

Small Business Dev. Plan 3/19/87 (A-794)

Senate File 233

SMALL BUSINESS AND ECONOMIC DEVELOPMENT: Jordan, Chair; A
Miller and Holt

Rep. Men 3/23/87

Senate File 233

WAYS AND MEANS: Gronstal, Chair; Holt and Mann

SENATE FILE 233
BY VANDE HOEF, SOORHOLTZ,
TAYLOR, and FUHRMAN

Passed Senate, Date _____ Passed House, Date _____

Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

1 An Act relating to the establishment of enterprise zones and
2 providing tax credits, exemptions, refunds, and other
3 incentives.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 233

1 Section 1. NEW SECTION. 404A.1 SHORT TITLE.

2 This chapter may be cited as the "Enterprise Zone Act".

3 Sec. 2. NEW SECTION. 404A.2 STATEMENT OF PURPOSE.

4 The general assembly finds and declares that the health,
5 safety, and welfare of the people of this state are dependent
6 upon the continual encouragement, development, growth, and
7 expansion of the private sector within the state. Certain
8 depressed areas in this state exist which need the particular
9 attention of government to help attract private sector
10 investment. Therefore, it is declared to be the purpose of
11 this chapter to stimulate business and industrial growth in
12 the depressed areas of this state by means of tax incentives,
13 financial assistance, and relaxed governmental controls in
14 those areas.

15 Sec. 3. NEW SECTION. 404A.3 DEFINITIONS.

16 As used in this chapter, unless the context otherwise
17 requires:

18 1. "Department" means the Iowa department of economic
19 development.

20 2. "Enterprise zone" means an area declared by the
21 department to be eligible for the benefits of this chapter.

22 3. "Designating jurisdiction" means the city, county, or
23 city and county that apply for the designation of an area or
24 whose area has been designated as an enterprise zone.

25 4. "Eligible business" means a business meeting the
26 conditions of section 404A.8.

27 Sec. 4. NEW SECTION. 404A.4 POWERS AND DUTIES OF THE
28 DEPARTMENT.

29 The department shall administer this chapter and shall:

30 1. Establish criteria for determining what areas qualify
31 as enterprise zones.

32 2. Monitor the implementation and operation of this
33 chapter.

34 3. Conduct a continuing evaluation program of enterprise
35 zones.

1 4. Submit reports evaluating the effectiveness of the pro-
2 gram and any suggestions for legislation to the governor and
3 the general assembly by March 1 of each year.

4 5. Adopt rules and prescribe procedures to effectuate the
5 purposes of this chapter.

6 Sec. 5. NEW SECTION. 404A.5 AREA ELIGIBILITY CRITERIA.

7 The department in establishing criteria for determining
8 what areas qualify as enterprise zones shall require that an
9 area meet the conditions of subsections 1 and 2 and that the
10 designating jurisdiction offer incentives as provided in
11 subsection 3. The department may give preference to areas as
12 provided in subsection 4.

13 1. The area shall:

14 a. Have a minimum of twenty acres but not more than five
15 square miles.

16 b. Have a continuous boundary that includes, if feasible,
17 vacant or underutilized land or buildings which are easily
18 accessible to area residents.

19 c. Be zoned for commercial, industrial, or both uses.

20 2. The area shall meet the other criteria of the
21 department which may include, but are not limited to, criteria
22 relating to the following:

23 a. Annual average unemployment rate of all individuals or
24 youth in the area.

25 b. Per capita income in the area.

26 c. Decrease in the population.

27 d. Number or percentage of residents of the area receiving
28 public assistance.

29 3. The designating jurisdiction shall offer a package of
30 locally provided incentives to eligible businesses within the
31 area if the area is designated an enterprise zone. These
32 incentives may include, but are not limited to:

33 a. Special incentive rates for providing water, sewer,
34 electricity, gas, garbage collection, and other forms of
35 public utilities.

1 b. Waiver, in each jurisdiction in which the area is
2 located, of local building permits, zoning requirements, and
3 local fees required to operate the business.

4 c. An exemption from taxation of the actual value added by
5 improvements to real property used in the operations of an
6 eligible business located within the area. The exemption may
7 be for up to fifteen years. The exemption shall begin with
8 the first year the improvement is assessed for taxation. This
9 exemption may be from the taxation by all taxing districts in
10 which the real property is located. For purposes of this
11 paragraph, "improvements" includes the rehabilitation of and
12 additions to existing structures, as well as new construction
13 on vacant land or on land with existing structures which were
14 started during the period the area was designated an
15 enterprise zone.

16 d. An exemption from taxation of the actual value added to
17 industrial real estate used in the operations of an eligible
18 business located within the area as provided in section
19 427B.1.

20 4. The department may give preference to areas meeting the
21 criteria of subsections 1 through 3 for which any of the
22 following apply:

23 a. Wide support exists for the designation of the area as
24 an enterprise zone from local government officials, the
25 community as a whole, residents of the area, local businesses,
26 and private organizations.

27 b. The designating jurisdiction has shown greater
28 initiative under subsection 3 such as:

29 (1) Examining the feasibility of creating educational or
30 training opportunities for employees of businesses locating in
31 the area.

32 (2) Plans to provide adequate police protection.

33 (3) Processes for obtaining waivers from local regulations
34 for businesses.

35 (4) Specific plans for aiding dislocated businesses and

1 individuals.

2 (5) Specific plans for infrastructure improvements,
3 economic growth and expansion, and neighborhood revitalization
4 for the area.

5 Sec. 6. NEW SECTION. 404A.6 APPLICATIONS FOR DESIGNATION
6 OF ENTERPRISE ZONES.

7 A city, county, or a city and county, if a portion of the
8 area is located outside the city, may designate an area within
9 its jurisdiction as eligible to be an enterprise zone by
10 passing an ordinance that designates the area as eligible. If
11 a portion of the area is located outside of a city, both the
12 city and county must pass the ordinance. Before the passage
13 of the ordinance, the city, and county if applicable, shall
14 hold a public hearing within the area concerning the
15 designation. A county's public hearing may be held at the
16 same time and at the same place as the city's. After passage
17 of the ordinance, the city, and county jointly where
18 appropriate, may make written application to the department to
19 have the area declared an enterprise zone. The application
20 shall include a description of the location of the area in
21 question, the designating jurisdiction's incentives and
22 initiatives, and other information the department requires.
23 The application may also request the department to apply to
24 the appropriate federal agency for foreign trade zone status
25 for the area if it is designated an enterprise zone.

26 Sec. 7. NEW SECTION. 404A.7 REVIEW OF APPLICATIONS.

27 1. Upon receipt of an application from a designating
28 jurisdiction, the department shall review the application and
29 secure additional information it deems necessary for the
30 purpose of determining whether the area described in the
31 application qualifies to be declared an enterprise zone. If
32 the area qualifies, the department shall designate it as an
33 enterprise zone.

34 2. The department shall complete its review within one
35 hundred twenty days of receipt of the application, but it may

1 extend this time period an additional thirty days if
2 necessary. If the department denies the application, it shall
3 inform the designating jurisdiction of that fact along with
4 the reasons for the denial. If the decision is not rendered
5 within this time period, the application shall automatically
6 be approved.

7 3. Notwithstanding the requirement to designate an area as
8 an enterprise zone under subsection 1 or 2, the department
9 shall not designate an area as an enterprise zone if the
10 designation will result in the existence of more than twenty
11 enterprise zones at one time.

12 4. If the application has requested the department to seek
13 foreign trade zone status for the area, then upon designation
14 of the area as an enterprise zone the department shall apply
15 to the appropriate federal agency for designation as a foreign
16 trade zone. The department may establish criteria which it
17 will use to determine which enterprise zones may seek foreign
18 trade zone status.

19 5. An area designated as an enterprise zone shall remain
20 an enterprise zone for five years from the date of
21 designation. The designating jurisdiction may have the area
22 continued as an enterprise zone for an additional five years
23 by reapplying within one year before the end of the first
24 five-year period. The area may be redesignated an enterprise
25 zone for only one additional five-year period.

26 Sec. 8. NEW SECTION. 404A.8 ELIGIBLE BUSINESS.

27 A business with operations or facilities within an
28 enterprise zone is eligible to receive the benefits provided
29 in sections 404A.9 through 404A.11 if the following conditions
30 apply:

31 1. The designating jurisdiction has approved the startup
32 or expansion of the business within the enterprise zone for
33 purposes of receiving the benefits of this chapter.

34 2. The business has not closed or substantially reduced
35 its operation in one area of the state of Iowa and relocated

1 substantially the same operation in the area. This subsection
2 does not prohibit a business from expanding its operations in
3 the area if existing operations of a similar nature in the
4 state of Iowa are not closed or substantially reduced.

5 3. The department, in consultation with the designating
6 jurisdiction, concludes that the business will not receive an
7 unfair advantage over its competitors as a result of benefits
8 received under this chapter.

9 Sec. 9. NEW SECTION. 404A.9 CORPORATE INCOME AND
10 FRANCHISE TAX CREDIT -- NEW JOBS.

11 An eligible business is entitled to a corporate income tax
12 or franchise tax credit for the first tax year commencing
13 after either the designation of the area as an enterprise zone
14 or the location of the business entity in the enterprise zone,
15 whichever is the later, equal to one thousand five hundred
16 dollars for each new job added within the area during the
17 period beginning with the date of the designation of the area
18 as an enterprise zone and ending with the final day of the tax
19 year. Any credit in excess of the tax liability for the tax
20 year may be credited to the tax liability for the following
21 ten tax years or until depleted, whichever occurs earlier.
22 For purposes of this section, "new job" means a full-time job
23 in a new or expanding business but does not include jobs of
24 recalled workers, replacement jobs, or other jobs that
25 formerly existed in the business in the state of Iowa.

26 Sec. 10. NEW SECTION. 404A.10 INVESTMENT TAX CREDIT.

27 An eligible business is entitled to an income tax or
28 franchise tax credit equal to five percent of the new
29 investment made within the area during the period the area is
30 designated as an enterprise zone. An individual may claim the
31 tax credit allowed a partnership, subchapter S corporation, or
32 estate or trust electing to have the income taxed directly to
33 the individual. The amount claimed by the individual shall be
34 based upon the pro rata share of the individual's earnings of
35 a partnership, subchapter S corporation, or estate or trust.

1 The credit is for the tax year during which the new investment
2 is made. Any credit in excess of the tax liability for the
3 tax year may be credited to the tax liability for the
4 following ten tax years or until depleted, whichever occurs
5 earlier. For purposes of this section, "new investment made
6 within the area" means the cost of improvements made to real
7 property located within the area which is used in the
8 operation of the business and which receives a partial
9 property tax exemption, or would receive if the designating
10 jurisdiction has provided property tax exemptions, for the
11 actual value added under section 404A.5, subsection 3, para-
12 graph "c" or "d", and the cost of machinery and equipment
13 purchased for use in the area in the operation of the
14 business, the sales price of which is depreciated in
15 accordance with generally accepted accounting practices.

16 Sec. 11. NEW SECTION. 404A.11 SALES TAX REFUND -- CON-
17 STRUCTION MATERIALS AND SERVICES.

18 An eligible business that adds new construction to real
19 property located in an enterprise zone is entitled to a refund
20 of the state gross receipts tax paid under division IV of
21 chapter 422 or under chapter 423 on the purchase or use of the
22 materials and services used in adding the new construction if
23 the real property is used in the operations of the business
24 and the actual value added by the new construction receives a
25 partial property tax exemption, or would receive if the
26 designating jurisdiction had provided property tax exemptions,
27 under section 404A.5, subsection 3, paragraph "c" or "d". To
28 receive the refund a claim must be filed with the department
29 of revenue and finance not later than six months after
30 completion of the new construction or if the materials or
31 services are purchased or used by a contractor under a written
32 contract then not later than six months after final settlement
33 of the contract has been made. The contractor shall provide a
34 statement to the business listing the gross receipts tax paid
35 for which a claim may be filed under this section. A

1 contractor who willfully makes a false report on the amount of
2 gross receipts tax paid is guilty of a simple misdemeanor and
3 is liable for the payment of the tax with penalty and
4 interest.

5 Sec. 12. NEW SECTION. 422.11B ENTERPRISE ZONE.

6 The taxes imposed under this division shall be reduced by
7 the investment tax credit as provided in section 404A.10.

8 Sec. 13. Section 422.33, Code 1987, is amended by adding
9 the following new subsection:

10 NEW SUBSECTION. 8. The taxes imposed under this division
11 shall be reduced by the following:

12 a. The new jobs tax credit as provided in section 404A.9.
13 However, the taxpayer shall not receive both the tax credit
14 provided in section 404A.9 and subsection 7 of this section
15 for the same new jobs.

16 b. The investment tax credit as provided in section
17 404A.10.

18 Sec. 14. Section 422.47, Code 1987, is amended by adding
19 the following new subsection:

20 NEW SUBSECTION. 4. Refunds may be claimed as provided in
21 section 404A.11 for construction materials and services.

22 Sec. 15. Section 422.63, Code 1987, is amended by adding
23 the following new unnumbered paragraph:

24 NEW UNNUMBERED PARAGRAPH. The tax imposed under this
25 division shall be reduced by the new jobs tax credit as
26 provided in section 404A.9 and the investment tax credit as
27 provided in section 404A.10.

28 EXPLANATION

29 The bill allows the Iowa department of economic development
30 to designate areas requested by a city, county, or city and
31 county as enterprise zones. If the area is so designated,
32 businesses that start up or expand in the area will be
33 eligible for tax exemptions and credits and other incentives.
34 To be designated, an area must meet criteria adopted by the
35 department which refer to unemployment, poverty, or population

1 loss, and the poor condition or underutilization of real
2 property. The jurisdiction must also provide a package of
3 local incentives to the businesses before the area can be
4 designated. These may include special rates for utilities,
5 waiver of building permits, fees, and zoning requirements, and
6 property tax exemption for the actual value of improvements
7 made in the area. Once the area is declared an enterprise
8 zone, certain state tax credits and refunds are available to
9 businesses that add jobs, make improvements to real property,
10 and invest in the area. A state corporate income tax and
11 franchise tax credit of \$1500 per new job created in the area
12 is granted with a carry forward of unused credit for up to ten
13 years. A state investment tax credit for individual and
14 corporate income taxes and franchise taxes of five percent of
15 the cost of the improvements added to real estate in the area
16 is granted with a carry forward of unused credit for up to ten
17 years. A refund of sales and use taxes paid on materials and
18 services used in the new construction added to real property
19 used in a business is granted. The area would be designated
20 an enterprise zone for five years with the option of the local
21 jurisdiction to reapply for continued designation for an addi-
22 tional five years. The department may not have more than
23 twenty areas designated as enterprise zones at any one time.

24 The bill creates a new chapter tentatively numbered 404A,
25 and makes internal references to sections within the new
26 chapter.

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