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Overview

This bill modifies the border city development zone law to authorize two additional incentives, one for businesses and the other for homeowners. These incentives are intended to make the type of incentives roughly match those available in North Dakota. The cities would be required to use their existing allocations of state tax reductions to provide these incentives.

Present Law Incentives

The border city development zone statute authorizes Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville to provide tax incentives to businesses. The tax reductions must be offset by the cities' state allocations, which are also used under the regular border city enterprise zone program. (That program is available to existing businesses, as well as to encourage expansions and new businesses—the purpose of development zones.)

Two **in-zone incentives** may be provided to businesses locating in the zones:

- A property tax exemption for the duration of the zone (up to 15 years)
- A sales tax exemption for capital equipment and building materials purchases

Three tax incentives may be provided to businesses locating **outside a zone**:

- Five-year property tax exemption (or a payment in lieu arrangement)

Section

- A "new industry credit" against corporate tax for manufacturers equal to 1 percent of wages and salaries for the first three years and 0.5 percent for the fourth and fifth years
- A sales tax exemption for capital equipment and building materials purchases

Incentives Added by the H.F. 3939

Under the bill, border cities could offer the following incentives:

- New homeowners could be allowed a five-year property tax exemption and an income tax exemption for up to $500,000 of income, also for five years. To qualify a home must be constructed or an existing one substantially rehabilitated.
- Businesses investing in a zone by constructing or substantially rehabilitating residential, commercial, or other business property can be allowed up to a five-year subtraction from Minnesota income or corporate tax of $500,000 for income derived from the new zone operations (e.g., rents or direct business income).

1 **Border zone property tax exemption.** Modifies the property tax exemption for border city development zone property to provide that the home property tax exemption (under homeowner incentive program under section 9) is limited to a duration of five years. Other border city development zone property has a duration limit equal to that of the zone—typically 15 years.

2 **Definitions; property tax exemption.** Modifies the definition of qualified property under the property tax exemption for border city development zone property to include homestead property that participates in a homeowner incentive program under section 9.

3 **Property tax exemptions; required findings.** Exempts homestead properties in the homeowner incentive program from the "but-for" finding requirement that applies to businesses that receive tax incentives under the border city development zone program.

4 **Income tax subtraction; border zone incentives**. Allows an individual income tax subtraction for two types of income related to border city development zones:

- Income of homeowners as provided in section 9
- Income of businesses that construct, substantially rehabilitate or operate in a border city development zone as provided in section 10

The commissioner of revenue is directed to annually estimate the reduction in state tax revenues that results from this subtraction and the similar subtraction for business income of C corporations under section 5 (as well the incentives under current law) and to notify the commissioner of the Department of Employment and Economic Development (DEED), who will deduct the amount from the border city tax incentive allocation for the city in which the zone is located.

Section

5 **Corporate franchise tax subtraction; border zone incentive.** Provides a corporate franchise tax subtraction for business income derived from a border city development zone (under the same rules that apply to the individual income tax under section 4).

6 **Permitted areas to be designated.** Modifies the authority to designate border city development zones so that the rules apply equally in each of the cities (Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville). Under present law, two cities (Breckenridge and East Grand Forks) are permitted to designate any part or all of the city as a zone, while the other three cities are limited to six zones of no more than 100 acres.

7 **Duration limits**. Modifies the limits that apply to border city development zone plans to:

- Eliminate the 15-year duration limit
- Require specific duration limits for tax incentives provided to each business
- Provide that shorter statutory duration limits apply (i.e., the five-year limit under the bill's homeowner incentive program and new subtraction for business income)

8 **Permitted border zone incentives.** Modifies the list of tax incentives available in border city development zones to include the business income subtractions provided under section 10 and the property and income tax incentives under the homeowner incentive program in section 9.

9 **Homeowner incentive program**. Authorizes border cities to offer homeowner incentive programs under their development zone authority. The city would be responsible for establishing the terms and conditions of the program (i.e., who qualifies, application requirements, administrative processes and so forth). To qualify a home must be:

- Located in a new or existing border city development zone
- Substantially rehabilitated or constructed after the program was established
- Classified for property tax purposes as homestead

Homeowners participating in the program qualify for:

- A five-year exemption from property taxes
- A five-year subtraction under the individual income for their income up to $500,000 for married joint filers ($250,000 for other filers, but only two owners of a home can qualify so a per-home maximum of $500,000 applies)

The reduction in state tax revenues that results from use of the program is deducted from the city's allocation of tax reductions under border city programs. A participating city must consult with the Department of Revenue (DOR) and DEED in designing and administering the program to facilitate computing and accounting for the revenue loss relative to the city's allocation.

10 **Business income subtraction**. Provides a five-year business income subtraction for businesses operating in a border city development zone that:

- Construct or substantially rehabilitate residential, commercial, or other business properties in a zone

Section

- Lease a business property

The subtraction is limited to income derived from the investment or business operations in the zone is limited to $500,000 per tax year for the five year period. The reduction in state tax revenues that results from the subtraction is deducted from the city's allocation of border city tax incentives. A participating city is required to consult with DOR and DEED in administering the program to facilitate computing and accounting for the revenue loss relative to the city's allocation.

11 **Obsolete reference.** Repeals an obsolete statutory cross reference to a subdivision that has been superseded by enactment of additional subdivisions.