

HOUSE RESEARCH

Bill Summary

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Overview

This article authorizes designation of an international economic development zone within 60 miles of the Minneapolis-St. Paul International Airport. This zone is intended to stimulate development of a regional distribution center that will increase the capacity and capability to handle international air freight. Qualifying businesses operating in the zones are exempt from sales and property taxes, receive a partial corporate franchise tax exemption and a refundable jobs credit for the portion of increased payroll that exceeds \$30,000 per FTE. The tax incentives would have a maximum 8-year duration, except freight forwarders would be subject to a 4-year duration, and would end no later than 2020.

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1 1 International economic development zone property. Provides that commercial and industrial property (both real and personal) in an international economic development zone is exempt from property taxation. This exemption does not apply, however, to the following:

- Land
- Commercial-industrial property where neither the owner nor the lessee is a qualified business (See the summary of section 0 for the definition of a qualified business.)

The exemption applies to the first assessment year after designation of the zone by the commissioner of trade and economic development.

2 Jobs credit. Provides that the jobs credit applies against chapter 290 taxes (regular and

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alternative minimum tax under both the individual income and corporate franchise taxes). A summary of the rules for this credit is found in section 0.

3 Payroll and property factor. Provides that the numerator of the property and payroll factor exclude zone property and payroll of a qualified business. This has the effect of providing a partial corporate franchise tax exemption for a multi-state business, since zone property and payroll will not cause more income to be apportioned to and be taxable by Minnesota.

4 Sales tax exemption. Provides a sales tax exemptions for businesses located in an international economic development zone. To qualify for this exemption, the goods or taxable services must be primarily used in the zone and purchased during the duration of the zone. The exemption extends to contractor purchases (if the final use of the property is in the zone) and to local sales taxes.

5 Definitions. Defines terms for purposes of the international economic development zone statute.

- **Foreign trade zone** means a foreign trade zone designated under federal law or an authorized subzone.
- **Foreign trade zone authority** is Greater Metropolitan Foreign Trade Zone Commission number 119. This is a joint powers organization formed by Hennepin County, Bloomington, Minneapolis, and the Metropolitan Airports Commission. The definition permits other local governments to join the agreement later.
- **International economic development zone** means a zone designated designed under section 0.
- **Person** includes individual, corporations, partnerships, limited liability companies, and any other entity.
- **Qualified business** means a person that is an international import or export business and that is certified by the authority as furthering the purpose of developing international distribution capacity and capabilities. Businesses (*other than freight forwarders, which qualify even if they only relocate jobs into and do not increase investment in the zone*) that relocate into the zone must:
 - **Meet an expansion test by either:**
 - Increasing employment by 20 percent in its first full year of zone operations and maintaining that level of employment during the duration of the zone; or
 - Making a capital investment in the zone equal to 10 percent of its gross revenues in the prior year from the portion of the business it relocated to the zone; and
 - **Agree in writing to repay the tax benefits, if it does not meet the expansion test.**
- **Regional distribution center** is a distribution center within a foreign trade zone. The

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center's primary purpose must be to centralize functions necessary to ship freight in international commerce, such as custom and security functions.

- **Relocates** means moving a Minnesota business operation from outside a zone into a zone or by locating an operation in a zone that supplants employment at an existing Minnesota business operation outside the zone. It does not include an expansion that does not replace or supplant another Minnesota operation.
- **International economic development zone payroll factor** is the wage and salaries paid to employees for services performed in the zone or to employees working from offices in a zone, if the work outside the zone is incidental to that in the zone.
- **Freight forwarder** is a business that transports goods made by another business.

6 Designation of international economic development zone. Authorizes the foreign trade zone authority to designate one foreign trade zone that contains a regional distribution center as an international economic development zone. Factors relevant to whether a potential site qualifies for designation include:

- access to major transportation routes
- consistency with transportation plans
- adequacy of the site
- access to airport facilities
- capacity of the airport
- capability to meet integrate air cargo, security, and inspection service needs
- access to infrastructure and other financial incentives

The zone must be contiguous and contain between 500 and 1,000 acres. The zone can be no more than 60 miles from the Minneapolis-St. Paul International Airport. In designating the zone, the authority is to consider site, transportation, infrastructure, and financial factors, including review of a transportation impact study. The county in which the zone is located must also be a member of the foreign trade zone authority.

7 Foreign trade zone authority powers. Directs the authority to develop a development plan for the regional distribution center with a goal of expanding international distribution capacity for the region. The authority must consult with municipalities that are interested in being the site for the zone and with businesses and federal and state agencies. Municipalities must be willing to establish a TIF district that is coterminous with the zone boundaries.

The foreign trade zone authority may establish a port authority and may exercise any city powers, except the power to levy or request a property tax levy.

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8 Available tax incentives. Three tax incentives are available in international economic development zones:

- State and local general sales taxes (but not the sale tax on motor vehicles) do not apply to purchases used by businesses in an international economic development zone
- Property taxes do not apply to improvements in the zone
- A refundable jobs credit is available for higher paying jobs

These incentives would be available for a 8-year duration, except freight forwarders would be subject to a 4-year duration. (Freight forwarders can relocate into the zone and be qualified businesses without increasing investment or expanding employment.) This duration limit runs from the date the taxpayer first claims the exemption or incentive, but cannot be claimed later than 2020. This duration limit is unlike JOBZ incentives, which are tied to the zone duration, not when the business began receiving the tax incentive.

9 Jobs credit. Provides a job credit to a qualified business operating in a zone equal to 7 percent of:

- The lesser of either:
- The increase in the business payroll (but excluding amounts paid to an employee in excess of \$100,000 per year) in the zone since the year of designation or
- The increases in total Minnesota payroll since the year of designation; minus
- The increase in the number of FTEs in the zone since designation multiplied by \$30,000

Inflation adjustment. Starting for tax year 2005, the \$30,000 amount will adjusted for inflation.

Refundable. The credit is refundable.

10 Repayment of tax benefits. Requires a business to repay tax benefits, if the business ceases to operate in the zone or ceases to be a qualified business.

The provision requires repayment of the last two years of benefits received before the business ceased its zone operations or failed to meet its agreed goals.

Disposition or repayments. Repayments of state tax reductions are paid to the state and deposited in the general fund. Repayments of property taxes are distributed to local governments in the same manner as delinquent property taxes. Repayments of local sales taxes are made to the unit imposing the tax.

Authority to collect. The commissioner of revenue may collect repayments in the same manner as unpaid taxes and the same interest and penalty rules apply. For state and local

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sales taxes and the jobs credit, the taxpayer files an amended return and must repay within 30 days after the triggering event. For property taxes, the county auditor is to prepare a tax statement using the otherwise applicable tax rates. If the amounts are not paid, they become liens against the property in the same way as any other unpaid property tax. Motor vehicle sales taxes are repaid to the motor vehicle registrar.

Waiver authority. The commissioner of revenue, after consulting with the foreign trade zone authority and the local units of government, may waive all or part of a repayment if it is deemed to be in the best interest of the state and the business ceased operations for reasons beyond its control, such as a natural disaster, unforeseen industry trends, or loss of a major supplier or customer.

- 11 Reporting requirement.** Requires the authority to establish zone performance goals for 3-, 5-, and 10-year periods for jobs, investment, and freight handling. The authority must annually report to the Commissioner of DEED on how it is meeting these goals.