

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Matthews Analyst: Darrine Distefano Bill Number: AB 516

Related Bills: See Legislative History Telephone: 845-6458 Introduced Date: February 18, 2003

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Enterprise Zones/Designation Period May Total 20 Years for Zones in Rural Area

SUMMARY

This bill would extend the designation period for enterprise zones (EZ) in a rural area from 15 years to 20 years.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to extend the designation period for EZs within a rural area only.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative on and after January 1, 2004.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law provides for the existence of empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an EZ. Using specified criteria, the Technology, Trade, and Commerce Agency (TTCA) designates EZs from the applications received from the governing bodies. EZs are designated for 15 years.

An EZ designated prior to 1990, may have its designation period extended to 20 years if it meets the following requirements:

- The EZ received a superior or passing audit from TTCA.
- An updated economic development plan is submitted to TTCA, that justifies the additional five-year designation period.

Board Position:

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Department Director

Date

Gerald H. Goldberg

3/15/03

This extension does not apply to EZ's designated after 1990.

Existing state law does not provide any special treatment for EZs that are located in a rural area.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within an EZ. These incentives include a sales or use tax credit, a hiring credit, a business expense deduction, a net interest deduction, special net operating loss treatment, and a tax credit for employees working in an EZ.

THIS BILL

This bill would expand the special 20-year designation for zones designated prior to 1990 to include an EZ located in a rural area.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 708 (Correa and Matthews, 2003/2004) would allow EZs to be designated for 20 years under certain conditions. This bill is currently in the Committee on Jobs, Economic Development, and the Economy.

SB 172 (Ducheny, 2003/2004) would require TTCA to designate an EZ within the boundaries of the Manufacturing Enhancement Area and allow all EZs to be designated as an EZ for 20 years. This bill is referred to both the Housing & Community Development Committee and the Senate Revenue & Taxation Committee.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that allow similar tax related incentives to those provided in California's economic development areas. However, no information was found stating the length of time other states designate economic development areas.

FISCAL IMPACT

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

ECONOMIC IMPACT

The revenue impact cannot be determined until EZs that would fall under the definition of a "rural area" (within the meaning of this bill) are identified.

LEGISLATIVE STAFF CONTACT

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