HOUSE RESEARCH
Bill Summary

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Overview

This bill modifies various statutory provisions related to Job Opportunity Building Zones (JOBZ) and Biotechnology and Health Sciences Industry Zones ("Bioscience Zones"). Among other things, the bill:

- allows an income and franchise tax credit for investment in a qualified regional angel investment network fund;
- modifies the criteria for a person to be a "qualified business" in these zones;
- establishes sales and use tax exemptions for equipment used to improve property in zones (and for the lease of motor vehicles in a JOBZ);
- defines "relocation payroll percentage" and uses the term to establish new formulas for calculating JOBZ tax exemptions; and
- modifies the formulas for calculating corporate franchise tax exemptions in the zones.

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1 **JOBZ property exempt from taxation.** Requires as an additional condition for exemption that the property be occupied by a qualified business that has signed a business subsidy

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agreement and relocation agreement, if required to do so, by July 1 of the assessment year. (Current law requires as a condition for exemption that property be occupied by July 1 of the assessment year by a qualified business.) Makes this section effective for taxes payable in 2006 and thereafter.

2 **Bioscience Zone refunds of interest overpayments.** Provides that for sales and use tax refunds payable to a Bioscience Zone, interest is computed from 90 days after the refund claim is filed, notwithstanding other law. Makes this section effective for refund claims filed on or after July 1, 2005.

Present law applies the general sales and use tax refund rules to these refunds: (1) if a refund claim includes a detailed schedule of covered tax periods, interest is paid from the date of payment to the date the refund is paid; or (2) if a detailed schedule is not included, interest is computed from the date the claim was filed.

3 **Regional investment credit.** Allows a franchise and income tax credit for investment in a certified, qualified regional angel investment network fund during the tax year when the investment is made. Specifies that the credit equals 25% of a taxpayer's investment in the fund, but cannot exceed the lesser of (1) the taxpayer's franchise and income tax liability, including the applicable alternative minimum tax; or (2) the taxpayer's share of the amount of the certificate issued to the fund by the commissioner.

Defines a regional angel investment network fund as a pool investment fund that:

- is a limited liability company, consisting of members who are accredited investors or members that make equity investments or investments in notes that pay interest, or fixed amounts, or both;

- primarily makes investments in emerging and expanding small businesses or cooperative association located in out-state Minnesota communities and does not invest in residential real estate; and

- has at least 5 separate investors (none of whom owns more than 25% of the outstanding ownership in interests in the fund). Specifies how to determine the number of investors and the ownership interest of an investor.

Requires regional angel investment network funds to apply to DEED for certification as a qualifying fund. Allows the commissioner to certify up to 20 qualifying funds and to provide certificates for credits of up to $500,000 for each fund (totaling no more than $10,000,000 for all funds). Directs the commissioner to generally award certificates in the order applications are received, but to pay attention to geographical distribution.

Requires each fund to give each investor a statement indicating the investor's share of the credit amount certified to the fund. Provides for a ten-year credit carryover when the credit certified exceeds the limitations on credits for a taxable year.

Directs the commissioner to award three certificates to pooled investment funds that invest in qualifying small businesses located in the region of the state where the fund is focused

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and that allocate at least 20% of their investments to qualified small businesses meeting local community needs. To be a qualifying small business, residents of the region must hold 51% of the ownership interests (excluding equity interests) in the business and the business must pay at least 75% of its employees wages and benefits equal to 175% of the federal poverty level for a family of four.

Makes this section effective the day following final enactment.

4 **JOBZ business exemptions from general sales and use taxes.** Clarifies that certain aircraft engaged in aerial surveying (and any aerial camera packages used in the aircraft) qualify as "primarily used or consumed" in a JOBZ *if* (1) the aircraft is based, maintained, and dispatched in a JOBZ, and (2) images taken in the air are processed in the JOBZ. Exempts equipment used to improve real property in a JOBZ if the improvement will be used by a qualified business. Also exempts the lease of a motor vehicle by a qualified business if it is principally garaged in the JOBZ and primarily used as part of or in direct support of the business's operations in the JOBZ. Makes this section effective for sales and leases entered after December 31, 2003.

5 **Bioscience Zone business exemptions from general sales and use taxes.** Exempts equipment used to improve real property in a Bioscience Zone if the improvement will be used by a qualified business. Makes this section effective for sales after December 31, 2003.

6 **Definition of qualified business in a JOBZ.** Modifies the criteria for a business to be considered "qualified" for JOBZ purposes as follows:

- Specifies that a person is a qualified business only on parcels of land for which the person has entered into a business subsidy agreement with the appropriate local government;

- Requires the local government to consider several factors before executing a business subsidy agreement:

(a) how wages plus benefits compare to 110 percent of the statewide poverty rate for a family of four;

(b) how wages compare to regional industry average;

(c) the number of jobs created relative to overall employment in the community;

(d) the economic outlook for the relevant industry;

(e) anticipated sales generated from outside Minnesota;

(f) how the business will diversify regional economy or build on regional strengths;

(g) how the business will increase capital investment in the JOBZ; and

(h) any other criteria the commissioner deems necessary.

- Provides that a person relocating a trade or business into a JOBZ is not a qualified business unless the above requirements are met, *and* the trade or business increases full-time employment in the first full year of operation within the JOBZ by a minimum of five jobs, or 20 percent, whichever is greater. (Current law requires only a 20 percent job increase.) Permits the commissioner to waive this requirement

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upon determining that the qualified business will "substantially achieve" the factors stated above.

- Disqualifies a retailer from receiving JOBZ benefits if it is primarily engaged in retail sales to buyers physically present at the business's zone location.

Makes this section effective the day following final enactment, with respect to businesses entering a JOBZ business subsidy agreement after that date, except that the requirement that a person is a qualified business only on those parcels for which the person has entered a business subsidy agreement is effective retroactively from June 9, 2003.

7 **Definition of relocation payroll percentage.** Defines "relocation payroll percentage" as a fraction representing (1) the zone payroll of the business for the tax year less the payroll from relocated operations in the last full year of operations before relocation (*the numerator*), in relation to (2) zone payroll of the business for the tax year (*the denominator*). States that the relocation payroll percentage of a business that is not relocating is 100 percent. Makes this section effective the day following final enactment; applies to qualified businesses with business subsidy agreements fully executed after June 30, 2005.

8 **JOBZ individual income tax exemption.** Modifies § 469.316 to allow estates and trusts to qualify for the exemptions currently afforded to "individuals" under that section.

Subd. 1. Application. Changes references to "an individual" to read "an individual, estate, or trust."

Subd. 2. Rents. Clarifies that property must be used by a qualified business.

Subd. 3. Business income. Requires apportionment of the business income exemption using the relocation percentage defined in section 7. Estates and trusts are treated as nonresidents for purposes of the apportionment rules.

Subd. 4. Capital gains. Allows estates and trusts to qualify for the capital gain exclusion.

Makes this section effective for tax years beginning after December 31, 2003, except that changes in individual income tax exemptions for business income relating to the relocation payroll percentage are effective the day following final enactment (and apply to qualified businesses with business subsidy agreements fully executed after June 30, 2005).

9 **JOBZ corporate franchise tax exemption.** Requires apportionment of exemptions from the corporate franchise tax and the corporate alternative minimum tax by the relocation payroll percentage.

Under current law relocation payroll percentage is not taken into account in calculating either exemption. Makes this section effective the day following final enactment; applies only to qualified businesses with business subsidy agreements fully executed after June 30, 2005.

10 **Repayment obligation.** Clarifies that "commissioner" refers to the commissioner of

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employment and economic development. Makes this section effective the day following final enactment.

11 **Reconciliation.** Adds a subdivision to the section addressing repayment of JOBZ tax benefits (§ 469.319) to clarify that, in the event of any inconsistency with the statutory requirements for recipients of business subsidies (§§ 116J.993 to 116J.995), § 469.319 applies. Makes this section effective the day following final enactment.

12 **Remedies.** Strikes language requiring the commissioner to publish any order modifying a JOBZ in the State Register and on the Internet. Makes this section effective the day following final enactment.

13 **Definition of qualified business in a Bioscience Zone.** Modifies the criteria for a business to be considered "qualified" for Bioscience Zone purposes by specifying that a person is a qualified business only on parcels of land for which the person has entered into a business subsidy agreement with the appropriate local government. Makes this section effective retroactively from June 9, 2003.

14 **Bioscience Zone corporate franchise tax exemption.** Exempts a qualified business from the minimum fee if all of its property is located in the Bioscience Zone and if all of its payroll is Bioscience Zone payroll. Makes this section effective for tax years beginning after December 31, 2003.

15 **Repayment obligation.** Clarifies that "commissioner" refers to the commissioner of employment and economic development. Makes this section effective the day following final enactment.

16 **Revisor's instruction.** Requires the revisor to renumber § 469.310, subdivision 11 (which defines "qualified business,") as § 469.3135 and to insert a reference to § 469.3135 in § 469.310, as the definition of "qualified business."

17 **Repealer.** Repeals the definition of Bioscience zone property in the property tax code (§ 272.02, subd. 65), effective for taxes payable in 2006 and thereafter. Repeals local government JOBZ aid (§ 477A.08), effective for aid payable in 2005 and thereafter.