

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.

EXPLANATION

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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**

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.

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)