

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Ensure lower taxes: The bill extends the jobs tax credit to corporations that participate in a common paymaster arrangement and are located in an enterprise zone.

B. EFFECT OF PROPOSED CHANGES:

Present Situation

The Florida Enterprise Zone Program was created in 1982 to encourage economic development in economically distressed areas of the state by providing incentives and inducing private investment.¹ Sections 290.001-290.016, F.S., authorize the creation of the zones and sets forth criteria and goals for the program.

Prior to submitting an application for a zone, a local government body must determine an area:

- Has chronic extreme and unacceptable levels of poverty, unemployment, physical deterioration, and economic disinvestment;
- Needs rehabilitation or redevelopment for the public health, safety, and welfare of the residents in the county or municipality; and
- Can be revitalized through the inducement of the private sector.

The Office of Tourism, Trade, and Economic Development (OTTED) is responsible for approving applications for enterprise zones; in addition, OTTED approves changes in enterprise zone boundaries when authorized by the Florida Legislature. There are currently 56 state enterprise zones including: three Federal Enterprise Communities, two Federal Empowerment Zones, 26 Rural Enterprise Zones, and 30 Urban Enterprise Zones.

As part of the application process for an enterprise zone, the local county or municipality is also responsible to create an enterprise zone development agency and an enterprise zone development plan.

Outlined in s. 290.0056, F.S., an Enterprise Zone Development Agency is required to have a board of commissioners of at least 8, and no more than 13 members. The agency has the following powers and responsibilities:

- Assisting in the development, implementation and annual review of the zone and updating the strategic plan or measurable goals;
- Identifying ways to remove regulatory burdens;
- Promoting the incentives to residents and businesses;
- Recommending boundary changes;
- Working with nonprofit development organizations; and
- Ensuring the enterprise zone coordinator receives annual training and works with Enterprise Florida, Inc.

Outlined in s. 290.0057, F.S., an enterprise zone development plan (or strategic plan) must accompany an application. At a minimum this plan must:

- Describe the community's goal in revitalizing the area;
- Describe how the community's social and human resources—transportation, housing, community development, public safety, and education and environmental concerns—will be addressed in a coordinated fashion;

¹ Several studies on Florida's Enterprise Zone Program have been conducted by the Office of Program Policy Analysis and Government Accountability are available online at <http://www.opaga.state.fl.us/>.

- Identify key community goals and barriers;
- Outline how the community is a full partner in the process of developing and implementing this plan;
- Describe the commitment from the local governing body in enacting and maintaining local fiscal and regulatory incentives;
- Identify the amount of local and private resources available and the private/public partnerships;
- Indicate how local, state, and federal resources will all be utilized;
- Identify funding requested under any state or federal program to support the proposed development; and
- Identify baselines, methods, and benchmarks for measuring success of the plan.

Florida's enterprise zones qualify for various corporate income incentives and sales and use tax incentives. A total of \$35.7 million in state incentives were approved by the Department of Revenue, between October 1, 2006 and September 30, 2007, for all state enterprise zones.² During the same time period, \$10 million in incentives were provided by local governing bodies. Examples of local incentives include: utility tax abatement, reduction of occupational license fees, reduced building permit fees or land development fees, and local funds for capital projects.

Available state sales tax incentives for enterprise zones include:³

- **Building Materials Used in the Rehabilitation of Real Property Located in an Enterprise Zone.** Provides a refund for sales taxes paid on the purchase of certain building materials, up to \$5,000 or 97 percent of the tax paid, whichever is less.
- **Business Equipment Used in Enterprise Zones.** Provides a refund for sales taxes paid on the purchase of certain equipment, up to \$5,000 or 97 percent of the tax paid, whichever is less.
- **Rural Enterprise Zone Jobs Credit Against Sales Tax.** Provides a sales and use tax credit for 30 or 45 percent of wages paid to new employees who live within a Rural County.
- **Urban Enterprise Zone Jobs Credit Against Sales Tax.** Provides a sales and use tax credit for 20 or 30 percent of wages paid to new employees who live within the enterprise zone.
- **Business Property Used in an Enterprise Zone.** Provides a refund for sales taxes paid on the purchase of certain business property, the lesser of \$5,000 or 97 percent of the tax paid per parcel of property, which is used exclusively in an enterprise zone for at least 3 years.
- **Community Contribution Tax Credit.** Provides 50 percent sales tax refund for donations made to local community development projects.
- **Electrical Energy Used in an Enterprise Zone.** Provides 50 percent sales tax exemption to qualified businesses located within an enterprise zone on the purchase of electrical energy.

Available state corporate income tax incentives for enterprise zones include:

- **Rural Enterprise Zone Jobs Credit Against Corporate Income Tax.** Provides a corporate income tax credit for 30 or 45 percent of wages paid to new employees who live within a Rural County.
- **Urban Enterprise Zone Jobs Credit Against Corporate Income Tax.** Provides a corporate income tax credit for 15 or 20 percent of wages paid to new employees who live within the enterprise zone.
- **Enterprise Zone Property Tax Credit.** Provides a credit against Florida corporate income tax equal to 96 percent of ad valorem taxes paid on the new or improved property.
- **Community Contribution Tax Credit.** Provides 50 percent credit on Florida corporate income tax, or insurance premium tax for donations made to local community development projects.

² Executive Office of the Governor, *Florida Enterprise Zone Program Annual Report*, March 1, 2008,

³ A breakdown of each state financial incentive by enterprise zone for fiscal year 2006-07 is available in the Florida Enterprise Zone Annual Report published on March, 1 2008.

Between October 1, 2005 and September 30, 2006, 3,324 new businesses moved into or were created in enterprise zones, 12,490 new jobs were created by businesses in enterprise zones, and 8,913 businesses received technical assistance from enterprise zone coordinators.

Effect of Proposed Changes

HB 1277 amends the definition of a "job" for purposes of establishing eligibility for the enterprise zone jobs tax credit against sales and use tax. It includes employment of an employee by two or more related corporations that participate in a common paymaster arrangement. The bill allows employers utilizing a common paymaster arrangement, who would otherwise be eligible; to apply for an enterprise zone jobs tax credit against sales and use tax.

A common paymaster, as defined in s. 443.1216, F.S., means a member of a group of related corporations that disburses wages to concurrent employees on behalf of the related corporations and that is responsible for keeping payroll records for those concurrent employees. The Department of Revenue reports that there are presently 68 common paymasters registered with the state.

The bill does not provide for a common paymaster to offset enterprise zone job credits against corporate income tax.

C. SECTION DIRECTORY:

Section 1 – Amends s. 212.096(1)(d), F.S., to include employment of an employee by two or more corporations under a common paymaster arrangement, provided the employee is continuously employed in an enterprise zone in the operations of those corporation for an average of at least 36 hours per week each month.

Section 2 – Provides an effective date of July 12, 2007.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The Revenue Estimating Conference adopted a negative cash impact to General Revenue of \$200,000 annually.

2. Expenditures:

The Department of Revenue reports that it does not anticipate a significant operational impact in implementing the provisions of this bill.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

There are currently 68 corporations registered with the Department of Revenue under the common paymaster arrangement contemplated by this bill. To the extent that jobs created by entities organized in a common paymaster arrangement would otherwise qualify for an enterprise zone tax credit, this bill will allow organizations organized in such an arrangement to qualify for the enterprise zone tax credit.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

This bill does not require counties or municipalities to spend funds or take action requiring the expenditure of funds. This bill does not reduce the percentage of state tax shared with counties or municipalities. This bill does not reduce the authority that municipalities have to raise revenue.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

For purposes of consistency, the Department of Revenue suggests that the definition of "job" in s. 220.03(ff), F.S., be amended to conform with the provisions of this bill. The effect of making such an amendment would include employment by a common paymaster to offset enterprise zone tax credits against corporate income tax.

D. STATEMENT OF THE SPONSOR

No statement was submitted.

IV. AMENDMENTS/COUNCIL SUBSTITUTE CHANGES