business firm that is eligible for an investment tax credit under this subsection shall be determined by agreement between the Department and the qualified zone resident, provided such percentage amounts shall not exceed the percentages provided in § 59.1-280. The investment tax credit provided by this subsection shall not exceed the tax imposed for such taxable year, but any credit not usable for the taxable year generated may be carried over until the full amount of such credit has been utilized.

K. "Qualified zone investments" means the sum of qualified zone improvements and the cost of machinery, tools and equipment used in manufacturing tangible personal property within an enterprise zone. For purposes of this section, machinery, tools and equipment shall only be deemed to include the cost of such property which is placed in service in the enterprise zone on or after July 1, 1995. Machinery, tools and equipment shall not include the basis of any property: (i) for which a credit under this section was previously granted; (ii) which was previously placed in service in Virginia by the taxpayer, a related party as defined by Internal Revenue Code § 267 (b), or a trade or business under

common control as defined by Internal Revenue Code § 52 (b); or (iii) which was previously in service in Virginia and has a basis in the hands of the person acquiring it, determined in whole or part by reference to the basis of such property in the hands of the person from whom acquired, or Internal Revenue Code § 1014 (a).

L G. The Tax Commissioner shall have the authority to issue regulations relating to the computation and carryover of the credit provided under this section.

M H. In the first taxable year only, the credit provided in this section shall be prorated equally against the taxpayer's estimated payments made in the third and fourth quarters and the final payment, if such taxpayer is required to make quarterly payments.

§ 59.1-280.2. Policies and procedures for reservation and allocation of tax credits.

A. Qualified business firms and qualified zone residents shall be eligible to receive any tax credit provided under § 59.1-280 or § 59.1-280.1 in any year if, and to the extent, they reserve the tax credit through the Department.

B. 1. *If the total amount of tax credits for which small qualified business firms are eligible under subsection C of § 59.1-280 and small qualified zone residents are eligible under subsection C of § 59.1-280.1 exceeds five million dollars in any fiscal year in which the amount of tax credits for which large qualified business firms are eligible under subsection D of § 59.1-280 and large qualified zone residents are eligible under subsection D of § 59.1-280.1 is less than three million dollars, then the amount of tax credits available to such small qualified business firms and small qualified zone residents shall be increased by the amount by which the tax credits for such large qualified business firms and large qualified zone residents are eligible is less than three million dollars.*

2. *If the total amount of tax credits for which large qualified business firms are eligible under subsection D of § 59.1-280 and large qualified zone residents are eligible under subsection D of § 59.1-280.1 exceeds three million dollars in any fiscal year in which the amount of tax credits for which small qualified business firms are eligible under subsection C of § 59.1-280 and small qualified zone residents are eligible under subsection C of § 59.1-280.1 is less than five million dollars, then the amount of tax credits available to such large qualified business firms and large qualified zone residents shall be increased by the amount by which the tax credits for such small qualified business firms and small qualified zone residents are eligible is less than five million dollars.*

C. In order to ensure that the limited amounts of tax credits available under §§ 59.1-280 and 59.1-280.1 in any year are not oversubscribed and are allocated in an orderly and equitable manner, the Board of Housing and Community Development shall establish policies and procedures for the reservation of tax credits by qualified business firms and qualified zone residents. Such policies and procedures shall provide (i) requirements for applying for reservations of tax credits; (ii) a system for allocating available amount of tax credits among eligible applicants; (iii) *a method for carrying forward eligibility for tax credits to subsequent periods if an applicant does not obtain a reservation of the tax credit or any portion thereof for which he is eligible in any year as the result of the oversubscription of tax credits; (iv) priorities for allocating reservations to applicants whose eligibility for reservations of tax credits was carried forward from a preceding year but who did not receive a credit to which they were otherwise eligible; and (v) a method for the issuance of reservations to eligible applicants who did not initially receive a reservation in any year, if the Department determines that tax credit reservations were issued to other applicants who did not use, or were determined to be wholly or partially ineligible for, a reserved tax credit; and (vi) a procedure for the cancellation and reallocation of tax credit reservations allocated to applicants who, after reserving tax credits, have been determined to be ineligible for all or a portion of the tax credits reserved.*

D. The Department shall apply such policies and procedures in approving applications for reservations of such tax credits to qualified business firms and qualified zone residents.

E. Actions of the Department relating to the approval or denial of applications for reservations for tax credits under § 59.1-280 or § 59.1-280.1 shall be exempt from the provisions of the Administrative Process Act pursuant to subdivision B 4 of § 9-6.14:4.1.

§ 59.1-282.4. Confidentiality of information; penalty.

Except in accordance with proper judicial order or as otherwise provided by law, any employee or former employee of the Department shall not divulge any information acquired by him in the performance of his duties with respect to the tax liability, employment, property, or income of any business firm submitted to the Department pursuant to this chapter. Any person violating this section shall be guilty of a Class 2 misdemeanor. The provisions of this section shall not be applicable, however, to:

1. Acts performed or words spoken or published in the line of duty under law;

2. Inquiries and investigations to obtain information as to the implementation of this chapter by a duly constituted committee of the General Assembly, or when such inquiry or investigation is relevant to its study, provided that any such information shall be privileged;

3. Disclosures of information to the Department of Taxation or the State Corporation Commission as

491 *may be required to implement the provisions of this chapter; or*
492 *4. The publication of statistics so classified as to prevent the identification of particular business*
493 *firms.*