Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Washington	Analyst:	Roger Lackey	Bill Number:	AB 46
Related Bills:	See Legislative History	Telephone:	845-3627	Introduced Date:	12-04-2000
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Enterprise Zones/Authorizes Additional Designation of One Geographic Area Within Los Angeles County

SUMMARY

This bill would require the Trade and Commerce Agency to rank applicants for an additional enterprise zone within Los Angles County and designate one from that list. The geographic area for the enterprise zone would have to meet certain criteria specified by the bill. The new enterprise zone would be eligible for all income tax incentives currently allowed to enterprise zones.

EFFECTIVE DATE

This bill would be effective on January 1, 2002, and would apply to taxable years beginning on or after January 1, 2002. The provision added by this bill would be repealed on January 1, 2009.

LEGISLATIVE HISTORY

AB 356 (1999/2000), was identical to this bill and was vetoed by the Governor. The Governor's veto message provided that the number of zones must be limited and the areas chosen on a statewide, competitive basis. AB 51 (1999/2000) would have allowed the governing body of a city, county, or city and county to apply to the TCA to reconfigure the geographic boundaries of an existing enterprise zone within its jurisdiction. AB 51 failed to pass out of Senate Appropriations. SB 84 (Stats. 1999, Ch. 137) modified the rules regarding enterprise zones to allow greater expansion into adjacent unincorporated, noncommercial, or nonindustrial areas under certain circumstances.

SPECIFIC FINDINGS

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an enterprise zone. Using specified criteria, TCA designates enterprise zones from the applications received from the governing bodies. TCA has designated all of the 39 enterprise zones authorized under existing law.

Enterprise zones are designated for 15 years, after which time enterprise zones meeting certain criteria may be extended an additional five years.

When an enterprise zone expires, the TCA is authorized to designate another in its place or redesignate the existing zone to maintain a total of 39 enterprise zones.

Board Position:			Department Director	Date
______ S	______ NA	______ NP	Gerald H. Goldberg	01/22/01
______ SA	______ O	______ NAR		
______ N	______ OUA	__X__ PENDING		

The TCA may audit enterprise zone programs. The audit would provide a result of superior, pass, or fail. Failing programs may be dedesignated. Any business located in a dedesignated zone that has elected to avail itself of any state tax incentive for any taxable year prior to dedesignation may continue to avail itself of those tax incentives for a period equal to the remaining life of the enterprise zone prior to dedesignation, provided the business otherwise is still eligible for those incentives.

Under the Revenue and Taxation Code (R&TC), existing state law provides special tax incentives for taxpayers conducting business activities within an enterprise zone. These incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, specified employees of businesses operating within an enterprise zone may claim a wage credit.

This bill would require the TCA to designate one geographic area within Los Angles County as an additional enterprise zone. To qualify for designation as an enterprise zone under this bill, a geographic area must meet each of the criteria listed below:

1. The entire geographic area had an average unemployment rate of not less than 10% in 2000.

2. The median annual household or family income for the entire applicant geographic area is not more than $26,500.

3. The percentage of persons in the entire applicant geographic area below the poverty level is at least 25%.

4. The applicant geographic area is located within an incorporated city in the County of Los Angeles that has a population of greater than 50,000 and less than 100,000 persons according to the most recent census.

5. The applicant geographic area was part of the Los Angeles Revitalization Zone and does not currently have an enterprise zone.

This bill would provide that the duration of the new enterprise zone would be no more than six years.

This bill would specify that all tax incentives provided to existing enterprise zones under the R&TC would apply to the new enterprise zone designated under this bill.

Any business that utilizes the tax credits and incentives available through this enterprise zone would be required to establish a hiring preference for individuals who live in the city in which the enterprise zone is established.

Implementation Considerations

Implementing this bill would require some changes to existing tax forms and instructions, which could be accomplished during the normal annual update.

Other States

Currently, 29 other states have economic development areas that provide similar tax related incentives as those provided by California’s economic development areas. The number of economic development areas varies from state to state. For example, California currently has 50 economic development areas, while New York has 58, Florida 32, Illinois 93, and Michigan 23.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses are projected to be as follows:

Estimated Revenue Impact of **AB 46** As Introduced December 4, 2000 Taxable Years Assumed After 12/31/2000 (Enactment After June 30, 2001)			
Fiscal Years	2001-02	2002-03	2003-04
Revenue Impact	(Negligible)	(Minor)	($1)

Negligible means losses less than $250,000, minor less than $500,000.

Any possible changes in employment, personal income, or gross state product that might result from this bill are not taken into account.

Tax Revenue Discussion

Revenue losses under the Personal Income Tax and the Bank and Corporation Tax Laws would largely depend on the number of businesses that would purchase qualifying property subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming these tax benefits.

Total revenue losses for the existing 39 designated zones were over $48 million (average of over $1 million per zone) for tax year 1998. Because this extension would apply to a significantly depressed area, revenue losses would most likely be below the average in the initial years of zone designation. Allowance was made for new businesses that might start up in future years.

BOARD POSITION

Pending.