

HOUSE RESEARCH

Bill Summary

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Subject: Tax refunds for PROFIT (Performance Rewards on Fast Investment Today) businesses

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Overview

Creates a new statewide Performance Rewards on Fast Investment Today (PROFIT) program, providing state-paid refunds of property and sales taxes paid to businesses that meet job creation and construction goals.

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- 1 Subd. 1. Definitions.** Provides definitions.
- ▶ “Business” means an individual, corporation, partnership, LLC, or other entity.
 - ▶ “Commissioner” means the commissioner of employment and economic development (DEED)
 - ▶ “new full-time equivalent position” means a position with at least 1,950 hours expected (over 49 40-hour weeks), created at a PROFIT business
 - ▶ “PROFIT” means a business designated by the commissioner
 - ▶ “Taxing authority” means a county, city, town, school district, or joint powers board
 - ▶ “Wages” is defined by reference to the Internal Revenue Code, and includes benefits and tips.
 - ▶ “Agreement” means a business subsidy agreement that must specify
 - the duration of the agreement

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- job goals and a timeline
- construction and other investment goals and a timeline

The commissioner must annually verify if participating PROFIT businesses meet the terms of the agreement.

Subd. 2. PROFIT business designation; eligibility requirements. Requires any business seeking to receive PROFIT designation to meet all of the following requirements:

- ▶ the business is engaged in Minnesota in one of the following primary business activities: manufacturing, warehousing, distribution, information technology, finance, insurance, or professional or technical services; and
- ▶ the business must enter into a binding job creation and construction agreement with the commissioner and the appropriate local government unit in which the PROFIT business is located. The agreements must provide for
 - Creation of at least 10 new full-time equivalent positions within two years of designation. Establishes a minimum earnings requirement of at least \$16.80 per hour in the seven-county metro area, or at least \$13.00 per hour in nonmetro Minnesota. Jobs relocated from one area to another in Minnesota by a PROFIT business do not count toward meeting the job creation standards. In addition, a PROFIT business may not terminate, lay off, or reduce the working hours of an employee for the purpose of hiring an individual to satisfy its job creation goals.
 - Investment of at least \$500,000 in a construction project that includes a new, expanded, or remodeled facility within two years. Up to \$250,000 of the capital investment may be for machinery and equipment.

A business primarily engaged in retail sales within Minnesota, lobbying, political consulting, leisure, hospitality, gaming, or professional services provided by attorneys, accountants, business consultants, physicians or health care consultants is not eligible for PROFIT designation.

Subd. 3. Local approval. Requires a business to submit an application to each taxing authority affected by the tax benefits provided to a business under the bill. Taxing authorities must consider eligibility requirements, potential increases in business activity and results of a cost-benefit analysis of potential increases in economic activity and revenue implications of tax refunds. Taxing authorities must notify the commissioner if a business has received local approval to be designated as a PROFIT business.

Subd. 4. Designation by the commissioner. After receiving notification of local approval of a business for PROFIT designation, the commissioner must review the local determination, the subsidy agreement, and eligibility requirements. Prior to designating a business as a PROFIT business, the commissioner must consider

- ▶ the economic outlook of the industry in which the business engages,

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- ▶ the projected sales generated from outside the state,
- ▶ how the business will build on existing regional, national, and international strengths to diversity the state's economy,
- ▶ whether the business activity would occur without public financial assistance,
- ▶ the effect of the public financial assistance on industry competitors,
- ▶ the job creation and investment goals of the proposed subsidy agreement that exceed the minimum requirements under subdivision 2, and
- ▶ any other criteria determined by the commissioner.

Subd. 5. Certification for tax benefits. Requires the commissioner to provide initial certification to a PROFIT business as eligible for tax refunds if the business has attained its goals under the terms of the subsidy agreement in the two years after designation as a PROFIT business. Any business failing to receive initial certification is ineligible for tax refunds. Businesses that receive initial certification are subject to annual verification by the commissioner that the business has continued to meet the requirements of the subsidy agreement.

Subd. 6. Tax refunds; percentage; duration. A business certified eligible for refunds under subdivision 5, is eligible for up 12 years of property, sales, and use tax refunds from the date it is certified by the commissioner. The commissioner sets a refund percentage for each business based upon its performance on job creation and construction goals under the subsidy agreement; refunds then equal the set percentage of the total amount of refunds possible. The commissioner of DEED must notify the commissioner of revenue of the percentage of refunds allowed for each PROFIT business.

Subd. 7. Property tax refund. Provides for a property tax refund to a business based on the increase in tax capacity resulting from the value of improvements made to real and personal property that is owned and operated by a PROFIT business. The PROFIT business must notify the commissioner of revenue of its eligibility by July 1 in order to begin receiving refunds of the specified percentage in the following year.

Subd. 8. Sales and use tax refund. Provides for a refund of the specified percentage of sales and use taxes paid on the purchase and use of construction materials, services, and supplies used or consumed in, including equipment incorporated into, real property owned by a qualified PROFIT business that is used in the conduct of the business, if the purchase was made and delivery received during the duration of the PROFIT business designation. The refund applies regardless of the whether the purchaser is the qualified PROFIT business or a contractor. The PROFIT applies for the refund in the same manner as businesses apply for other sales tax refunds under current law.

Subd. 9. Appropriation. Appropriates the amount needed to pay for the property tax and sales tax refunds from the general fund to the commissioner of revenue.