VARIOUS TAXES
International Economic Development Zone

May 10, 2004

	Yes	No
Separate Official Fiscal Note Requested	X	
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2298 (Abrams) As Amended (A1)

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**FY2006**	**FY2007**
	(000's)			
Property Tax Refund	$0	$0	$0	$0
Zone Aid	0	0	0	$0
Corporate Franchise Tax Exemption	0	0	0	($50)
Motor Vehicle Sales Tax Exemption*	0	0	0	($15)
General Sales & Use Tax Exemption	0	0	($700)	($1,000)
General Fund Total	$0	$0	($700)	($1,065)

*Impact shown for General Fund would actually be split among six funds.

International economic development zone definitions and development plans effective the day following enactment.
Sales tax exemption effective for sales made on or after the day following enactment.
Motor vehicle sales tax exemption effective for sales made after December 31, 2004.
Corporate franchise tax exemption effective beginning with tax year 2005.
Individual income tax exemption effective beginning with tax year 2005.
Property tax exemption effective beginning with property taxes payable in 2006.
International economic development aid is based on taxes assessed in 2004 and payable in 2005.

EXPLANATION OF THE BILL

Current Law: There are no provisions for an international economic development zone in Minnesota.

Proposed Law: The Greater Metropolitan Foreign Trade Zone Commission number 119 (a joint powers authority that includes Hennepin County, the city of Minneapolis, the city of Bloomington and the Metropolitan Airports Commission) would designate an international economic development zone. The commission could designate an area as a zone if it is designated as a foreign trade zone by the federal government and if a regional distribution center is being developed within the zone. The designated zone may be no further than 60 miles from the Minneapolis–St. Paul airport. A zone must be more than 500 acres and not more than 1,000 acres. The maximum duration of a zone is twelve years.

EXPLANATION OF THE BILL (cont.)

The bill defines a "qualified business" as a trade or business located in the zone that is engaged in the furtherance of international export or import of goods, and it is certified by the foreign trade zone authority as a business that is developing international distribution capability and capacity. A business that relocates to a zone can qualify if it increases its full-time employment by at least 20% in the first full year of operation in the zone, or if it makes a capital investment equivalent to 10% of the gross revenues for the year immediately preceding the taxable year.

Property Tax Exemption: Class 3 commercial, industrial, and utility property in a zone would be exempt from the local property tax and the state general levy if the occupant of the property is a qualified business. The exemption would apply to improvements to real property and to personal property; it would not include land. The exemption does not apply to debt service levies or similar levies to pay general obligation bonds. It also does not apply to a school referendum levy that was approved by the voters before the zone is designated.

International Economic Development Zone Aid: The bill creates a new property tax state aid. The aid for each city or county would be one-half of the amount by which the exempt net tax capacity exceeds 3% of the city's or county's total taxable net tax capacity multiplied by the city or county average local tax rate for taxes payable in 2004.

Individual Income Tax Exemption: A subtraction from federal taxable income would be allowed to an individual who operates or invests in a trade or business located in a zone. The subtraction would apply to the net income from operating a business in a zone, net rental income derived from real or personal property in a zone, and net capital gains related to zone investments. A similar subtraction would be allowed in the computation of the alternative minimum taxable income.

Corporate Franchise Tax Exemption: A subtraction from taxable income would be allowed for income derived from the operation of a business in the zone. A subtraction would also be allowed in computing alternative minimum taxable income. There is also an exemption from the minimum fee.

Sales Tax Exemption: Purchases of tangible personal property and taxable services by a qualified business are exempt from the sales and use tax if the property and services are primarily used or consumed in the zone. An exemption would also be allowed for construction materials and supplies for the improvement to real property in a zone used in the conduct of a qualified business, regardless of whether purchased by the business or a contractor. These transactions would also be exempt from local sales and use taxes.

Motor Vehicle Sales Tax Exemption: An exemption from motor vehicle sales tax would be allowed for the purchase of a vehicle by a person engaged in a trade or business located in the zone if the vehicle is garaged in the zone and used primarily for the business operation in the zone. These vehicles would also be exempt from local sales and use taxes.

EXPLANATION OF THE BILL (cont.)

Job Credit: A refundable job credit against the corporate and individual income taxes would be available for businesses based on the increase in payroll compared to the zone designation year payroll. The credit would be 7% of: the zone payroll for the taxable year minus the result of $30,000 times the increase in the number of full-time equivalent positions in the zone since the year of designation. Starting in tax year 2005, the $30,000 would be indexed annually for inflation.

Repayment: Section 21 provides for the repayment of tax reductions if a business relocates into the zone and then ceases to operate the facility within the zone. A business must repay the amount of tax reduction or local contribution received during the two years immediately before it ceased to operate in the zone.

The adopted amendment clarifies provisions in the bill.

REVENUE ANALYSIS DETAIL

- The state revenue forecast is based on a forecast of all economic activity in the state, including that which may occur in the zone. Therefore, forecasted state revenues would be reduced if one or more state tax exemptions were enacted for the zone.
- This analysis assumes that there will be one zone in Rosemount. The activity in the zone will affect first affect collections in fiscal year 2006.
- It is assumed that the first phase of the project will include the construction of a 450,000 square foot building in 2006. The size of the building size is based on the experience at the airport in Toronto. Because the Toronto airport has air cargo tonnage close to the tonnage at the Minneapolis–St. Paul airport, it was used a model for the estimate. The building will include space for customs and security plus a multi-tenant air cargo building.
- The estimated employment per 100,000 square feet building space is 100.
- The cost per square foot of building and equipment used in the building is assumed to be $110.

Property Tax

- The proposed exemption in Rosemount will cause a tax shift to other taxpayers including homeowners, and increase homeowner property tax refunds by in F.Y. 2009.
- The exemption from the state general levy would have no impact on state revenues. The tax rate would be adjusted to yield the amount of revenue required by statute.

Corporate Franchise Tax

- Based on state revenue forecast data for corporate franchise tax collections and statewide employment, a per-job tax collection amount was calculated.
- A partial year impact will occur in F.Y. 2007. The per-job corporate franchise tax collection figure is $241 in FY 2007. The first full-year impact of this provision will effect collections in F.Y. 2008.
- All business and investment income is accounted for in the corporate franchise tax estimates.

REVENUE ANALYSIS DETAIL (cont.)

Sales and Use Tax

- The revenue impact from sales tax exemptions is calculated for two categories, initial construction and ongoing purchases.
- Construction materials and initial furnishings were calculated as 45% of total building costs.
- An estimate for ongoing purchases, such as office furnishings, utilities, and supplies, was based on state revenue forecast data for sales tax collections and statewide employment to calculate a per-job tax collection number. For materials and services purchased in the zone, the per-job sales tax is $671 in FY 2007.
- Combined with projected annual employment in the zone, an estimate for sales tax exemptions for ongoing purchases was calculated.

Motor Vehicle Sales Tax

- The revenue impact assumes motor vehicle purchased to replace vehicles retired from service due to normal wear and tear. The replacement rate is assumed to be five vehicles per year at average cost of $40,000.

Number of Taxpayers Affected: Unknown

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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