

MINNESOTA • REVENUE

VARIOUS TAXES Job Opportunity Building Zones and Regional Investment Credit

April 4, 2008

Department of Revenue
Analysis of S.F. 3115 (Rosen), 1st Engrossment

	Yes	No
DOR Administrative Costs/Savings	X	

	<u>Fund Impact</u>			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
	(000's)			
Allow JOBZ Tax Benefits for Ten (or Twelve) Years After Agreement is Signed	\$0	(\$300)	(\$900)	(\$1,800)
Regional Investment Credit	\$0	-----To be determined-----		

JOBZ provisions generally effective the day following final enactment.
Regional investment credit effective beginning with tax year 2008.

EXPLANATION OF THE BILL

The bill makes a number of modifications to the Job Opportunity Building Zone (JOBZ) program and creates a regional emerging business investment tax credit.

The bill would allow businesses entering the JOBZ program to receive tax benefits for ten years from the date the business subsidy agreement is signed. A twelve year extension would be granted for businesses locating into a targeted rural opportunity community in 64 counties. It is assumed the proposal would apply to businesses signing JOBZ subsidy agreements on the day following final enactment through the duration of the JOBZ program.

The Department of Employment and Economic Development (DEED) would be required to develop a standard business subsidy agreement to be used for all subsidies. The agreement must impose definitive and enforceable obligations on the qualified business. DEED may only approve agreements after considering the impact of the business on local competitors, the creation of jobs, and whether other financial assistance is available.

The proposal would change and clarify the JOBZ tax benefit repayment provisions to address issues identified with the current language. Changes include: repayment provisions will no longer apply to business subsidy agreement violators who continue to operate in the zone; the two-year period for which repayment of tax benefits is required for businesses that cease operations in the zone; the process for determining waiver eligibility for businesses that received JOBZ tax benefits but are no longer qualified businesses; and the repayment provisions apply to persons that receive benefits but do not sign a business subsidy agreement.

EXPLANATION OF THE BILL (Continued)

For businesses that are out of compliance with their subsidy agreement, the proposal would also specify JOBZ program eligibility. These businesses can become eligible for future JOBZ benefits by signing a new or amended business subsidy agreement. A business that violates the second business subsidy agreement is permanently barred from future JOBZ benefits.

The proposal also creates a new requirement that all JOBZ businesses annually certify to the Department of Revenue that they are in compliance with the terms of their business subsidy agreement and remain eligible for tax benefits.

The bill includes provisions which allow for disclosure of tax information of qualified businesses in the JOBZ program to the Office of the State Auditor for purpose of auditing the creation and operation of all zones and business subsidy agreements.

A nonrefundable credit against the corporate franchise tax or individual income tax would be allowed for investment in a qualified regional investment fund. Up to twenty funds could be certified by the Commissioner of Employment and Economic Development. The amount each fund could authorize in tax credits is left blank, and each fund would make equity investments in qualified small businesses located in the region that is the focus of the fund. In total, no more than five funds may qualify that seek capital for investments in businesses located in the seven-county metropolitan area. The total amount of certificates issued is limited, but the limitation is left blank in the bill.

The credit is equal to 25% of the taxpayer's investment in the regional investment fund during the taxable year. The credit can be used to offset the regular tax and alternative minimum tax. Unused credits could be carried over for up to ten years.

REVENUE ANALYSIS DETAIL

Allow JOBZ Tax Benefits for Ten (or Twelve) Years After Agreement Is Signed

- The proposal would increase costs of the JOBZ program in two ways: businesses entering the program after final enactment would receive tax benefits for two to twelve additional years, and more businesses are likely to enter the program through 2015 if tax benefits are available for ten to twelve years.
- According to the Department of Employment and Economic Development, there are 328 businesses in the JOBZ program as of April 4, 2008. JOBZ program business subsidy agreements signed by year are as follows: 119 in CY 2004, 91 in CY 2005, 69 in CY 2006, 47 in CY 2007, and 2 in CY 2008.
- Under current law, the number of businesses entering the program would be expected to decline each year. Under the proposal, it is assumed the number of businesses entering the program will stay constant. It is assumed that an average of 35 businesses sign JOBZ subsidy agreements per year from 2008 to 2015.

REVENUE ANALYSIS DETAIL (continued)

- It is assumed that the percentage of businesses entering the JOBZ program due to the extension of tax benefits would be: 10% in FY 2009, 25% in FY 2010, and 35% in FY 2011. Of the 35 businesses entering the JOBZ program annually, it is assumed that the number attributable to the extension would be approximately: 4 in FY 2009, 9 in FY 2010, and 12 in FY 2011.
- It is assumed that 70% of businesses would be eligible for a twelve year extension, which is the current ratio of JOBZ businesses located in the 64 eligible counties.
- It was assumed that the average annual state revenue loss per business would be similar to that reported by JOBZ businesses submitting Form M500 for tax years 2004-2006, which was approximately \$70,000.
- Calendar year impact was allocated to the following fiscal year.
- The annual cost of the proposal is estimated to increase by approximately \$12 million for 2015 due to a higher number of businesses entering the JOBZ program because of the extension of tax benefits. The total cost for FY 2009 to FY 2016 is estimated at \$39 million.
- Extending the time period businesses would be eligible for tax benefits would result in state costs of approximately \$20 million in 2016. Beginning in 2018, state costs would decrease each year from the previous as 10 businesses would cease to receive JOBZ tax benefits in 2018 and 2019, and an additional 25 businesses would cease to receive JOBZ tax benefits in 2020 and each year thereafter through 2026. The total cost for FY 2017 to FY 2027 is estimated at \$136 million.

JOBZ Tax Benefits Repayment

- To date, twelve businesses have been identified as being out of compliance with their JOBZ business subsidy agreement and sent notification letters regarding the repayment of tax benefits.
- To the extent that the changes would affect the number of businesses subject to the JOBZ claw back provisions, there could be an impact to the state general fund. Due to the possible waiver from the claw-back provisions, the impact is unknown.

Regional Emerging Business Investment Tax Credit

- The limit on the total amount of the regional emerging business investment tax credits is left blank in the bill. The revenue impact of the credit will depend upon the limit.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy