

**FINAL
FISCAL NOTE**

Drafting Number: LLS 13-0238	Date: July 10, 2013
Prime Sponsor(s): Rep. Hullinghorst Sen. Heath	Bill Status: Signed into Law
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TITLE: CONCERNING REFORMS TO THE "URBAN AND RURAL ENTERPRISE ZONE ACT", AND, IN CONNECTION THEREWITH, MAKING AN APPROPRIATION.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue General Fund - Income Taxes	\$6.6 million	\$12.7 million
State Expenditures General Fund	\$1,600	
FTE Position Change		
Effective Date: The bill was signed into law by the Governor and took effect on June 15, 2013. Tax changes are effective beginning tax year 2014.		
Appropriation Summary for FY 2013-2014: \$1,600 General Fund to the Department of Revenue.		
Local Government Impact: None.		

Summary of Legislation

This bill modifies four tax credit programs under the Urban and Rural Enterprise Zone Act, beginning with tax year 2014. Specifically, the bill:

- limits the amount of the Enterprise Zone (EZ) Investment Tax Credit that may be claimed during any tax year to \$750,000, allows credits above the limit to be carried forward for fourteen years, and allows the Economic Development Commission to waive the limit;
- increases the New Business Facility Employee Credit from \$500 to \$1,100 for each new qualified business employee;
- increases the Employer Sponsored Health Insurance Credit from \$200 to \$1,000 for each new qualified business employee;
- increases the Enterprise Zone Qualified Job Training Program Investment Credit from 10 percent of the total investment to 12 percent; and
- requires a taxpayer to be legal under both state and federal law to receive any enterprise zone tax credit.

In addition, the bill requires the director of the Colorado Office of Economic Development and the Colorado Economic Development Commission to review the enterprise zone designations at least once every 10 years, rather than once every five years, to ensure that the existing zones continue to meet statutory criteria to qualify as an enterprise zone. Finally, the bill also requires the Colorado Economic Development Commission to annually post information regarding certified enterprise zone investment tax credits on the web.

Background

In 1986, the General Assembly passed the Urban and Rural Enterprise Zone Act. The Act created Colorado's Enterprise Zone program and was designed to provide tax incentives to encourage businesses to locate and expand in economically distressed areas of the state.

The Enterprise Zone program consists of several tax credits that are available to corporations, business partnerships, and individuals who locate, invest, or make contributions to qualifying activities within a zone. Most enterprise zone credits, including the credits described below, must be precertified prior to any business activity that would generate the tax credit. Table 1 describes the four tax credits affected by HB 13-1142.

Table 1: Enterprise Zone Tax Credits under Current Law and HB 13-1142		
Credit and Description	Current Law	HB 13-1142
Enterprise Zone Investment Tax Credit: An income tax credit equal to 3 percent of qualified investments located in an enterprise zone.	No limit beginning tax year 2014. In tax years 2011-2013, credits in excess of \$500,000 deferred to future years, deferred credits may be claimed beginning in 2014.	Limits credit to \$750,000, beginning tax year 2014. Credits above the limit may be carried forward for fourteen years. Allows the Economic Development Commission to waive the limit. Credits carried forward from tax years prior to 2014 are exempt from the \$750,000 limit.
New Business Facility Employee Credit: An income tax credit for each new business facility employee working within the enterprise zone.	\$500 credit for each new business employee.	Increases the credit to \$1,100 for each new qualified employee, beginning tax year 2014.
Employer Sponsored Health Insurance Credit: An income tax credit for each new business facility employee insured under a health insurance plan with the employer covering at least 50% of the cost.	\$200 credit for each new qualified business employee.	Increases the credit to \$1,000 for each new qualified employee, beginning tax year 2014.
Qualified Job Training Program Investment: An income tax credit for an investment in a qualified job training program.	A credit of 10 percent of total investment in a qualified job training program.	Increases the credit to 12 percent of total investment in qualified job training program, beginning tax year 2014.

State Revenue

This bill increases state revenue to the General Fund by \$6.59 million in FY 2013-14 and \$12.66 million in FY 2014-15. The FY 2013-14 estimate is for one-half year on an accrual accounting basis. Table 2 shows the estimated General Fund impact from the four tax credits affected by HB 13-1142.

Table 2: General Fund Revenue Impact from HB 13-1142 (in millions)		
General Fund	FY 2013-14	FY 2014-15
EZ Investment Tax Credit	\$7.97	\$15.27
Job Training Enterprise Zone Credit	(\$0.33)	(\$0.69)
New Business Facility Employee Enterprise Zone Credit	(\$0.64)	(\$1.29)
Enterprise Zone Employee Health Insurance Credit	(\$0.31)	(0.63)
TOTAL	\$6.59	\$12.66

It is extremely difficult to predict which companies will make large investments in the future. The following sections describe the assumptions used for the purpose of this analysis.

EZ Investment Tax Credit. An evaluation of individual and corporate income tax returns from 2006 to 2011 show credits in excess of \$750,000 to be the highest in income tax years 2007 and 2008. This fiscal note assumes that, as the economy continues to recover and corporations become profitable, the EZ investment tax credit for FY 2013-14 and FY 2014-15 will behave similar to that in tax years 2007 and 2008. Any waivers to the \$750,000 limit granted by the Economic Development Commission would reduce the revenue increase from limiting the credit.

Job Training Enterprise Zone Credit. It is assumed that the Job Training Enterprise Zone credit will grow by Legislative Council's forecast of Colorado's personal income. Personal income tends to display a rising trend during periods of economic expansion, and a declining trend during recessions.

New Business Facility Employee Enterprise Zone Credit and Employee Health Insurance Credit. Information from individual and corporate returns for income tax years 2010 and 2011 was used to estimate the new business facility and employee health insurance credits. It was assumed that the number of employees in enterprise zones would increase by Legislative Council's nonagricultural employment growth rate for FY 2013-14 and FY 2014-15.

Prohibition on businesses illegal under either state or federal law. Prohibiting taxpayers engaged in a business that is illegal under either state or federal law from claiming enterprise zone tax credits will increase revenue by an indeterminate amount beginning in FY 2013-14. This includes marijuana businesses.

State Expenditures

The Department of Revenue will need one-time funding of \$1,600 in FY 2013-14 to configure and modify computer programming changes to the Gentax system. The \$1,600 is for 8 hours of programming work.

State Appropriations

Department of Revenue. The Department of Revenue requires a General Fund appropriation of \$1,600.

Departments Contacted

Governors Office

Office of Economic Development

Revenue