HB10-1396

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number: LLS 10-0757
Prime Sponsor(s): Rep. Judd
Date: April 7, 2010
Bill Status: House Finance
Fiscal Analyst: Ron Kirk (303-866-4785)

TITLE: CONCERNING THE REDUCTION IN TAX INCENTIVE REVENUE LOSS THROUGH THE "URBAN AND RURAL ENTERPRISE ZONE ACT".

Fiscal Impact Summary *	FY 2010-2011	FY 2011-2012
State Revenue General Fund	$37.4 million	$77.0 million
State Expenditures General Fund	See State Expenditures section	
FTE Position Change		
Effective Date: August 11, 2010, assuming the General Assembly adjourns May 12, 2010, as scheduled and no referendum petition is filed.		
Appropriation Summary for FY 2010-2011: None.		
Local Government Impact: None		

* *To the extent that enterprise zone tax incentives are the sole determining reasons for the existence of jobs or economic activity in the zone, the fiscal impact stated above does not incorporate decreased revenue resulting from the potential loss of investment.*

Summary of Legislation

Effective January 1, 2011, this bill eliminates all state income tax credits and one sales and use tax exemption available to qualified taxpayers through the Urban and Rural Enterprise Zone Act. Tax incentives eliminated by this bill include the:

- investment tax credit;
- contributions to zone projects credit;
- new business facility credit;
- rehabilitation of vacant buildings credit;
- job training credit;
- new business agricultural processing facility credit;
- research and development credit; and
- sales and use tax exemption for certain machinery used in zones.

Background

The General Assembly created Colorado's Enterprise Zone Program in 1986 to promote economic development. Currently, there are 16 enterprise zones in Colorado that encompass about 70 percent of the state's land area. State law limits the number of zones to 16. To be designated as a zone, an area must have a population of less than 80,000 people or 100,000 people for urban and rural areas respectively, and meet one of the following criteria:

- an unemployment rate at least 25 percent above the state average;
- a population growth rate less than 25 percent of the state average; and
- a per capita income less than 75 percent of the state average.

Basic Enterprise Zone Tax Credits. There are seven state income tax credits available to taxpayers who operate or own a business in an enterprise zone. Table 1 lists these tax credits.

Statutory Section	Table 1: State Enterprise Zone Income Tax Credits
39-30-104 (1)	***Investment*** - 3 percent of investment.
39-30-103.5	***Contributions to Enterprise Zone Administrators to Implement Economic Development Plans*** - 25 percent of the contribution, up to $100,000, for economic development, including assistance for homeless persons or a non-profit or government-funded community development project.
39-30-105 (1)	***New Business Facility Employees*** - $500 for each new employee hired plus $200 for each employee who is insured under a health insurance plan provided by the employer.
39-30-105.6	***Rehabilitation of Vacant Buildings*** - 25 percent of the cost up to $50,000 per building at least 20 years old and vacant for two years.
39-30-104 (4)	***Job Training*** - 10 percent of training costs.
39-30-105 (3)	***New Business Agricultural Processing Facility*** - $1,000 for each new employee hired.
39-30-105.5	***Research and Development*** - 3 percent of increased research and development costs.

Enhanced Rural Enterprise Zone Tax Credits. Taxpayers in certain areas of the state are eligible for enhanced tax incentives, in addition to the basic tax credits described above. To qualify, the area must be located in a portion of any county already in an enterprise zone that meets at least two of the following criteria (Section 39-30-103.2 (1), C.R.S.):

- a county unemployment rate greater than 50 percent above the state average;
- a county per capita income less than 75 percent of the state average;
- a county population growth rate less than 25 percent of the state average;
- total non-residential assessed value ranking in the lower half of all counties; or
- a county population of less than 5,000.

Taxpayers in enhanced rural enterprise zones are eligible for a larger tax credit amount for two of the regular enterprise zone credits – the new business facility employees credit and the new business agricultural processing facility credit. Table 2 explains these credits.

Statutory Section	**Table 2: Enhanced Rural Enterprise Zone Income Tax Credits**
39-30-105 (1) (a) (III)	***New Business Facility Employees*** **-** $2,500 total for each new employee hired ($2,000 per new employee for the enhanced rural enterprise zone plus the basic enterprise zone credit of $500 per new employee.)
39-30-105 (3)	***New Business Agricultural Processing Facility*** - $3,500 total for each new agricultural processing facility employee hired ($500 for the enhanced rural enterprise zone credit, plus $500 for the basic enterprise zone credit, plus $2,500 for the basic new business facility employee credit).

State sales and use tax exemption. The program also authorizes a state sales and use tax exemption for the purchases of certain machinery used solely and exclusively in a designated enterprise zone, including materials for construction or repair of machinery or machine tools, and mining operations when performed in an enterprise zone.

State Revenue

Eliminating the state income tax credits and the sales tax exemption provided through enterprise zones will increase state revenue by an estimated $37.4 million in FY 2010-11, reflecting the fact that the tax incentives are eliminated on January 1, 2011, half-way through the state's fiscal year. Beginning in FY 2011-12, state revenue is expected to increase by $77.0 million. Table 3 summarizes the revenue impacts for each of the tax incentives affected by this bill.

Table 3: Enterprise Zone Income Tax Credits and Sales Tax Exemption (in millions)		
Individual		
Enterprise Zone Tax Credits	**FY 2010-11**	**FY 2011-12**
Investment tax credit New business facility employee credit Enhanced rural enterprise zone new business facility emplo New business facility agricultural employee processing cre Agricultural processing employee credit Enhanced rural enterprise zone agricultural processing em Enterprise zone employee health insurance credit Contribution to enterprise zone administrator credit Qualified job training program investment credit Research and development credit Rehabilation of vacant buildings Rural technology enterprise zone /A	18.4	18.8
Corporate		
Enterprise Zone Tax Credits		
Enterprise zone investment tax credit	40.5	41.9
Enterprise zone employee credits	2.4	2.4
Contribution to enterprise zone administrator credit	0.7	0.7
Other Enterprise Zone Credits Enterprise zone employee health insurance credit Contribution to enterprise zone administrator credit Qualified job training program investment credit Research and development credit Rehabilation of vacant buildings	3.0	3.1
Total Enterprise Zone Corporate Credits	46.6	48.2
Sales and Use Tax Exemption (individual and corporate)		
Machinery and Machine Tool	9.7	10.0
Total General Fund Revenue Impact		
Credits and Exemption Impact:*	**$ 37.4**	**$ 77.0**

*FY 2010-11 reflects a half-year impact.

The estimates in Table 3 are based on several years of data on individual and corporate income tax credits through the Enterprise Zone Program. Revenue impacts for FY 2008-09 were adjusted by several indices (depending on the tax incentive) that included such factors as personal income and employment growth. Individual income tax credits under the program in FY 2010-11 are estimated at $18.4 million while total corporate income tax credits are estimated at $46.7 million. In FY 2011-12, individual credits will increase to $18.8 million while total corporate credits under the program will increase to $48.2 million.

State Expenditures

Eliminating enterprise zone tax credits and exemptions will affect the workload and expenditures of the Office of Economic Development and International Trade (OEDIT), but the actual impact has yet not been estimated. Updated information will be provided in a revised fiscal note and may include FTE savings for OEDIT.

The Department of Revenue will be able to modify its tax systems within existing appropriations, since eliminating tax incentives is simpler than creating new ones. No FTE savings for the department are expected as a result of this bill.

Departments Contacted

Revenue	Local Affairs	Governor's Office