

MINNESOTA • REVENUE

VARIOUS TAXES Green Economy Business Tax Incentives

April 7, 2008

Preliminary Analysis

Department of Revenue
Analysis of S.F. 3741 (Anderson) / H.F. 4064 (Davnie)

	Yes	No
DOR Administrative Costs/Savings	X	

Fund Impact

	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
		(000's)		
General Fund	\$0	-----	(Unknown)	-----

Sales tax and motor vehicle sales tax exemptions effective for purchases made after June 30, 2008.
Job credit effective for taxable years beginning after December 31, 2008.
Income tax exemptions effective for taxable years beginning after December 31, 2008.
Property tax exemption effective, upon local approval, beginning with property taxes payable in 2010.

EXPLANATION OF THE BILL

Current Law: A qualified business in the Job Opportunity Building Zone (JOBZ) program is eligible for various state and local tax benefits. Qualified JOBZ businesses must operate within a designated zone and increase employment by a minimum of 5 jobs or 20%, whichever is greater, within the first full year of operations in the zone. Designated zone property is located outside the seven county metropolitan area. The duration of the JOBZ program is twelve years, from January 1, 2004, through December 31, 2015.

Proposed Law: A certified green business would be eligible for tax benefits similar to those offered through the JOBZ program. A certified green business is a person carrying on a trade or business in which its primary activity is production of products, processes, methods, technologies, or services intended to do one or more of the following:

- to increase the use of energy from renewable sources;
- to increase the energy efficiency of the electric utility infrastructure system or to increase energy conservation related to electricity use;
- to reduce greenhouse gas emissions;
- to monitor, protect, restore, and preserve the quality of surface waters; and
- to expand use of biofuels.

Prior to approving a business subsidy agreement for a certified green business, the Department of Employment and Economic Development must consider the following factors:

- how wages compare to the regional industry average;
- the number of jobs that will be provided relative to overall employment in the community;
- how the business will build on existing regional strengths or diversify the regional economy; and
- how the business will increase capital investment in the state.

EXPLANATION OF THE BILL (continued)

The maximum duration of a certified green business shall not exceed 12 years. There is no expiration date as to when certifications may be granted. A qualified business must pay each employee at least 110% of the federal poverty level for a family of four.

There are no statutory requirements regarding geographic location or the level of job creation or capital investment.

A qualified business must repay the amount of the total tax reductions received during the two years immediately before it ceased to operate as a certified green business in the zone or did not meet the goals specified in its business subsidy agreement. The Department of Employment and Economic Development may extend for up to one year the period for meeting any goals.

REVENUE ANALYSIS DETAIL

- Although the proposal is similar to the JOBZ program as far as tax benefits, it is unknown how many businesses would apply and qualify for certification as a green economy business because there are no statutory requirements regarding geographic location or the level of job creation or capital investment.
- The average annual state tax benefits reported by JOBZ businesses submitting Form M500 for tax years 2004 to 2006 was approximately \$70,000. The tax benefits offered to green economy businesses would be similar to those offered through the JOBZ program. For example, if 40 green economy businesses would be certified each year and the average state tax benefit were \$70,000, the general fund impact of the proposal could be \$2.8 million in the first year and \$5.6 million in the second year.

Number of Taxpayers: Unknown.

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