

FEB 15 2000  
WAYS AND MEANS

HOUSE FILE 2250  
BY COMMITTEE ON  
ECONOMIC DEVELOPMENT

(SUCCESSOR TO HF 2100)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act relating to economic development programs and related tax  
2 credits.

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

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HF 2250

1 Section 1. Section 15.333, subsection 1, Code Supplement  
2 1999, is amended to read as follows:

3 1. An eligible business may claim a corporate tax credit  
4 up to a maximum of ten percent of the new investment which is  
5 directly related to new jobs created by the location or  
6 expansion of an eligible business under the program. Any  
7 credit in excess of the tax liability for the tax year may be  
8 credited to the tax liability for the following seven years or  
9 until depleted, whichever occurs earlier. An eligible  
10 business whose project will produce or manufacture high value-  
11 added goods or services in a targeted industry of the state,  
12 as defined by the department, may, in the tax year of the  
13 project completion, elect to have any tax credit in excess of  
14 the tax liability for the taxable year refunded at a  
15 discounted value, in lieu of any remaining allowable tax  
16 credit that could be credited to the tax liability of the  
17 business in future tax years. The discounted value of the tax  
18 credit refund, as calculated by the department, shall be  
19 determined based on the discounted value of the tax credit  
20 five years after the tax year of the project completion at an  
21 interest rate equivalent to the prime rate plus two percent.  
22 The refunded tax credit shall not exceed seventy-five percent  
23 of the allowable tax credit. If the business is a  
24 partnership, subchapter S corporation, limited liability  
25 company, or estate or trust electing to have the income taxed  
26 directly to the individual, an individual may claim the tax  
27 credit or refund allowed. The amount claimed by the  
28 individual shall be based upon the pro rata share of the  
29 individual's earnings of the partnership, subchapter S  
30 corporation, limited liability company, or estate or trust.  
31 For purposes of this section, "new investment directly related  
32 to new jobs created by the location or expansion of an  
33 eligible business under the program" means the cost of  
34 machinery and equipment, as defined in section 427A.1,  
35 subsection 1, paragraphs "e" and "j", purchased for use in the

1 operation of the eligible business, the purchase price of  
2 which has been depreciated in accordance with generally  
3 accepted accounting principles, and the cost of improvements  
4 made to real property which is used in the operation of the  
5 eligible business ~~and which receives a partial property tax~~  
6 ~~exemption for the actual value added under section 15.332.~~

7 Sec. 2. Section 15.333A, subsection 1, unnumbered  
8 paragraph 2, Code 1999, is amended to read as follows:

9 For purposes of this section, "new investment directly  
10 related to new jobs created by the location or expansion of an  
11 eligible business under the program" means the cost of  
12 machinery and equipment, as defined in section 427A.1,  
13 subsection 1, paragraphs "e" and "j", purchased for use in the  
14 operation of the eligible business, the purchase price of  
15 which has been depreciated in accordance with generally  
16 accepted accounting principles, the purchase price of land and  
17 any existing buildings or structures, and the cost of  
18 improvements made to real property which is used in the  
19 operation of the eligible business and which receives a  
20 partial property tax exemption for the actual value added  
21 under section 15.332.

22 Sec. 3. Section 15E.192, subsection 3, Code 1999, is  
23 amended to read as follows:

24 3. A county or city may apply to the department for an  
25 area to be certified as an enterprise zone at any time prior  
26 to July 1, ~~2000~~ 2003. However, the total amount of land  
27 designated as enterprise zones under subsections 1 and 2 shall  
28 not exceed in the aggregate one percent of the total county  
29 area.

30 Sec. 4. Section 15E.194, Code 1999, is amended by adding  
31 the following new subsections:

32 NEW SUBSECTION. 3. Any county may designate an enterprise  
33 zone in an area located in one or more contiguous census  
34 tracts or other geographic units approved by the department of  
35 economic development, in which the area to be designated meets

1 at least two of the following criteria that is measurable with  
2 1990 census statistics or other relevant data:

3 a. The area has a per capita income of nine thousand six  
4 hundred dollars or less based on the 1990 census.

5 b. The area has a family poverty rate of twelve percent or  
6 more based on the 1990 census.

7 c. Ten percent or more of the housing units are vacant in  
8 the area.

9 d. The valuations of each class of property in the  
10 designated area is seventy-five percent or less of the  
11 countywide average for that classification based upon the most  
12 recent valuations for property tax purposes.

13 e. The area is a blighted area, as defined in section  
14 403.17.

15 NEW SUBSECTION. 4. A city of any size or any county may  
16 designate an enterprise zone at any time prior to July 1,  
17 2010, when a business closure occurs involving the loss of  
18 full-time employees, not including retail employees, at one  
19 place of business totaling at least one thousand employees or  
20 five percent or more of the county's resident labor force  
21 based on the most recent annual resident labor force  
22 statistics from the department of workforce development,  
23 whichever is lower. The enterprise zone may be established on  
24 the property of the place of business that has closed and the  
25 enterprise zone may include an area up to an additional fifty  
26 acres adjacent to the property. The area meeting the  
27 requirements for enterprise zone eligibility under this  
28 subsection shall not be included for the purpose of  
29 determining the area limitation pursuant to section 15E.192,  
30 subsection 3.

31 Sec. 5. Section 15E.194, subsection 3, Code 1999, is  
32 amended to read as follows:

33 3- 5. The department of economic development shall certify  
34 eligible enterprise zones that meet the requirements of  
35 subsection 1, 3, or 4, upon request by the county or

1 subsection 2 or 4 upon request by the city, as applicable.

2 Sec. 6. Section 15E.195, subsections 1 and 2, Code 1999,  
3 are amended to read as follows:

4 1. A county which designates an enterprise zone pursuant  
5 to section 15E.194, subsection 1, 3, or 4, and in which an  
6 eligible enterprise zone is certified shall establish an  
7 enterprise zone commission to review applications from  
8 qualified businesses located within or requesting to locate  
9 within an enterprise zone designated pursuant to section  
10 15E.194, subsection 1, 3, or 4, to receive incentives or  
11 assistance as provided in section 15E.196. The enterprise  
12 zone commission shall also review applications from qualified  
13 housing businesses requesting to receive incentives or  
14 assistance as provided in section 15E.193B. The commission  
15 shall consist of nine members. Five of these members shall  
16 consist of one representative of the board of supervisors, one  
17 member with economic development expertise chosen by the  
18 department of economic development, one representative of the  
19 county zoning board, one member of the local community college  
20 board of directors, and one representative of the local  
21 workforce development center. These five members shall select  
22 the remaining four members. If the enterprise zone consists  
23 of an area meeting the requirements for eligibility for an  
24 urban or rural enterprise community under Title XIII of the  
25 federal Omnibus Budget Reconciliation Act of 1993, one of the  
26 remaining four members shall be a representative of that  
27 community. A county shall have only one enterprise zone  
28 commission to review applications for incentives and  
29 assistance for businesses located within or requesting to  
30 locate within a certified enterprise zone designated pursuant  
31 to section 15E.194, subsection 1, 3, or 4.

32 2. A city with a population of twenty-four thousand or  
33 more which designates an enterprise zone pursuant to section  
34 15E.194, subsection 2 or 4, and in which an eligible  
35 enterprise zone is certified shall establish an enterprise

1 zone commission to review applications from qualified  
2 businesses located within or requesting to locate within an  
3 enterprise zone to receive incentives or assistance as  
4 provided in section 15E.196. The commission shall consist of  
5 nine members. Six of these members shall consist of one  
6 representative of an international labor organization, one  
7 member with economic development expertise chosen by the  
8 department of economic development, one representative of the  
9 city council, one member of the local community college board  
10 of directors, one member of the city planning and zoning  
11 commission, and one representative of the local workforce  
12 development center. These six members shall select the  
13 remaining three members. If the enterprise zone consists of  
14 an area meeting the requirements for eligibility for an urban  
15 enterprise community under Title XIII of the federal Omnibus  
16 Budget Reconciliation Act of 1993, one of the remaining three  
17 members shall be a representative of that community. If a  
18 city contiguous to the city designating the enterprise zone is  
19 included in an enterprise zone, a representative of the  
20 contiguous city, chosen by the city council, shall be a member  
21 of the commission. A city in which an eligible enterprise  
22 zone is certified shall have only one enterprise zone  
23 commission. If a city has established an enterprise zone  
24 commission prior to the effective date of this Act, the city  
25 may petition to the department of economic development to  
26 change the structure of the existing commission.

27 Sec. 7. Section 422.6, unnumbered paragraph 1, Code  
28 Supplement 1999, is amended to read as follows:

29 The tax imposed by section 422.5 less the credits allowed  
30 under sections 15.333, 15.335, ~~15E-193A~~ 422.10, 422.11,  
31 422.11A, and 422.11B, and the personal exemption credit  
32 allowed under section 422.12 apply to and are a charge against  
33 estates and trusts with respect to their taxable income, and  
34 the rates are the same as those applicable to individuals.  
35 The fiduciary shall make the return of income for the estate

1 or trust for which the fiduciary acts, whether the income is  
2 taxable to the estate or trust or to the beneficiaries.  
3 However, for tax years ending after August 5, 1997, if the  
4 trust is a qualified preneed funeral trust as set forth in  
5 section 685 of the Internal Revenue Code and the trustee has  
6 elected the special tax treatment under section 685 of the  
7 Internal Revenue Code, neither the trust nor the beneficiary  
8 is subject to Iowa income tax on income accruing to the trust.

9 Sec. 8. Section 15E.193A, Code 1999, is repealed.

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EXPLANATION

11 This bill amends the economic development enterprise zone  
12 program.

13 The bill changes the deadline for a qualifying county or  
14 city to apply for an area to be certified as an enterprise  
15 zone from July 1, 2000, to July 1, 2003.

16 The bill provides two new distress criteria under which a  
17 county or city may designate an enterprise zone. The bill  
18 provides that a county may designate an enterprise zone if at  
19 least two of the following five criteria are met: the area  
20 has a per capita income of \$9,600 or less, the area has a  
21 family poverty rate of 12 percent or higher, 10 percent or  
22 more of the housing units are vacant in the area, the  
23 valuations of each class of property in the designated area is  
24 75 percent or less of the countywide average for that  
25 classification, and the area is a blighted area.

26 The bill also allows either a city of any size or a county  
27 to designate an enterprise zone at any time prior to July 1,  
28 2010, when a business closure occurs involving the loss of  
29 full-time employees, not including retail employees, at one  
30 place of business totaling at least 1,000 employees or 5  
31 percent or more of the county's labor force. The bill  
32 provides that the enterprise zone may be established on  
33 property of the place of business that has closed and may  
34 include an area up to an additional 50 acres adjacent to the  
35 property.

1 The bill amends the investment tax credit under the new  
2 jobs and income program which is also an incentive under the  
3 enterprise zone program. The bill provides that an eligible  
4 business whose project will produce or manufacture high value-  
5 added goods or services in a targeted industry may, in the tax  
6 year of the project completion, elect to have any tax credit  
7 in excess of the tax liability for the taxable year refunded  
8 at a discounted rate, in lieu of carrying over the excess  
9 allowable tax credit to future tax years. The bill provides  
10 that the discounted value of the refund will be determined  
11 based on the discounted value of the tax credit five years  
12 after the project completion at an interest rate equivalent to  
13 the prime rate plus 2 percent. The refund shall not exceed 75  
14 percent of the allowable tax credit. The bill amends the  
15 definition of the term "new investment directly related to new  
16 jobs created by the location or expansion of an eligible  
17 business under the program" by removing the requirement that  
18 the cost of improvements made to real property must receive a  
19 partial property tax exemption under Code section 15.332.

20 The bill eliminates the special alternative eligible  
21 business criteria which was added to the program during the  
22 1998 legislative session. The alternative eligible business  
23 criteria allowed a business which is not located in an  
24 enterprise zone to receive incentives and assistance under the  
25 program provided that certain criteria are met.

26 The bill amends the definition of new investment directly  
27 related to new jobs created by the location or expansion of an  
28 eligible business under the program to include the purchase  
29 price of land and any existing buildings or structures. The  
30 definition is used under the insurance premium tax credit  
31 under the new jobs and income program which is also an  
32 incentive under the enterprise zone program.

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**HOUSE FILE 2250  
FISCAL NOTE**

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A fiscal note for House File 2250 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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House File 2250 expands enterprise zone eligibility and makes certain corporate tax credits under the New Jobs and Income Program refundable. The Bill also allows insurance companies to receive investment tax credits for land and existing buildings purchased as part of a qualifying business expansion.

**ASSUMPTIONS**

1. Under current law, companies are only able to utilize one-half of the investment tax credit available under the New Jobs and Income and Enterprise Zone Programs (\$9,500,000).
2. House File 2250 would allow companies to received a discounted refund for the other half of the tax credits. The discounted value would be \$5.2 million per year.
3. The General Fund cost of non-housing investment tax credits in the expanded enterprise zones would be \$361,000 for each project completion year and \$58,000 per year for the following seven years.
4. The General Fund cost of housing investment tax credits in the expanded enterprise zones would be \$255,000 for each project completion year and \$57,000 per year for the following seven years.
5. Due to timing issues, the fiscal impact of the enterprise zone expansion and tax credit changes would not occur until FY 2002.

**FISCAL IMPACT**

Expanding enterprise zone eligibility and making unused investment tax credits refundable would decrease General Fund revenues by \$5.8 million in FY 2002 and \$6.0 million in FY 2003. For the eight fiscal year period of 2002 through 2009, the General Fund revenue reduction would be \$50.4 million.

It is possible the tax refund provisions would apply to eligible companies that reach the project completion date during calendar year 2000. If this is the case, House File 2250 would have a General Fund fiscal impact in FY 2001.

The fiscal impact cited above does not include the impact of provisions allowing insurance companies to receive a tax credit on land and existing buildings.

**SOURCE**

Department of Economic Development

(LSB 6055HV, JWR)