

ENTERPRISE ZONING:
AN ECONOMIC DEVELOPMENT TOOL

by

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Table of Contents

	Page
Introduction.	1
History of Enterprise Zoning.	5
Economic Review	13
A Review Of The "Urban Jobs And Enterprise Zone Act of 1981".	34
Comparison Of Urban Enterprise Zone Related Bills	51
Summary	63
References.	70
Appendices	
A.	73
B.	78
C.	96
D.	113
E.	117

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LIST OF TABLES

Table	Page
1. The Laffer Curve	15
2. The Model Machine Shop	21
3. Cost Per Job Comparison Between Rep. Kemp's Proposals, The UDAG Program, And The EDA Program.	28

Introduction

There exists no lack of empirical evidence supporting the contention that America's inner cities are facing serious problems. A multitude of studies, papers and entire books have been written on this subject. The problems of inner cities are generally associated with the older industrialized cities in the northeastern section of the country. During the decade of the seventies, these northeastern metropolitan areas suffered through net out-migration of population and net job loss.

These problems do not exist only in northeastern central cities. Population in central city areas throughout the country actually decreased by 4.7 percent between 1970 and 1977.¹ During this same time period, growth rates of 12 percent and 10.7 percent occurred in suburban and nonmetropolitan areas respectively.² Aside from population figures like these, other serious statistics appear such as thirty-eight percent of the total population below the poverty line living in the major cities as compared to twenty-three percent in the suburbs.³ So while the total population decreased, the percentage of the poor residing in these central cities increased. During this same time period, the proportion of families headed by women increased from 15.7 percent to 20.7 percent in these areas.⁴ That was almost twice the number that existed in the suburbs. Unemployment is more than double the national rate in the central cities, and in many areas the rates approach fifty percent for minority youths.⁵

Almost every major city in the country has an area that is seriously deteriorated and lacks jobs, services, population, or industry. If the movement of population represented a cross section of a city's society, the negative impact on the city might not be quite as serious. However, the people that have fled from the cities to the suburbs consist mainly of upper and middle class residents. In

addition to these residents, small mobile industries have also moved to the suburbs and to smaller cities. Leaving with these firms has gone a large part of an inner city's job creation potential and tax revenues.

A more serious problem than the loss of jobs is the central city's inability to generate new jobs rapidly. The small firms and entrepreneurs are being driven out or are avoiding these areas due, in part, to high taxes and heavy regulatory controls.

Once this flight out of a central city has begun, a very serious negative feedback cycle develops. The exodus of population and industry begins to erode the tax base. In response to this, the city must either raise taxes, cut services or combine both. Either of these options only serves to worsen the problems that helped drive population and industry out of the city in the first place. To break out of this cycle the city needs to sustain or expand its tax base.

It would not be fair to say that these problems of our inner cities have been ignored. Millions of dollars and hundreds of programs, controls, projects and policies have all been directed at these areas. No consistently successful method has arisen after many years of attempts. Jane Jacobs said that these urban revival methods have only led to

"Low income projects that became worse centers of delinquency, vandalism and general hopelessness than the slums they were supposed to replace. Middle income housing projects which are truly marvels of dullness and regimentation...Cultural centers that are unable to support a good bookstore. Civic centers that are avoided by bums, who have fewer choices of a loitering place than others. Commercial centers that are lack-luster imitations of standardized suburban chain store shopping. Promenades that go from no place to nowhere and have no promenaders. Expressways that eviscerate great cities. This is not the rebuilding of cities. It is the sacking of cities."⁶

Jacobs wrote these words in 1961 and they still hold true. As Stuart Butler of the Heritage Foundation states,

"The orthodox assumption is still that when enough money is finally thrown at the inner cities, and enough of their buildings are torn down and replaced, there will be a revival. As each new project seems only to hasten the decline, the call is for

more money, and more demolition. One wonders just how much is required."⁷

The purpose of this paper is to explain and examine yet another proposal aimed at solving the woes of our central cities. The name of this concept is Enterprise Zoning. In the following chapters, a history of the formulation of the idea, an economic review of the concept, and examples and reviews of various legislative proposals will be presented. Enterprise Zoning has created much excitement and support from groups and individuals that have found fault with previous methods aimed at improving inner city problems. The reason for this lies in the different philosophy and approach this method takes to combat inner city problems. This difference and the rationale behind the idea will also be discussed. The intent of this paper is not to advocate or depreciate the idea, but to understand both the strengths and weaknesses it contains.

Notes

¹ Butler, Stuart. Enterprise Zones: Pioneering in the Inner City. Washington, D.C.: The Heritage Foundation, 1980, pg. 1.

² Note #1 Above.

³ Note #1 Above.

⁴ Note #1 Above.

⁵ Reilly, Ann M. "Can Urban Enterprise Zones Work?", Dun's Review, Vol. 117, No. 2, February, 1981, pg. 48.

⁶ Jacobs, Jane, from The Death and Life of Great American Cities, 1961, as quoted in "Urban Renewal: A Modest Proposal," by Stuart Butler, Policy Review, Vol. 13, Summer, 1980, pg. 97.

⁷ Butler, Stuart. "Urban Renewal: A Modest Proposal," Policy Review, Vol. 13, Summer, 1980, pg. 97.

History Of Enterprise Zoning

The idea of the Enterprise Zone is generally credited to two men from England, Mr. Peter Hall and Sir Geoffrey Howe. Peter Hall is a Professor of Urban Planning at Reading University while Sir Howe is the Chancellor of the Exchequer. In the late part of 1976 and early 1977, the then opposition party in England, the Conservative Party, was strongly challenging the policies and effectiveness of the ruling Labor Party. Many central city areas in England were suffering from poor economic conditions equal to or surpassing those that existed in the U.S. This was especially true in the areas of employment and investment in the central city. Weary of years of economic programs and regulations that had failed to solve, and in several instances had worsened, the economic conditions of these cities, the idea of doing little or no planning or regulating came to the front. In effect the idea was to reduce regulations and federal programs to the point that the "free market" could operate on its own. The initial idea was to try to recreate the laissez faire economic conditions that exist in Hong Kong.

Hong Kong contains several characteristics that have been proposed for Enterprise Zones. These include low tax rates, little governmental intervention and the guarantee of these benefits for a specified time period. The highest tax bracket reaches only 17% of income. There are virtually no tariff or nontariff barriers to trade. The positive results of these conditions are a strong and active local economy and a steady rise in per capita income. On the negative side are wage levels approximately 14% of those in the U.S., the highest rent levels in the world and as a result of this low income, workers often live in government owned units at subsidized rents and rent controls have been imposed.¹ Directly tied into the guaranteed time period in Hong Kong are the high rents. Real estate developers aim to make their profits before this time period expires.

The steadily increasing per capita income figures are misleading. What has occurred is that a tremendous amount of wealth has been made by a few individuals but wages to workers are low and the high rents have driven out many of the unemployed. This also occurred in Puerto Rico under similar circumstances with "Operation Bootstrap." When the time period for benefits ran out in Puerto Rico, many companies left in search of new tax havens. The result was that no strong lasting economy was developed on the island.

Professor Hall's idea was to simply throw open certain depressed areas to all business prospects with little or no regulatory restrictions. From this came his two proposals, the Freeport and the Crown Colony ideas.²

The Freeport idea, based closely on Hong Kong's example, would be a zone in or near a sea or airport. This area would be a Free Trade Zone where customs, excise duties, and tariffs were not payable on goods and raw materials brought into the zone. The goods may also be exported, even if reprocessed, free of charge. This concept has been considered by the Greater London Council to establish one such zone in the city.

The Crown Colony idea would be a more drastic and desperate attempt which would create an independent community that would be free from most legislation and tariffs. Professor Hall himself felt that this idea should only be tried in small scale areas that were mostly abandoned.

After studying these two ideas, Sir Howe came up with the Enterprise Zone concept in 1978. His idea was to set up trial areas, four or five to begin with, that were not limited to ports or docks, but also included other depressed urban areas. In these trial pockets, development was to be allowed without regulation based on the idea that the lack of these regulations would be an incentive overcoming the disadvantages of the areas. The basic parts of Sir Howe's proposal, made in a speech to the Bow Group in London on June 26th, 1978, were as follows:³

- A. An area of a square mile or so in the most depressed part of a city would be selected and designated as an Enterprise Zone.

- B. Planning controls of any detailed kind would cease to apply in the zone. Any building that complied with very basic anti-pollution, health and safety standards, and was for a legal purpose would be permitted.
- C. City Councils owning vacant land, or abandoned property, would be required to dispose of it to private bidders by auction in the open market.
- D. New developments in the zone would be free from rent controls.
- E. Entrepreneurs who moved into the zone would be granted a reduction or exemption from property taxes, and there would be a reduction in capital gains tax on development.
- F. Businesses in the zones would be guaranteed that public laws affecting investment, depreciation, etc. would not be changed to their disadvantage. No special government grants or subsidies would be payable to any enterprise in the zone.
- G. Wage and price controls would not apply in the zone.
- H. All of the above conditions would be guaranteed for a stated and substantial number of years.

In the English election of 1979, M. Thatcher and the Conservative Party came to power. With this, the concept came under close study and in March of 1980, the actual measures to be employed were announced. Sir Howe's outline was closely followed. Previous action by Thatcher's government had removed the need for both the wage/price and rent control facets of his plan so these were omitted. Basically, the plan to be implemented by the end of 1980 called for:⁴

- A. A 100 % reduction in property taxes for all industrial and commercial property within the zones. Any revenue lost by a city through this was to be made up by the Treasury.
- B. A reduction in Capital Gains Tax rates levied on new developments within the zones.

- C. 100% Capital allowance against the corporate income tax on commercial and industrial buildings.
- D. A simplified system of zoning, overruling any local ordinances, that new developments would have to comply with.
- E. Simplification and streamlining of planning applications.
- F. Enterprise zone status would last for a minimum of 10 years with the possibility of renewal at that time.
- G. Local and federal governmental statistical information surveys and requests will be greatly reduced.
- H. There will be a streamlining of the process to request custom's warehousing status.

The final two parts of the plan were additions to Sir Howe's original ideas and were designed to relieve bureaucratic pressures and time requirements on business and to help stimulate foreign trade into the zones. This enabling legislation was titled "The Local Government Planning and Land Act of 1980, Chapter 65, Section 179."⁵ Eleven experimental zones had been selected by February of 1981. Eight of these were within England with one each in Scotland, Northern Ireland, and Wales.

The average size of these zones was to be about five hundred acres. However, the size ranged from 140 to 1,100 acres with over 5,000 acres finally designated. Critics have noted that at a fairly conservative lot coverage ratio of twenty percent, about forty-two million square feet of floor space could be created.⁶ It is questionable whether England's economy could absorb this figure.

There has been a great deal of debate in England concerning both the legislation and the selected sites. Critics have attacked the bill as not removing enough governmental and planning restrictions and also for removing too many restrictions, depending on individual bias. The chosen zones vary greatly in size, degree of blight and other characteristics. Once these English zones begin operation, they may prove to be valuable examples for the U.S.

The Enterprise Zone concept was first presented in the U.S. by the Heritage Foundation in 1979. Stuart Butler of this group took the English proposals and made additions and modifications more applicable to the U.S. From this, the following points were identified by him as necessary in any U.S. version of Enterprise Zones:⁷

- A. Suspension of Minimum Wage Laws - The idea here is that Minimum Wage laws create unemployment among young and unskilled workers, and that suspending these laws would create more jobs for these groups. It would also have the ability to drop labor costs for businesses, especially those that would be labor intensive. One possible alternative would be a minimum wage level, set lower than national levels, for youths in the zone. This might prevent wages from being set too low and also direct hiring at the young. Another alternative would be some type of subsidy or tax credit to employers hiring people in these areas.
- B. Turnover Trigger Point - This is proposed in addition to or in place of a time cutoff for the benefits offered in the zone. As a business starts up and begins to show a profit, it would slowly begin to reassume its share of the tax burden. All the benefits and tax breaks would apply up to this "trigger point" and then a graduated scale of lessened benefits and increased taxes would come into effect. These points would be set out so as to avoid becoming a disincentive to growth and expansion. This would help prevent large companies from planning small offices in these areas simply for the tax benefits, and directs the benefits where desired to small starting local firms.
- C. Free Trade Zones - This proposal goes a step further than the original English proposals by actually setting up these areas. There would be no duties on imported goods until they leave the zone and none at all if the good is reexported. There would also be no duty on any value added to a product while in the zone. This would make the zones attractive to warehousing, trans-shipping, assembly, foreign imports, and foreign

- D. Innovative Action on Housing - The thrust would be toward renovation of the existing stock, improvements in incentives to maintain existing stock, and small scale additions. The intent is to stay away from the large scale housing projects of the 60's. By dropping rent controls to provide a profit incentive for maintenance, and the improvement and expansion of programs providing low income and subsidized rental housing, it is hoped that a total and comprehensive system to improve the housing conditions in these zones could be developed. One item that might have to be added to a new housing unit program would be some type of tenure requirement. This would prevent an influx of people from outside the zone to reap these housing benefits.
- E. Experimentation - As related to Sir Howe's idea that these zones could be areas of experimentation, the suggestion is that these areas be in effect laboratories under glass to test policies and ideas. The idea is that with several different zones, with each zone having its own characteristics, there could be several solutions or combinations of solutions tried out at the same time. This would allow for a comparison of different policies on trial and error basis. It has even been suggested that policies not specifically related to the Enterprise Zone concept could be tried out on a smaller scale and evaluated without subjecting the entire country to them or having to change existing laws/bureaucracies all over the nation.

After the Heritage Foundation came out with the outline given above, a bill closely related to Sir Howe's ideas was introduced in the Illinois legislature. This bill was restricted to the proposals that the state itself could undertake. This left out national elements like the Minimum Wage. The bill came fairly close to passing and another version was introduced in 1981. Similar bills have been introduced in Connecticut, Massachusetts, Minnesota, Maryland, Florida, Wisconsin, Ohio, Pennsylvania, Washington, New York and California.⁸

Rep. Jack Kemp of New York first introduced Enterprise Zone legislation to the U.S. Congress in May of 1980. A second version of the bill was introduced in June of 1980. This bill was called the Urban Jobs and Enterprise Zone Act, H.R.7563, and was cosponsored by Rep. Robert Garcia of the South Bronx. The introduction of this bill was intended to introduce the idea to Congress and develop interest and awareness of the concept. This attempt proved successful as the Republican Party and Ronald Reagan supported the idea and eventually incorporated it as a plank in the National Platform for the 1980 elections.

In 1981, Rep's. Kemp and Garcia introduced a modified version of the previous bill. The Urban Jobs and Enterprise Zone Act of 1981, S.1310 and H.R.3824, was presented to Congress on June 3rd and 4th respectively.⁹

Notes

¹ Breckenridge, Charlotte, Enterprise Zones As A Concept. Congressional Service, Library of Congress, March 26, 1981. Pg. 5.

² Butler, Stuart, Enterprise Zones: Pioneering In The Inner City, The Heritage Foundation, Washington, D.C., 1980. Pg. 21.

³ Sternlieb, George, and David Listokin, New Tools For Economic Development: The Enterprise Zone, Development Bank and RFC, The Center for Urban Policy Research, New Brunswick, New Jersey, 1981. Pg. 27-28.

⁴ Sternlieb, Pg. 28.

⁵ Breckenridge, Pg. 7.

⁶ Ratcliffe, John, "Enterprise Zones In The United Kingdom," Urban Land, Vol. 40, No. 8, September, 1981. Pg. 14.

⁷ Butler, Pg. 25-30.

⁸ The reader is referred to Appendix A for details on the specific proposals of some state's legislation.

⁹ The reader will find copies of the bills in Appendix B and Appendix C.

Economic Review

The purpose behind the concept of Enterprise Zoning is to promote economic development and job creation in depressed central city areas. This in itself is not a new idea. What is different about this concept is the manner in which it proposes to accomplish this economic revival. Many current and former programs were aimed at creating growth through direct governmental intervention in the marketplace. Public jobs were created, grants and contracts were given and the dominant attitude was that development could be forced into these areas by governmental policy. While there have been some individual successes, the economic problems of our central cities have not disappeared. Stuart Butler states,

"To say that most government responses to urban blight have been ineffective at reversing the downward trend would be somewhat of an understatement. The evidence indicates clearly that conventional measures have failed to deal with the problems of the inner city."¹

A study done at Princeton appears to support Butler's comments:

"By almost any reasonable measure of the prosperity of places... population, income, employment, economic activity, and concentration of low income households,...more distressed cities were appreciably worse off in the late seventies than they were ten years earlier, and more prosperous cities were appreciably better off. Some areas inside some older cities may be reviving, but these revivals don't affect the overall trend."²

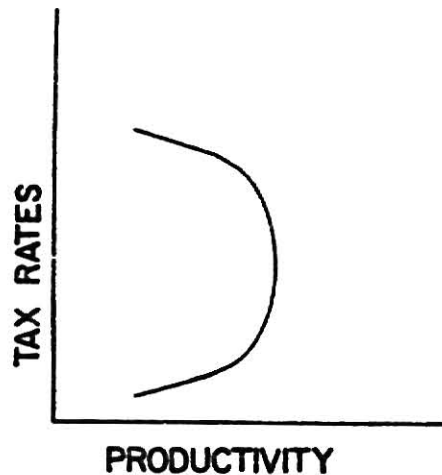
Instead of attempting to force development into central city areas, the Enterprise Zone would remove government intervention and interference to allow the private entrepreneur and private marketplace systems to work. Incentives are offered to spur development rather than direct grants. The philosophy behind the concept is that an unfettered market system, free of government controls, high taxes, regulations and requirements will allow development to occur that is currently being stopped by these factors. As Butler states,

"The Enterprise Zone is based instead on the thesis that the chief barrier to the revival of dilapidated inner city districts is not the lack of government intervention but all too often the presence of it. By removing restrictions and taxes within the slum areas, argue supporters of the idea, we will also remove the obstacles that prevent small businesses from establishing themselves and becoming the generators of income and employment."³

As mentioned before, this concept is consistent with the present administration's economic leanings toward Supply Side Economics. The intent of President Reagan's economic policy is that by reducing governmental interference with business and by reducing business taxes, business will generate higher profits. This means both more savings to provide capital in the economy and more investment to provide more jobs, more updated equipment and research, and ultimately improved productivity. These factors are then proposed to reduce unemployment. A second component of Supply Side Economics is the personal income tax cut. This is supposed to have several effects. One of these is again to increase savings and create the capital needed for new and reinvestment. Another effect of this cut is to leave the consumer with more purchasing power to create a demand for the increased goods and services being produced by the more active business sector. A third effect of the personal income tax cut is tied to the concept named after Mr. Laffer. According to this curve, there is little incentive for workers to increase their efforts and to try to advance in an economic sense due to high marginal tax rates. The theory is that by reducing these tax rates on increased or added income, an incentive to work and produce more will be created.

TABLE 1

The Laffer Curve



With the vertical axis representing the level of Tax Rates and the horizontal axis representing Productivity or Work Effort, Laffer contends that current tax rates meet the curve on the top side and that a reduction in the Tax Rate would lead to an increase in Productivity or Work Effort.

Key to the concept of Supply Side Economics is the individual entrepreneur. With a Supply Side Economic system in place, the entrepreneur will supposedly take the risk to begin a business venture based on two factors. The first of these is the higher potential returns due to reduced taxes. The second factor is a faith that the system will work.

From this brief and simplified description of the Supply Side Economic Theory it is easy to see how the Enterprise Zone follows the theory. In essence, Enterprise Zoning is an adoption of Supply Side Economics applied to central city economic development attempts.

The question that follows from this is will Supply Side Economics/Enterprise Zoning work in the central cities? This question has been addressed by economists, politicians, and public policy experts. The answer appears to be that there is no consensus on whether or not the concept will work.

The major thrust of the concept is aimed at reducing operating costs to firms, and through this reducing the risk of failure and increasing the potential rewards of success. This combination is designed to release an untapped reservoir of

entrepreneurial talent and energy in the central cities. Once released, this activity would create jobs, attract residents, create product markets which would in turn create more jobs and create a permanent viable local economy in these distressed urban areas. The main operating cost reductions occur in the area of taxes. At the federal level, income and capital gains taxes would be reduced or eliminated and refundable income tax credits would be given for the hiring of new employees. At the state and local levels other taxes such as the ad valorem and state income tax could be reduced or eliminated. At all levels, other incentives would be applied such as improved infrastructure support, community assistance, the allowance of alternative business finance techniques, and reduced or relaxed codes and regulations. However, the major dollar impact appears in the area of tax reductions.

Many people have questioned the value or importance of tax reductions to businesses. This questioning is not based on whether money would be saved, but whether tax reduction is really so important that it would create this new economic activity. It appears obvious that high tax rates alone have not created the poor economic conditions that exist in some central city areas or else all portions of the city could be expected to be in a similar situation. Due to this it is debatable whether tax relief alone would solve the problem. Many beginning businesses often have little or no tax liabilities in their early years. Based on this and the stated intent of Enterprise Zoning to start new firms, not cause firm relocation, the benefit of federal tax reductions would occur as increased profits to successful firms in later years.

L. Clinton Hoch, the Executive Vice-President of the Fantus Co., which is one of the top U.S. relocation assistance consulting firms, listed labor availability and labor costs as the top two criteria that firms look at when choosing the sites of new offices or plants. This may mean that the incentives offered in Enterprise Zone legislation would not be strong enough to attract firms to the area without some provision to reduce labor costs or provide job training. It should be remembered

that the stated intent of the concept was not to lure existing firms into the zone but to release entrepreneurial activity.

One of the major criticisms of the concept is that it will not create many new jobs but only attract jobs from other areas as firms relocate to take advantage of the tax relief. Based on the comments above, this may not be a valid criticism. Labor costs would be indirectly reduced through the refundable income tax credits, but the availability of skilled labor would be poor within the zones. The amount of actual job relocation that would occur will ultimately be determined by the total incentive package of federal and local bonuses and the individual characteristics and situations of the zones and firms.

If no relocation should occur, any increases in economic activity within the zones would have to come from new entrepreneurial attempts. This is what the Enterprise Zone concept aims to foster. Again the question arises, will operating cost reductions be enough to spur this activity? The experts again differ on the answer to this. Critics of the concept point to the need of entrepreneurs for capital to start up their ventures. In testimony presented to a Subcommittee of the House Small Business Committee on September 22, 1982, Vernon George, the head of the American Planning Association's⁴ (hereinafter APA) Economic Development Division, stated that any Enterprise Zone legislation that is to be successful must include provisions for front end capital needs. George, also the Executive Vice-President of the urban economic consulting firm, Hammer, Siler, George, Assoc., stated that the "single major obstacle to job creation and economic development" was financing.⁵ He suggested that more emphasis be placed on increasing the availability of and reducing the interest cost of debt capital.

Proponents of the concept assert that entrepreneurs will substitute personal savings, hard labor, and innovation for front end capital. If this is true, the importance of debt financing would be reduced. Rep. Jack Kemp testified before the Senate Finance Committee on why front end capital provisions are not so important.

Kemp stated,

"...enterprise zones are designed to attract private capital. Now, I know that our proposal has been criticized for not providing "up-front" Federal seed money. Yet even if we tripled FY 81 Federal capital assistance programs--and there seems little public or Congressional support for such a move--these programs would still provide less than one-tenth of all start-up business capital. By far, the greatest part--89%-- of this capital comes from personal savings. Seventy-five percent of all new businesses start without using any outside debt or equity at all; and even when they receive outside funds, these are more likely to come from family or friends than from financial institutions.

What makes a person decide to put his or her savings into a new enterprise instead of, say, a house, or money-market funds, or a yacht? The entrepreneur surely isn't looking for immediate profits. Most new small businesses don't make money for their first five years, if they beat the odds and survive at all. Instead, entrepreneurs choose the highly risky course of starting their own business because they calculate that, in the long run, they will reap a greater personal and financial reward.

This is why future-oriented tax incentives make capital available in the present. By reducing capital gains and income taxes, in particular, the Urban Jobs and Enterprise Zone Act promises a greater reward to those who succeed in their initial risk-taking investment. In this way we can tap the greatest resource available for our inner cities: the huge pool of private savings seeking a significant after-tax rate of return in these uncertain and inflationary times. In addition, by excluding half of all interest income on loans to zone enterprises from taxation, the bill will help those businesses attract loan capital whether from formal institutions or from the informal, but more significant network of family and friends."⁶

Small Business

If all of the new economic activity within the Enterprise Zones is to be generated by local entrepreneurial activity, the result will be mainly small businesses. It is felt by many that small firms are more flexible and creative than larger businesses and corporations. This makes small firms more able to detect and react to new opportunities and technologies, and to escape from outdated situations, markets, products and techniques. A study performed by the National Science Foundation found that small companies produced twenty-four times more innovations per research dollar than the largest corporations.⁷ Most large corporations have reached their position by developing a particular technology to its maximum. These

firms are less likely to take bold risks because they have so much to lose.

Competition often arises from smaller, more flexible and innovative firms that are willing to take risks because the potential rewards exceed the losses. Many of the innovations that come from a large corporation result from the corporation acquiring a small firm that has taken the risks and established a market and product.

A second study that supports the importance of looking to small business for urban economic redevelopment was done by David Birch of the Massachusetts Institute of Technology.⁸ The results of this study showed that two-thirds of all new employment is created by companies with fewer than twenty employees, and that in the case of the northeast section of the U.S., these small firms generated all of the net new jobs.

In light of these studies and facts, it would appear that small business development is the optimum method with which to create jobs and economic activity in the central city. In this vein, Enterprise Zone legislation should require coordination and assistance with the Small Business Administration (hereinafter SBA). The SBA has recently started a new program that could have beneficial effects on any designated Enterprise Zone. The program calls for the creation of Certified Development Companies (hereinafter CDC's) within cities. These CDC's would be broad based community corporations with professional staff. Through these CDC's the SBA would provide long-term capital improvement loans to small and medium sized businesses. The loans would require low down payments and would be available through both the SBA and private financial institutions. A CDC would be able to generate revenue from a fee on any loan it handles. The purpose of the program is to create nonprofit economic development financing bodies that are self supporting.⁹ This program could help provide debt financing to new firms within an Enterprise Zone.

Impact on Firms

Since the aim and intent of the Enterprise Zone concept is to spur small business and entrepreneurial activity within depressed city areas, it is important to look at what impacts the concept, turned into actual legislation, might have on these firms. George Sternlieb (of Rutgers University) has done this by setting up a model machine shop and doing a financial statement for this firm both with and without the provisions of Rep. Kemp's 1980 Enterprise Zone legislation.¹⁰ Borrowing from his format and figures and substituting in the provisions of Rep. Kemp's 1981 Enterprise Zone legislation, the following financial statement shows some of the savings and impacts a bill could have on this type of small business.

The Model Machine Shop:

Employment -	The business has 50 basic employees of an average income of \$9,000 per year. The firm also has 10 executives and salesmen of an average income of \$20,000 per year. Of these 60 employees, only 54 were working before Enterprise Zone designation occurred. Based on the prospect of savings, increased profits, and an improved local economy, the shop has hired six new employees. Of these six new employees, four of them meet the CETA program eligibility requirements. All employees work within the zone. The firm qualifies as an Eligible Zone Business.
Capital Investment -	There is a capital investment of \$10,000 per employee.
Capital Gains -	Based on improved financial expectations, new employee and Capital Gains Tax elimination under zone designation, the firm has sold two old lathes. These were purchased in 1975 at \$10,000 apiece with a 20-year life span, no salvage value, and have been under straight line depreciation for seven years. The base value of the lathes after depre-

ciation is \$13,000. They were sold for \$15,000, so a \$2,000 capital gain has occurred.

Rents and Taxes - Rents are 3% of sales and Property Taxes are 25% of the rent.

Sales - Sales are \$30,000 per employee.

Profits - Profits are 10% of sales before depreciation.

TABLE 2

The Model Machine Shop

	<u>Without Kemp</u>	<u>With Kemp</u>	<u>Savings</u>
1. Sales	\$1,800,000	\$1,800,000	---
2. Labor Costs	650,000	650,000-32,500=617,500	\$32,000
3. Property Tax	13,500	13,500-3,375=7,335	3,375
4. Profits	180,000	180,000+32,500+3,375=	
Pre tax & depreciation		215,875	---
5. Capital Gains	2,000	2,000 - Not Taxed	
6. Depreciation	600,000-20,000=580,000	600,000-20,000=580,000	
@ 10%	580,000X.10=58,000	580,000X.10=58,000	
7. Taxable Income	\$ 122,000	157,875X.50=78,938	
8. Income Tax	17%-25,000= 4,250	17%-25,000= 4,250	
	20%-25,000= 5,000	20%-25,000= 5,000	
	30%-25,000= 7,500	30%-25,000= 7,500	
	40%-25,000=10,000	40%- 3,938= 1,575	
	46%-22,000=10,120		
	<u>TOTAL =36,870</u>	<u>TOTAL =18,325</u>	\$18,545
9. Post Tax Income	\$ 85,130	\$ 141,550	\$56,420

It can be seen from this rough example that the provisions of the Kemp bill would be very beneficial to an existing, profit making firm. There are other benefits that would accrue to this model firm that do not appear in the calculations above. There also would be local incentives. In the example above, the firm was given a 25% reduction in Property Taxes. Federal legislation could not directly require this, but most state enabling legislation should allow for it. A 25% reduction in Property Taxes is probably conservative. In addition, if the firm were to take out a loan to replace the two lathes, fifty percent of the income tax a lending institution would pay on interest income from the loan would be tax exempt. This might lead to a reduction in interest rates to the borrower or the improved availability of loans.

For a new firm to open after zone designation, it will need several important items. The first of these is a reasonable chance at success. The provisions in Enterprise Zone legislation reduce many operating costs and hence improve the chance of success.

After this initial requirement is met, the firm will need adequate space at affordable prices or rents. There has been no mention of rent level controls or freezes in any legislation or discussions. It seems probable that rent levels would rise in a zone after designation. This could offset some of the operating cost savings that would occur. It might also stifle some new business operations. If it is reasonable to assume that rent levels would rise, then property values might also. This would reduce the chances of a new firm being able to buy adequate land and buildings for its operations.

A possible solution to these problems would be local intervention in the land market. It is possible that the city could acquire land using Community Development Block Grant (hereinafter CDBG) or Urban Development Action Grant (hereinafter UDAG) funds and then sell or lease the property, and/or buildings, back to business ventures at reduced cost levels. This however, would only increase governmental activity in the zones as opposed to reducing it as the Enterprise Zone concept supports.

If adequate space is made available at affordable costs, then new firms will need initial debt capital for investment. The importance of this need is the major area of disagreement about the Enterprise Zone concept. Rep. Kemp and other proponents of the concept feel that debt capital is not important. Critics have repeatedly pointed to the lack of provisions for up-front capital needs as the one weakness in the concept that would eliminate any chances of the idea's success. The need for start-up capital would be lower for most labor-intensive firms as compared to capital-intensive firms. If zone designation does significantly improve the prospects for business activity, the lack of capital provisions could lead to the

development of mostly labor-intensive businesses and create more jobs than if capital-intensive firms were to start in the area.

There are alternative methods for providing this debt capital. Local interests and lending institutions could be brought into the picture to provide this money. One case of this occurs in the Broward County, Florida, example discussed below. It may also be possible to obtain any needed debt capital from other federal grant programs in coordination with an Enterprise Zone.

A second financing need that has not been addressed arises in the area of Risk Financing. No federal program is presented to enter the loan market and repurchase loans to Enterprise Zone firms from the private lending institutions. The increased odds of firm survival and improved police and fire protection may not be enough to eliminate risk premiums from the loans. The presence of a federal repurchasing agent could eliminate this and reduce loan costs.

Another basic need of any potential new firm is for an adequate labor pool. The zones would contain a large supply of inexpensive, unskilled labor. However, a firm might have to import or train any skilled labor it would immediately need. The presence of Minimum Wage Laws puts a floor on how inexpensive the labor pool can be. Some cities, such as New York, have minimum wage rates set above the national level. In lieu of importing skilled labor to the area, training programs that would result in more local residents being hired would be preferable. The Broward Employment and Training Administration in Ft. Lauderdale, Florida, is a good example of an employment and job skill training agency that would provide people prepared to meet the needs of an Enterprise Zone. This agency goes beyond simply teaching new job skills to teaching people how to start and run small businesses. People wanting to join the program must have some marketable skill to be selected. Once chosen to join the program, the students receive both classroom training and an internship with an established firm in the student's area of interest. The students are paid a minimum wage stipend out of Comprehensive Employment and Training Act (hereinafter CETA) Title Seven funds. Eight local banks have helped to finance the program by setting

aside \$10,000 each for graduates of the program who need beginning loans. This helps solve two needs. First it helps the banks satisfy the requirements of the Community Reinvestment Act on investing money within the city. Second, it guarantees a minimum up-front amount of capital for a new firm and helps solve any problems in this area for a new firm created by a graduate of the program. A graduate's new firm is visited by instructors each week for the first year to provide any needed assistance.¹¹

There are no provisions to establish this type of program under proposed federal Enterprise Zone legislation. This type of program would be best organized and administered at the local level. This is the type of local interest, activity, and commitment that may actually determine the viability of the zones. Aside from local government activities, there are many private interests that could and should be coordinated into the total zone package. There have been instances where private firms have sought out depressed inner city areas to locate in, and have then provided quality jobs to the low skilled residents of the area. These firms are usually labor-intensive. Local officials should be aware of these organizations and corporations when putting together an Enterprise Zone.¹²

Impact On Cities

The designation of an Enterprise Zone within a city's boundaries will have a major impact on the city. Aside from the costs mentioned in Chapter 4, "A Review of the Urban Jobs and Enterprise Zone Act of 1981," there will be other costs and impacts. Assuming the program succeeds, there will be many positive effects on the city. Reduced unemployment, welfare and other social support costs, reduced crime rates in the area, and a general improvement in both the economic and physical well being of the zone would occur. On the other hand, there may well be some important negative effects in and around the zone. As Richard Mounts states,

"Perhaps too impressed with the devastation of the South Bronx, supporters of the bill seem to presume that all depressed neighborhoods

consist of acres of rubble, deserted buildings, and a few trapped residents who would abandon the area in a minute if only they had a way out. To the contrary, many areas likely to be eligible for zone designation will be more like Poletown in Detroit, a neighborhood that includes land the city wants to clear and lease to General Motors for a new Cadillac plant."¹³

The result of this would be the tearing down of much of a depressed, but fairly stable, neighborhood.

In the actual operation of the zones, large disruptions may occur in neighborhoods that are not just blocks of rubble and vacant buildings. The acquisition of large tracts could lead to the forced relocation of families and the disruption of neighborhood social units. So far none of the proposed legislation provides for any relocation assistance funds. If this assistance should be needed due to zone activities, it would have to come at the expense of the already financially distressed city or from another federal or state program. Possibly voluntary contributions from firms receiving the land tracts could be required as a trade off for the land. However, new firms would be unlikely to be able to afford such contributions. Large relocating firms could more easily meet this requirement.

Aside from forced physical relocation, the probability of increased land values and associated rent levels due to zone designation may drive out current residents. This would be especially true if firms have to import skilled labor that desired to live close to work. The pressure for housing on behalf of these new residents could lead to the economic dislocation of existing residents.

The potential combination of new residents moving into the zone and the elimination of some of the existing housing stock could create housing shortages. Rep. Kemp's bill does provide some incentive for new and renovated housing within the zones. If the private housing market is not capable of providing all the housing needed at affordable prices, then the city may have to provide some type of housing program. Enterprise Zones could serve as an experimentation ground for new housing strategies and programs. This is a suggestion made by many of the early founders and proponents of the concept. Butler states,

"At the heart of the Enterprise Zone idea is the notion that the best solution to the urban problem lies in mobilizing the trial and error process of private enterprise,...It would be totally in keeping with this approach for a form of trial and error process to be applied to the realm of public policy."¹⁴

However, if this is done, some basic protection for the lives of the people being "experimented" with should be provided. Butler has proposed a type of "Urban Homesteading."¹⁵ In cities where residential properties have been abandoned, the city may often have gained ownership due to the abandonment of the property or through property tax arrearages. The city could then sell/lease this property for a token fee to persons who agree to inhabit the property for a set number of years and to improve the maintenance of the unit up to a specified minimum level. When these agreements are met, that person assumes ownership. This procedure seems to be well suited for Enterprise Zones and would allow current or former tenants with little capital to acquire homes. This would result in the housing stock being improved without city expenditure. It does not provide for the construction of new housing units, but these may not be necessary depending on the individual zone's characteristics.

It also appears that the existing Section Eight Housing Program's eligibility requirements tie in closely with those in Kemp's proposal.¹⁶ Specifically, the criterion of eligibility based on income being below eighty percent of the area's median income. If any existing rent controls are lifted, as Butler advocates, the extension of this Section Eight program could offset negative impacts on low income residents by providing financial assistance equal to the difference between a market related fair rent and twenty-five percent of a family's income.

Aside from the impacts on neighborhoods within a zone, there will be some spill-over effects on surrounding neighborhoods. The creation of an Enterprise Zone may reduce the stability of these areas. Mobile firms would have an incentive to relocate within the zone. Less mobile firms might be undersold by subsidized competition within the zone. Also, the relocation or eviction of zone residents

could drive them into the surrounding areas. Increased police protection and patrols within the zone may also serve to drive criminal activities into surrounding areas. The result of these occurrences could be the hastened decay of surrounding areas for the benefit of the zone. Awareness of this fact could lead to political battles over the actual final boundaries of the zone. The final shape of the zone may not be directly related to eligibility requirements.

At several points in this chapter, potential solutions to problems that have been identified have required local activities and expenditures. In determining the actual cost of an Enterprise Zone to its parent city, the level and number of these solutions the city has to undertake will steadily increase the costs to the city. These costs will occur both in capital outlays and in administration. These cities will be the ones least able to afford these costs.

One of the aspects Butler points out as being important to any Enterprise Zone legislation is missing from the current proposals. This is the Turnover Trigger Point. As discussed in Chapter 2, this idea would begin to increase revenues to the city and national treasury's as the firms in a zone could begin to be able to afford reduced subsidies or increased taxes. This would appear to be a logical alternative to a set year of benefit expiration based on zone designation. It would serve to allow benefits where and when needed, but would remove some benefits once they become unnecessary. Using this type of system, a city would begin to realize financial benefits in relation to the growth within the zone. This system would also begin to reduce the revenue losses to the federal treasury for an individual Enterprise Zone as the program began to work.

National Concerns

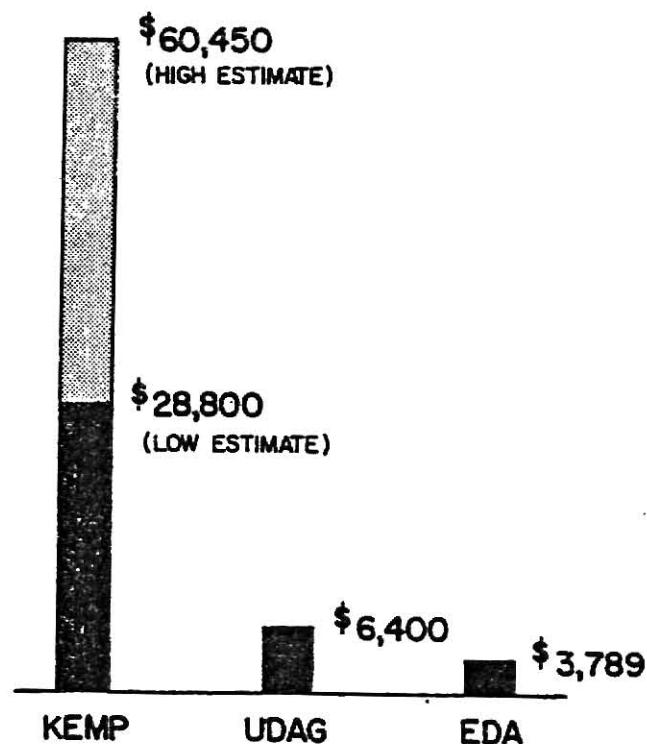
There have been many questions raised about what an Enterprise Zone program would cost the U.S. Treasury. The cost of Kemp's proposed program is hard to estimate due to the many variables. The best determination would occur by setting

up a trial zone. The Department of Housing and Urban Development (hereinafter HUD) has completed a study comparing two UDAG projects with Kemp's proposals. The study applied various combinations of the incentives in the bill and the results showed the incentives costing approximately six times the amount of the UDAG programs for the same purposes.¹⁷ A second report has been recently released by the Treasury Department. It stated that the recently enacted general tax cuts may have reduced the attractiveness of some incentives likely to appear in Enterprise Zone legislation. It also stated that grants could generate the same level of new economic activity at no greater cost than what tax revenues would be lost under an Enterprise Zone program. The study was done on two potential zones in Chicago. The report also contained the following facts and figures:¹⁸

- Concluded that a single zone could cost over \$95 million in lost tax revenues, and
- The cost per job created under the proposals in Rep. Kemp's bill would be from \$28,800 to \$60,450 as compared to the UDAG program's figure of \$6,400 for a new job and the Economic Development Administration (hereinafter EDA) program's estimate of \$3,789 for each new or retained job.

TABLE 3

Cost Per Job Comparison Between Rep. Kemp's Proposals,
The UDAG Program, And The EDA Program



The results of these two studies raise serious questions about two areas of Enterprise Zone programs. The first of these is whether such a program is at all cost efficient as compared to other existing programs. While it appears obvious that some solution is needed to the decay of the U.S.'s central cities, maybe Enterprise Zones in their current makeup are not the best answer. Proponents of the concept point to the general failure of existing programs to solve urban problems and suggest it is time for a radical change in philosophy and procedure. At best, Kemp's proposals would cost over seven times as much for each new job created as compared to the EDA's estimates, and over four times as much as the UDAG figures. This suggests inefficiency even without considering some of the direct cost outlays made by cities.

The second question that arises after looking at the results of these studies concerns the enormous total cost of the program. Using the \$95 million per zone figure, presented in the above mentioned Treasury Report, and applying it to Kemp's proposal of ten to twenty-five zones per year for three years, results in a total cost in the fourth year of the program (using thirty zones) of at least \$2.85 billion. If a total of seventy-five zones were created, this figure would rise to \$7.125 billion annually. This results in a \$42.75 billion loss to the Treasury over the next six years. Critics of the proposals point to our current budgetary deficits and budget balancing attempts and question the wisdom of adding this kind of revenue loss to the Federal Budget for a locked in period of years. The inclusion of some type of Turnover Trigger Point could reduce this revenue loss in later years of the program.

Supporters of Enterprise Zones counter this argument by pointing to potential cost reductions in areas such as welfare and unemployment insurance plus possible reduced funding needs in other urban development programs as savings that would offset most or all of the revenue losses. If the program were successful, there would also be positive economic benefits accruing to the local economy that would aid in offsetting the revenue losses overall.

The inclusion of Free Trade Zones could improve the cost per job figures in Enterprise Zones over what occurred in the previous studies. The idea of incorporating Free Trade Zones into Enterprise Zones has been held as important since the origination of the concept. There were approximately four hundred of the zones throughout the world in 1980 and that number has increased.¹⁹ One of the more prosperous Free Trade Zones is the area around and including the Shannon Airport in Ireland. In 1978, this zone had created almost 2,000 new jobs and seventeen new firms.²⁰ By 1980, these figures had risen to 10,000 jobs, over \$350 million in trade, and the creation of a new town.²¹

While over forty of these Free Trade Zones exist in the U.S., none has had the success of the ones overseas. The main reason for this is that until recently, U.S. Customs Regulations assessed duties on any value added to an imported good while in a Free Trade Zone. Due to this, most U.S. zones contained only storage and warehousing activities. Now assembly activities should begin to enter the Free Trade Zones as they have in other countries. This should be a bonus for the Enterprise Zone concept as many distressed areas in the U.S. are cities with port facilities.

In many ways, the state of the overall national economy will play a big part in determining the success of any Enterprise Zone proposal. The current status of the economy is not conducive to new business activity. When the economy is in a recessionary period, the effectiveness of an Enterprise Zone program will be reduced as compared to a situation where the national economy is in an expansionary period. The dollar cost per job created will also correspond to the status of the economy. On the other hand, if an Enterprise Zone program were to exist and functioned to create new jobs, as opposed to job relocation, and also did not have a serious negative net impact on the federal budget, this could only serve to improve the national economy.

Another aspect of the national economic picture that is interrelated to the Enterprise Zone concept are interest rate levels. Many analysts point to Federal

Budget deficit payment borrowing as being a major cause of high interest rates. An Enterprise Zone program that resulted in a net negative impact on the Federal Budget could lead to increased deficits if all other aspects are held constant. This could lead to a further rise in interest rates. High interest rate levels are often cited as a major reason for the current economic slowdown. So in effect, an Enterprise Zone program that was not properly put together could help stifle the same economic activity it intended to stimulate. It would seem reasonable to either test by model or by trial example what the total net economic impact, costs, job creation ability and other associated impacts would be before a nationwide program was put into effect. Such a trial zone(s) would allow for the determination of the optimum combination of incentives and other federal, state and local programs.

In line with the scope and impact of a national Enterprise Zone program, some study and development of a national Urban Policy should take place. No one has answered questions such as should the Enterprise Zone program replace, compete with, or supplement such programs as UDAG, CDBG, EDA, SBA, and CETA. While legislative proposals have called for coordination of existing programs with an Enterprise Zone program, no specific policies or procedures have been set up. It would appear that the actual job of coordinating these many programs would lie with local officials. While local officials probably have the best knowledge of local programs, they might lack knowledge and experience with federal and private programs. Just as there is no one single reason for the current economic situation in many central cities, the Enterprise Zone is not a single lone solution. A comprehensive blending of programs at all levels, public and private, must be achieved before a working solution will appear. As George Marcou, APA's Director of National Policy, stated when referring to this lack of coordination between Enterprise Zones and the above mentioned programs,

"In our view, the fact that all these programs are now slated for budget cuts or elimination seriously undermines the viability of the Enterprise Zone concept."²²

Notes

¹ Butler, Stuart, Enterprise Zones: Pioneering In The Inner City, Washington, D.C.: The Heritage Foundation, 1980, pg. 4.

² Fossett, James, and Richard Nathan, "The Prospects For Urban Renewal," in Roy Bahl (ed.), Urban Government Finances In The 1980's, Beverly Hills: Sage Publications, summarized in Enterprise Zones: Pioneering In the Inner City, Washington, D.C.: The Heritage Foundation, 1980, pg. 5.

³ Butler, Stuart, "Urban Renewal: A Modest Proposal," Policy Review, Vol. 13, Summer, 1980, pg. 98.

⁴ American Planning Association - the professional association of planners in the United States.

⁵ "Enterprise Zones: It's Whats Up Front That Counts." APP News, Vol. 16, No. 11, Nov., 1981, pg. 2.

⁶ Testimony of the Hon. Jack Kemp (R-NY) on the Urban Jobs and Enterprise Zone Act, before the Senate Finance Committee, July 16, 1981.

⁷ Butler, Stuart, "Urban Renewal: A Modest Proposal," Policy Review, Vol. 13, Summer, 1980, pp. 95-107.

⁸ Birch, David L., "The Job Generating Process," MIT Program On Neighborhood and Regional Change, Cambridge, Massachusetts, 1979, pg. 8.

⁹ For a detailed review of this program, the reader is referred to: "A Development Program For The 80's: SBA's New Development Company Program." CUED Commentary, by Reid H. Ewing, Vol. 5, No. 1, 1981, pp. 20-23.

¹⁰ Sternlieb, George, and David Listokin, New Tools For Economic Development: The Enterprise Zone, Development Bank, and RFC. New Brunswick, NJ: The Center For Urban Policy Research, 1981, pp. 54-56.

¹¹ Urban Economic Developments, Vol. 4, No. 8, Aug. 25, 1980, pg. 3.

¹² An article about one such firm appears in the January 1, 1981, issue of CUED Commentary, "Private Sector Jobs In The Inner City: The Control Data Experience," by Mary Bendick, Jr. and Mary Lou Egan.

¹³ Mounts, Richard, "The 'Urban Enterprise Zone' Hustle," Commonweal, Vol. 108, March 13, 1981, pp. 140-141.

¹⁴ Butler, Stuart, Enterprise Zones: Pioneering In The Inner City, Washington, D.C.: The Heritage Foundation, 1980, pg. 30.

15 Butler, Stuart, "Urban Renewal: A Modest Proposal." Policy Review, Vol. 13, Summer, 1980, pp. 95-107.

16 The Section Eight Existing Housing Assistance Payments Program of the Housing and Community Development Act of 1974.

17 Page, Clint, "Enterprise Zone Bills Propose Varied Incentives." Nations Cities Weekly, Vol. 4, No. 28, July 13, 1981, pg. 5-6.

18 "Treasury Report: No On Enterprise Zones." Urban Economic Developments, Vol. 5, No. 10, October 27, 1981, pg. 2.

19 Butler, Stuart, "Urban Renewal: A Modest Proposal." Policy Review, Vol. 13, Summer, 1980, pg. 103.

20 Butler, Stuart, *ibid.*

21 Butler, Stuart, *ibid.*

22 "Enterprise Zone Bill Debated," APA News, Vol. 16, No. 7, July, 1981, pg. 1.

A Review Of The "Urban Jobs And Enterprise Zone Act Of 1981"

This chapter will set out and discuss H.R.3824, "The Urban Jobs and Enterprise Zone Act of 1981."¹ This bill was introduced to Congress by Rep. Jack Kemp and is the most widely known and discussed of the bills introduced to date that addresses the Enterprise Zone concept. As mentioned before, this is Rep. Kemp's second version of this bill and is a major revision of his 1980 bill.

H.R.3824 is intended to amend the Internal Revenue Code of 1954 and contains the following major provisions.

Eligibility Requirements

There are two levels of eligibility requirements. The first of these is that a prospective Enterprise Zone be located either in an area currently designated for the UDAG program of federal assistance under Section 119 of the Housing and Community Development Act of 1974², or "the area is one of pervasive poverty, unemployment, and general distress."³ After meeting one of the above requirements, a prospective zone must also meet one of the four following requirements:

1. The area in question must have an unemployment rate at least 150% above the national rate for the most recent 18 month period; or
2. The area was identified in the most recent Census as a low income poverty area; or
3. The area must have at least 70% of its residents with incomes below 80% of the medium income of the residents of the governmental unit that would designate the areas as a zone. This governmental unit could be either the state or locality; or

4. The area must meet one of the two following criteria:
 - A) the area lost at least ten percent of its population in all of its Census Tracts between 1970 and 1980; or
 - B) the governmental unit requesting zone designation for the area must prove to the satisfaction of the Secretary of HUD that the area has either "chronic abandonment or demolition of commercial or residential structures" or "substantial tax arrearages of commercial or residential structures."⁴

This two-tiered system of requirements sets out specific guidelines. This should aid areas considering application for zone designation in determining if they would be eligible. The "chronic abandonment" and "substantial tax arrearages" clauses do allow some administrative discretion.

A fundamental question raised about this section of the bill concerns the availability of adequate Census and Bureau of Labor statistics. This question is especially pertinent in non-Standard Metropolitan Statistical Areas (hereinafter SMSA). Census Tracts generally consist of 4,000 people. Data for these Tracts are usually available only on a decennial basis. Unemployment statistics are available for the ten most populous states and the 202 most populous SMSAs. These statistics are also collected by the Bureau of Census.⁵ In the remaining states and cities, unemployment statistics are generated by the state's employment agencies. Bureau of Labor techniques are usually used to generate these statistics.

There are several potential solutions to these statistical problems. One method of solving statistical needs would be some form of local surveys done either by the governmental unit or contracted to a private firm capable of such work. There might be a need for certification of statistics generated in this manner. This could be costly to the governmental unit. The fact that the zones could be located in existing UDAG areas would help solve this problem as HUD contracts with the Bureau of Census for statistics in these areas. This would also hold true if the zones were to be included as CDBG areas. APA⁶ testimony presented by Irving Hand and Gail

Garfield Schwartz to the Senate Subcommittee on Savings, Pension and Investment Policy, the Committee on Finance;⁷ strongly backed the use of UDAG and CDBG designated areas for the zones. A final solution would be for the governmental unit to contract with the Bureau of Census for any needed data. This would not create certification problems, but would be expensive and could create time delays.

Site Selection

Site selection of zones is to be made by state or local government pending approval by the Secretary of HUD. Assuming the prospective zone has satisfied the eligibility requirements, selection is based on two criteria. One of these is the desire for zone status by the governmental unit. The other is the quality and attractiveness of the state and local incentives provided. These incentives would be in addition to the ones set out in this bill and could include things like Property and/or Local Income Tax relief, infrastructure support levels, and adjustment and streamlining of local Planning and Building Codes. The Secretary of HUD may revoke zone designation if it is determined that the zone is not meeting commitments made when applying for designation.

The question that again arises is, would cities that would be in poor financial condition to be eligible for zone designation be able to afford the costs implied in starting an Enterprise Zone? Before any financial benefits began to accrue to the City, it would have to make large outlays for promotion, planning, possible Census data contracting, land purchasing, and infrastructure improvements. Then, depending on the specific incentive package, revenue losses would be incurred from Property Tax reductions that would immediately impact on the city's financial base. Many critics have questioned whether cities could afford zone designation.

Assuming that the concept would work, there would eventually be long-term financial returns to the city in areas such as reduced welfare rolls, increased property values, and possibly a reduction in other social costs that have been identified with depressed areas and unemployment. In the short-run, many cities

could face financial bankruptcy. Should this situation occur, it would require a commitment from either Federal and/or State Governments to financially support these cities until the rewards have improved their financial situation. This commitment has not been officially made at the Federal level. However, precedent does exist for this type of support from the Federal level and state commitments could be included with an application. An alternative to this could be municipal bonding powers to provide this money. Some adjustments may have to be made in state legislation for this bonding. Zone designation could result in improved bond ratings for these cities or solely for the zone as a separate entity.

The zones will need a "critical mass"⁸ of businesses to locate within their borders to make the program successful and to attract other firms. If the Net Operating Loss Carryover, which is discussed later, would be allowed only during the term of designation, it would provide a minor incentive to firms to locate in the zones early.

APA testimony had two suggestions for additions or alterations to this section. The first of these would be to give a greater weight in the selection process to the local commitment and incentive packages than to the need of the area. Their comment is based on the fact that the commitment and incentive package will be a major determining factor as to whether the program will succeed or fail. Related to this suggestion is one that would require a "Development Incentive Strategy" be included in the application process.⁹ This would detail all local commitments and incentives. This would also allow the Secretary of HUD to more closely monitor whether a zone was meeting its commitments.

Number of Zones

The bill proposes that at least ten, but no more than 25, zones be created each year for each of the first three years following the year the bill is adopted, or until December 31, 1996. This would result in between 30 and 75 zones being created.

By placing a restriction on the number of zones that could be created, it would appear that there would be great competition for designation. If selection were based primarily on the strength of local commitments and incentives, this competition could lead to the development of effective incentive packages and result in an improved chance of success for the program.

Several other suggestions have risen on this point. The APA has suggested that there be no limit on the number of zones. If an area meets the eligibility requirements and comes up with an acceptable application, then it would be designated as a zone. The Conference of Mayors has come out in favor of designating at least 100 zones each year so as to guarantee each state at least two. By allowing so many zones to be created, the competition for designation would be reduced. This might dilute local commitments and incentive packages to a point that would significantly reduce the program's effectiveness. An argument given for fewer zones is that of the impact on the Federal Treasury and Budget due to revenue losses. Cost estimates for the bill vary from about \$1.5 billion to \$2.85 billion per year. By greatly increasing the number of zones, this figure would rise rapidly.

The counter to this argument is based on three items. The first of these is the fact that Income Tax revenues generated in these areas are low to begin with. The second is that while little tax revenue would be collected from new firms in these zones due to the incentives of this bill, new firms usually have low tax burdens in their formative years. The third is that the benefit to the local economy would outweigh federal losses and could also reduce federal assistance levels to these areas as a successful Enterprise Zone program reduces the need for outlays from other programs and/or would allow the elimination of some programs.

Minimum Population

The minimum population proposed for these zones is 4,000 people in SMSA's, or at least 2,500 people in any other area. The purpose of these minimum limits is to coordinate the zones with the Bureau of Census data collection areas.

Time Limit On Designation

The time limit on zone designation is proposed to be from the date of designation until December 31, 2001. This time limit being subject to revocation by the Secretary of HUD.

The problem identified with this section of the bill is that giving a zone 16 to 19 years to function with all of the incentives is unnecessary. If the program is going to be successful, the results should appear long before 2001. Once this economic stabilization and growth has set itself firmly in place, it is questionable whether the incentives should continue to apply. If the incentives are no longer necessary to attract and stimulate growth, then they should be phased out. This elimination of incentives would reduce the financial burden on the cities earlier than would now be expected. Also, if some factor like the quality of local incentives, the actual Enterprise Zone legislation, or the overall national and local economies were to cause the program to fail, this failure may become obvious before the designation period expires. The earlier elimination of the incentives would then save money.

The converse of these arguments is the fact that national and local economic conditions may not become favorable early in the zone's designation period. The length of zone designation would then allow the program to succeed at a later date should economic conditions improve.

Employment Requirements For Eligible Zone Businesses

The bill proposes that for a firm to qualify for incentives as an Eligible Zone Business at least 40% of new employees, hired after zone designation, must meet the eligibility requirements of CETA.¹⁰

The intent of this section is to provide an incentive for new and existing firms within the zone to increase their labor force. By increasing this labor force the bill aims at one of its basic goals, the reduction of unemployment among the poorer

residents in a zone. A firm would not qualify for the incentives in this bill without meeting the requirement of this section. The benefits of meeting this requirement would be substantial to any labor intensive business.

The first concern raised about this provision is the viability of the CETA program under the Reagan Administration. Should this program be dropped, either new guidelines will have to be developed or the existing ones incorporated into this bill or some other instrument.

Related to comments on the availability of an adequate work force for new firms within a zone, keeping the requirement at 40% allows firms to hire the remainder of their new employees, bounded by other requirements, from a more highly skilled segment of the work force. If the work force in these zones is basically unskilled, skilled workers that are required by firms may come from outside the zone. This could result in population residency shifts. Should this occur, some type of monitoring system will be needed. The National Urban Coalition has recommended that the zones create boards to monitor these moves into the zone in an attempt to reduce job transfers instead of job creation. Possibly these boards could work with local employment agencies to identify unemployed workers within the zone who would qualify for available jobs and work to promote hiring these people first. However, some shifting and influx of workers to the zone may be unavoidable and is not totally undesirable. An alternative to these job transfers could be job training programs.

Labor Tax Incentives

Two tax credits are proposed for firms within the zones based on their employees. The first of these is a refundable business income tax credit that would equal five percent of the wages a firm would pay to employees eligible for the CETA program. To receive this credit, a firm would not need to meet the 40% CETA eligibility hiring requirement as set out in the previous section. The effect of this is to create an incentive for firms to hire the CETA eligible worker even if the

firm will not reach the 40% hiring requirement. The second credit would be a five percent refundable income tax credit, not to exceed \$1,500 per person, for all employees of a firm that qualifies as an eligible zone business. The only condition attached to this is that the employees for which a credit is claimed must work at least 50% of their hours within the zone.

These two tax credits are the main incentives aimed at directing the bill toward labor-intensive businesses. By allowing the credit for CETA eligible workers, the incentive is to hire low skilled, and lower income workers. The requirement that workers put in at least 50% of their working hours within the zone is an attempt to prevent branch firms from locating within the zones purely for tax benefits without hiring many new local resident employees.

One of the major points identified by Butler as being important in an Enterprise Zone bill is the elimination of Minimum Wage Laws. This point does not appear in Rep. Kemp's bill. The labor tax credits may be an attempt to address the question of reducing labor costs in a more politically acceptable manner. The effectiveness of the tax credits versus the elimination of a minimum wage level would be determined by how low unsupported wage levels would fall. A firm that paid its workers the current minimum wage for 40 hour weeks on a 52 week basis would pay out roughly \$7,000 per employee per year. This employer, if satisfying all eligibility requirements, would be eligible for a \$350 refundable income tax credit per employee. A firm would have to employ at least 20 full-time (or an equivalent part-time work force) workers to generate enough credits to hire one additional full-time employee at minimum wage. Whereas the same firm which paid its employees only \$3.00 per hour could hire seven new full-time workers for the same total labor bill as it could have with only 20 workers at \$3.35 per hour. It should be remembered that while six more people could be employed without the Minimum Wage Law, the total pretax income would drop from approximately \$7,000 per year to about \$6,240. This would be about an 11% cut in pay. This type of pay cut could become a work

disincentive, depending on welfare and unemployment benefits, and defeat one of the major tenets on the entire program.

One of the major opponents of this section of the bill is the AFL-CIO.¹¹ Their opposition is based on the fact that the tax benefits are limited to firms within the zone and this ignores firms outside of the zone that may employ zone residents. Giving tax credits to firms outside of the zones would defeat the purpose of attracting business to locate within these zones. The AFL-CIO is also opposed to the elimination of minimum wage laws.

Another problem that could arise with this and other incentives in the bill is that of accountability. If the Internal Revenue Service is to monitor this bill's provisions and incentives, it will have to either develop additional manpower and techniques or delegate the responsibility to another administrative body. It is important that all the requirements and the intent of this bill be followed and monitored as it presents many opportunities for fraud. The financial rewards for misuse of these provisions would be many. The added administrative review will add additional costs to the program.

Capital Gains Tax

The bill proposes that no Capital Gains Tax apply to taxpayers within the zone. To qualify for this a firm must expand its work force by at least ten percent.

While the bill is officially targeted at job creation and helping firms start and survive within the zones, this incentive is directed at capital-intensive business. This provision, coupled with the potential national accelerated depreciation schedules, provides a strong incentive for capital investment within the zones. This would provide some job creation, but capital intensive firms may rely on a smaller more technically skilled work force. This would result in fewer CETA eligible workers being hired.

Critics of this section point out that this incentive may tend to lead firms into selling out and leaving the zone either after initial capital investment has

been made, depreciated, and reinvestment needed, or to sell and leave near the end of zone designation as occurred in Puerto Rico. The response given to this criticism is that the program would create a sufficiently strong local economy and related markets to offset any advantages in selling and moving.

If Congress were to take legislative action that significantly lightens the existing Capital Gains Tax loads, it could have the effect of negating the incentive to invest within the zones as compared to investing in other areas.

APA testimony on this point suggests that the qualifying criterion for the Capital Gains Tax abatement be not just a ten percent increase in employees, but a ten percent increase in CETA eligible employees. This would tie in with eligibility requirements throughout the bill. Also, any increases in employment should be measured in total hours worked, not in total employees. Using the measurement of total hours would prevent two problems. The first of these would be the case of a firm with fewer than ten employees. To meet the requirement, this firm would have to hire employees over the ten percent minimum. An example of this would be the case of a firm with seven employees. To meet this requirement, the firm would have to add one new employee. This translates into a 14.3% increase instead of the minimum ten percent. A firm with ten employees could add this same single worker to qualify for the incentive, but would increase its work force by a smaller percentage. If the requirement were based on total hours, this inequity would be eliminated. The use of total hours worked would prevent a situation wherein an employer hires workers to meet the requirements but reduces each individual worker's hours so that there is no net increase in labor hours worked.

Income Tax

Under the provisions of this bill, no Income Tax would apply on 50% of a firm's income or on the interest received from loans to businesses within the zone.

This reduction in Income Tax for zone businesses, in addition to the elimination of the Capital Gains Tax, the refundable tax credits for employees, the

nature of firms during their early years, and the potential of local Property Tax reductions, suggests that zone firms would have a small tax liability. This combination of incentives is designed to increase the survivability rate of firms within the zones.

One of the criticisms of this package of tax incentives is that while they help firms survive, they provide no assistance to a firm that is trying to open business. Provisions for up-front capital to assist new firms are not included in this bill. The reduction of Income Tax liability on interest from loans to zone businesses may indirectly provide more capital to new firms. This incentive could possibly result in small interest rate deduction to borrowers. If this interest deduction were applied to SBA loans, it could be very valuable for firms not allowed to use tax-exempt Industrial Revenue Bonds to lower their interest rates on these SBA loans. Another possible benefit from this particular incentive would be to encourage lending institutions to direct money into the zones.

Cash Accounting

The bill proposes that a Cash Accounting system be allowed for firms that have annual gross receipts under \$2 million.

The Cash Accounting System is a much simpler method than the Accrual Accounting System. Instead of having a double entry system that records both the transaction and the payment separately, the Cash System only records the payment. This reduces complex debiting and crediting of various accounts. The Cash System would require reduced manhours and lower expertise levels.

A potential problem with the Cash System is that due to its less specific nature, accountability problems could arise.

Investment Tax Credit

A 15% Investment Tax Credit would be given for low income rental housing under this bill.

This credit would be extended to low income rental housing on the same basis as it is granted currently to commercial or industrial properties. To qualify for this credit, the housing would have to be constructed or rehabilitated after zone designation occurs. The cost incurred for rehabilitated property would have to be at least \$10,000 per unit, in respect to each project, or \$3,000 per unit if the project was financed by a state or local agency. Any developer in default on a prior project would be ineligible for this credit. By allowing financing of these projects through state or local public agencies, the bill has provided for lower interest rates than current market levels. This may also help avoid potential hesitation on the part of lending institutions for financing projects in depressed areas. In a bill that provides zone residency requirements and intends to create a demand for labor, housing provisions must also be provided. This section of the bill should help solve a zone's current and future housing needs.

A possible addition to this section could be the incorporation of the housing tax credit with Federal housing programs and financing systems.

Net Operating Loss Carryover

The bill proposes to extend the Net Operating Loss Carryover allowed to 20 years.

This proposal would allow a firm to spread an operating loss of one year over the next 20 years. This would allow a firm to credit the loss against incomes for the next 20 years for tax purposes. This would reduce future taxable incomes and liabilities.

The criticism of this provision is that firms opening several years after zone designation is made would be able to use this benefit after zone designation has expired. If this provision were altered so that the loss carryover period would apply only during zone designation, an incentive for businesses to open early in the designation period would be created.

Streamlining and Coordination Of Federal Programs

The bill proposes that all Federal programs related to housing, community and economic development, banking, financial assistance, and employment training be coordinated and streamlined within the zone.

This section reflects the importance of this coordination. Without such coordination, programs that could work at cross purposes to the intent of this bill would serve to weaken its effectiveness. However, no specific rules or review jurisdiction is mentioned. More detailed guidelines, possibly based on the A-95 review process, should be set out.

Small Entities

Under this section of the bill, all zones would be designated as Small Entities based on the concepts in the Regulatory Flexibility Act of 1981.¹² Prior to this bill, Federal regulations applied equally to both Large and Small Entities. The term entity refers to corporations, agencies, and political jurisdictions. The reasoning of the Regulatory Flexibility Act is that Small Entities are inherently different from Large Entities and that the nature and application of Federal regulations should reflect this difference. This Act allows for the review and adjustment of regulations to show this difference in relation to Small Entities.

The result of this section could be a general relaxation and elimination of many Federal regulations for businesses within a zone. Action in this area would be in accordance with President Reagan's desire to lessen the regulatory restrictions on business. This is an idea that many business groups favor.

Foreign Trade Zones

The bill proposes that Foreign Trade Zones be created within the Enterprise Zones whenever possible.

The idea of Foreign Trade Zones, or Free Trade Zones, is one that has appeared

in both the English application and in Butler's writings. Employment and business activity have usually increased in these areas.

There are several concerns with these Trade Zones. In some instances the type and quantity of jobs provided have not been extremely beneficial. Often warehousing becomes a major type of business activity. Warehousing is not a labor intensive type of activity. In some foreign countries, there have been negative social impacts in these areas. Poor housing, sanitary, health, and working conditions have appeared. It is important that the combination of this designation, the relaxation of local codes, and possible Federal regulatory relaxation or elimination does not allow serious social problems to arise. Basic minimal requirements in these social concern areas must be maintained.

General Questions

There have been some questions raised about this bill that are not specifically related to its provisions.

As discussed earlier, one of the major questions about this bill is the lack of provision for initial capital needs of firms. With the exception of the income tax deduction on interest from loans to businesses within a zone, the provisions of this bill are aimed at reducing operating costs. One possible area of assistance could be in the designation of zones as CDBG areas. As mentioned before, the 1981 Amendments to the Housing and Community Development Act now allow the use of federal dollars for aid to private profit making firms as an eligible activity. It remains to be seen if this would include actual capital funding. This money could be used by local governments to purchase and accumulate property to sell to prospective firms at reduced costs. This purchasing, and the possibility of the use of Eminent Domain powers, to acquire land could prevent harmful speculation in land within the zones and indirectly reduce capital needs in the area of land acquisition.

It might also be possible for the local and/or state governments to either provide this capital alone or in cooperation with the local business community. The

specifics of such a financing system should be set out in the package of local incentives.

According to Rep. Kemp, the need for this type of financing is minimal. He has asserted that almost 90% of this starting capital comes from personal savings and that three-fourths of all new firms begin without any outside debt. Of the firms that do start in debt, many owe not financial institutions but family and friends. Rep. Kemp also makes the point that when the Federal Government has provided capital to business, it has had the responsibility of choosing which firms should receive this capital. Rep. Kemp quotes Milton Stuart, the head of the Office of Advocacy, as saying in a conclusion to a SBA task force report that "There appears to us to be a lack of understanding within government of how individuals create in the private sector, and how they implement their decisions."¹³ This seems to be supported by the fact that the delegates of the White House Conference on Small Businesses rejected proposals to increase direct Federal assistance programs. Rep. Kemp's hope is that if the risks of failure to an operating business are reduced, this will in turn stimulate private investment and make capital available based on an improved possibility of future returns on the investment.

Again referring to Butler's concept of the Turnover Trigger Point, the inclusion of this provision in an Enterprise Zone bill would reduce the cost of the program to both the Federal and local government. Rep. Kemp's bill does not have this provision.

A final basic question related to this bill is why have this particular set of incentives been chosen? The basic philosophy appears to be that simple, direct transfer payments or grants will not solve the economic problems of people located in areas that would qualify as Enterprise Zones. The incentives in this bill supposedly will.

The people in these areas need jobs. In the existing economic and business climate, there is little incentive for firms to locate in depressed areas due to the risks and low profit return expectations. Rep. Kemp, along with the SBA and others,

feels that the greatest potential for job creation lies in small starting businesses. His hope is that the incentives offered in this bill will reduce the risk and cost factors to a level where investment in these areas becomes attractive and new business activity will spring up to provide the needed jobs.

Some critics have questioned the wisdom and political feasibility of a program that would cost the Federal Treasury anywhere from \$1.5 to \$7.125 billion annually at a time when massive budget cuts and an attempt at balancing the budget are occurring. The answer to this question lies in the belief that the program would work. If it does work, it could pull thousands of people off unemployment and welfare rolls. It would also eventually increase income tax revenues, social security payments and increase business activity. If the program would be as successful as its proponents claim it will be, the question becomes, can the Federal Government afford not to proceed with Enterprise Zones?

As mentioned before, this is Rep. Kemp's second Enterprise Zone bill. Considering the debate and criticism generated by this version, it seems unlikely the bill will pass in this session of Congress. A strong block of support for this bill and the concept of Enterprise Zones has emerged over the last few years. It is probable that Rep. Kemp will come up with a third version of the bill. Should unemployment continue to rise, there may develop a strong demand for a bill, based on the Enterprise Zone Concept, to help reduce this problem.

Notes

- ¹ See Congressional Record, H.R.3824, June 3rd, 1981.
- ² U.S. Statutes At Large, Public Law 93-383, August 22nd, 1974.
- ³ Note #1 Above.
- ⁴ Note #1 Above.
- ⁵ Sternlieb, page 58.
- ⁶ American Planning Association - the professional organization for members of the planning profession in the U.S.
- ⁷ Testimony presented to the Committee on Finance's subcommittee on Savings, Pension and Investment Policy, July 16th, 1981.
- ⁸ Testimony presented to the Committee on Finance's subcommittee on Savings and Investment Policy, July 16th, 1981 by Gail Garfield Schwartz.
- ⁹ Note #7 Above.
- ¹⁰ U.S. Statutes At Large, Public Law 93-203, December 28th, 1973.
- ¹¹ The American Federation of Labor and Congress of Industrial Organizations.
- ¹² U.S. Code Congressional and Administrative News, 96th Congress, 2nd Session, Public Law 96-354, September 9th, 1980.

Comparison Of Urban Enterprise Zone Related Bills

There were four bills introduced to U.S. Congress during 1981 that addressed the concept of Enterprise Zones. The first of these was Rep. Kemp's Urban Jobs and Enterprise Zone Act of 1981, H.R.3824, and its Senate equivalent, S.1310. This bill was discussed in the previous section. The other three bills that are introduced are:

1. Targeted Area Revitalization Act, H.R.2950, presented by Rep. Rangel¹;
2. Enterprise Development Act, H.R.2965, presented by Rep. Nowak²; and
3. Urban and Rural Revitalization Act of 1981, S.1240, presented by Sen. Heinz³.

In this chapter, a brief comparison of the major points in each of these four bills will be made. For the sake of simplicity, each bill will be referred to by the name of the introducer.

Zone Eligibility Criteria

- Kemp - proposes that all zones be located in UDAG designated areas or in pockets of poverty. After meeting one of these two requirements, the area must meet several unemployment, low income, population loss, building abandonment and tax delinquency criteria.
- Rangel - proposes that zones be limited to areas that have unemployment levels at least 150% above the national median unemployment rate; or have a number of welfare recipients at least one and one-half times greater than the national proportion would suggest, or have at least 70% of the prospective zone's residents' incomes below 80% of the surrounding area's median income.

- Nowak - proposes that a prospective zone must meet designated level of income, unemployment, per capita income growth, and job creation. These levels would be determined by the Secretary of Commerce. The criteria would be evaluated by a weighting system where points are awarded based on the level of distress using both Census Bureau and Bureau of Labor Statistics.
- Heinz - proposes that the Secretary of Commerce set out the eligibility criteria.

All of the bills use a combination of unemployment, poverty, population loss, and low income factors as criteria for determining eligibility. Rep. Kemp's bill has additional requirements of location either in poverty pockets or in existing UDAG designated cities. This tie in with the UDAG program gives Rep. Kemp's bill an automatically higher level of coordination with existing programs and eases data collection problems in comparison to the other bills.

Zone Selection

- Kemp - proposes that the selections be made by state or local governments and ultimately approved by the Secretary of HUD. This approval by the Secretary would be based on the area's need and the quality of the local incentive package. Zone designation could be revoked by the Secretary if certain conditions were to arise.
- Rangel - proposes that the selection be made solely by the respective state governor.
- Nowak - proposes that selections be made by the state or local government and ultimately approved by the Secretary of Commerce.
- Heinz - proposes that the selection be made by local government with ultimate approval made by the Secretary of Commerce.

All of the bills, except Rangel's, require state or local governmental selection with approval at the Cabinet level. Rangel's bill would have selection only by the

state governor. This leaves no decisional power with either the local governments or the federal governments. Since Rangel's bill contains federal tax incentives, it would appear that the federal government might desire some authority in selecting the zones.

Number of Zones

Kemp - proposes at least ten but no more than 25 zones be designated each of the first three years after the program's inception.

Rangel - proposes that up to 25% of the eligible areas in each state be designated as a zone.

Nowak - proposes that there be no limit on the number of zones.

Heinz - proposes that the Secretary of Commerce determine the number of zones.

There has been a great deal of discussion on the number of zones. One view is that the more zones created, the higher the cost of the program. The converse of that is the view that there are more than 75 areas in the country that could benefit from this program. It is important that the competition for zone designation be great enough to cause strong incentive packages to be created. An unlimited number of zones could defeat this purpose.

Minimum Population of Zones

Kemp - proposes at least 4,000 people reside in the area if it is a part of a SMSA, and at least 2,500 people in any other area.

Rangel - proposes a minimum population of 4,000 in areas bounded by census tracts or enumeration districts.

Nowak - proposes at least 5,000 persons within an incorporated city with a minimum population of 10,000.

Heinz - proposes that this decision be made by the Secretary of Commerce.

Kemp and Rangel have tailored the population minimums to fit into Census

boundaries and units. This will provide assistance in statistical needs. Nowak's requirements rule out rural area utilization of the bill. Heinz's proposition leaves a great amount of administrative discretion to the Secretary of Commerce.

Time Limit On Zone Designation

- Kemp - proposes that zone designation last until the year 2001, unless revoked.
- Rangel - proposes that zone designation last for five years with the possibility of renewal.
- Nowak - proposes that zone designation last for ten years with the possibility of renewal.
- Heinz - proposes that this decision be made by the Secretary of Commerce.

In the previous chapters, several potential problems with this provision in Rep. Kemp's bill were discussed. The proposals by Rep. Rangel and Rep. Nowak contain the flexibility needed to adjust the length of zone designation to each specific instance. If zone designation were to be renewed, strong reasons should be presented. Automatic renewal could present a worse situation than exists under the Kemp bill's provisions.

Employment Requirements For Eligible Zone Businesses

- Kemp - proposes that at least 40% of employees hired after zone designation meet CETA eligibility requirements.
- Rangel - proposes no employment requirements.
- Nowak - proposes that at least 50% of the working hours in a firm be performed by zone residents.
- Heinz - proposes that at least 50% of the employees of a firm must be zone residents.

All of the bills, except Rep. Rangel's, have some provision aimed either at low income workers or zone residents. These are the two groups that the bills are

supposedly intended to assist. The omission of CETA requirements in the Nowak and Heinz versions may allow for a higher level of skilled workers than the Kemp bill. This fact may have advantages for some types of firms. The fact that Rep. Rangel has left out any provisions in this area does not rule out the possibility of low income, low skill, and zone residents being hired. It also would allow more firms to qualify under this section for the incentives. It may be important to require the hiring of certain segments of the labor market to receive the benefits in this section. Some combination of CETA and zone residency requirements might be optimal.

Labor Related Tax Incentives

- Kemp - proposes a refundable business income tax credit that equals five percent of all wages paid to CETA eligible workers and a five percent refundable business income tax credit for all employees of an eligible business. The second credit is not to exceed \$1500 per employee and these employees must work at least 50% of their hours within the zone to be counted for this credit.
- Rangel - proposes the following changes in the Targeted Jobs Tax Credit, hereinafter TJTC.⁴ The first of these would be business income tax credits of 50% of the first \$10,000 paid in wages, for the first year. This would be reduced to 25% the second year and 15% the third year. Added to this would be a fifteen (15) percent credit on the first \$10,000 of wages paid to all workers targeted under the TJTC program that are within the zone. This credit would only apply for the first three years. The second provision would be a 15% credit for the first \$10,000 of wages paid to an employee hired after December 31st, 1981. Another provision is that students in Cooperative Education programs be excluded from the TJTC. The final provision would be that all economically disadvantaged youths between the ages of sixteen and eighteen be automatically included in the TJTC program.

- Nowak - proposes that a 60% business income tax credit be given on the first \$6,000 paid in wages to area residents. This would apply the first year of zone designation. In the second year the credit would be reduced to 35%. An addition to these credits, a 50% deduction on wages paid to all employees would be allowed if the deduction were used to buy securities that were held in an Employee Stock Ownership Plan.
- Heinz - proposes that a 12% business income tax credit on the first \$15,000 of wages paid to employees who are zone residents be granted each year.

All of the bills have an employment tax credit in some form. One problem with the inclusion of the TJTC program is that President Reagan intends to let it expire at the end of 1981. The Rangel bill is the only one that gives a specific incentive to new employees hired after zone designation. The only difference between the bills, outside of the reference to the TJTC program, exists in the percentages credited, the maximum salary allowed to credit against, and the number of years the credit(s) would apply.

Capital Gains Tax Incentives

- Kemp - proposes that no Capital Gains Tax apply to taxpayers within the zone. To qualify for this an existing business would have to expand its work force by ten percent.
- Rangel - proposes nothing in this area.
- Nowak - proposes nothing in this area.
- Heinz - proposes to increase the exclusion of capital gains from taxes up from 60% to 90%. This exclusion would not apply to corporations. Corporations would get a reduction in the capital gains tax rate from 28% down to ten percent.

One of the frequently voiced criticisms of the Enterprise Zone concept is that firms may abuse Capital Gains Tax reductions by buying and selling property instead

of making long-term investments within the zones. Rep. Kemp's bill attempts to address this problem through its ten percent work force increase requirement. This potential problem would not arise with the Rangel and Nowak versions. The provisions in the Heinz bill make no attempt to prevent purchase and sell out from occurring. Close monitoring of employment activities, as mentioned before, will be important.

Depreciation Incentives

Kemp - proposes nothing in this area.

Rangel - proposes nothing in this area.

Nowak - intends to increase the first year depreciation allowance from \$10,000 up to \$40,000.

Heinz - proposes a straight line ten year depreciation schedule for buildings that are valued at over \$100,000. Any other buildings would have a straight line three year depreciation schedule.

The Nowak and Heinz bills would allow for quick depreciation on buildings. This could be a strong incentive for new construction within the zones. The Heinz provisions could create a demand for updated assessments on existing buildings. This would increase an area's assessed valuation and revenues and also could be a stimulus for city-wide appraisals. Should a city provide some property tax relief, these reappraisals would bring revenues to a higher level than would have been expected.

The proposals in the Heinz version for Capital Gains and Depreciation would be a strong incentive for investment and construction. There is no qualification that would prevent a firm from investing, depreciating and then selling out.

Income Taxes and Interest Deduction

Kemp - would allow for 50% of business income and interest on loans to zone businesses to be tax free.

Rangel - proposes that a ten percent credit be given on the interest from loans to zone businesses. This would be limited to \$100,000 for individuals and \$300,000 to partnerships and lending institutions.

Nowak - proposes nothing in this area.

Heinz - proposes nothing in this area.

As mentioned before, many critics feel that without initial, start-up capital, many businesses will not open. The Kemp and Rangel versions address this need indirectly. Reduced taxes on interest from loans to zone businesses may be an incentive to lend this money and/or reduce interest rates. Kemp's bill provides the strongest incentive in this area.

Cash Accounting

Kemp - would allow a cash accounting system to be used by businesses with annual gross receipts under \$2 million.

Rangel - proposes nothing in this area.

Nowak - proposes nothing in this area.

Heinz - would allow a cash accounting system to be used by any firm within the zone.

Again, the major question about this provision is accountability. This potential problem is even more pertinent in the Heinz version as larger firms would be even harder to monitor.

Investment Tax Credit

Kemp - proposes a 15% investment tax credit for low income rental housing.

Rangel - proposes to increase the rehabilitation tax credit on nonresidential buildings to 20% and to create a 15% tax credit on new nonresidential buildings.

Nowak - proposes a 25% nonresidential rehabilitation tax credit, a five percent

tax credit for new nonresidential buildings, and a refundable investment tax credit of up to \$100,000.

Heinz - proposes a ten percent investment tax credit on all zone property.

The Rangel version has no provision for housing. The Nowak and Heinz bills would include housing, but the Kemp bill is the only one aimed directly at housing. The provisions in Rangel's and Nowak's bills may be aimed as incentives for building investments as these bills had fewer capital gains and depreciation incentives. Kemp's bill had no provisions for nonresidential buildings, but has previously given several strong incentives for residential buildings.

It will be important to see what other non-Enterprise Zone related tax cuts may be passed in the future as they could reduce the advantages built into the zones when compared to outside areas.

Other Provisions

Kemp - proposes to extend the Net Operating Loss Carryover to 20 years and to coordinate all Federal programs within the zone that are relevant to zone operations.

Rangel - proposes nothing else.

Nowak - provides that small business investment companies may invest in zone firms at a higher rate of public-to-private dollars.

Heinz - proposes to amend the definition of a "small business corporation" under Subchapter S of the Internal Revenue Code and to increase the maximum permitted number of these shareholders from 15 up to 100.

The overall purpose of the Nowak and Heinz provisions is to increase private investment into these zones.

Overall Comparison

Each of these four bills seems to be targeted toward a different type of

business. Rep. Kemp's bill has provisions that are favorable to both labor and capital intensive firms and also seems to treat both small and large businesses equally. Rep. Kemp's combination of incentives could lead to a diverse local economy that may be more economically sound in the future than an economy with only one type of business. Rep. Kemp's bill also contains some important provisions missing in the other three. Some of these would be investment credits for low income housing, the designation of zones as "Small Entities"⁵ for the Regulatory Flexibility Act and the mandatory coordination of Federal programs and policies within a zone.

Rep. Rangel's bill appears to favor labor-intensive firms. There are few eligibility requirements on labor and strong tax incentives for new additional labor. This bill contains few incentives related to capital expenditures and investment. The intent of giving incentives to labor-intensive firms in order to create more jobs is sound, but there is a question of whether the incentives in this bill are strong enough to attract needed capital for even these labor-intensive firms. The status of the TJTC program in the future leaves some doubt about the viability of this bill.

Rep. Nowak's bill tends to favor small businesses due to its relaxation of Small Business Investment Corporation restrictions. It also seems to favor labor-intensive firms as it lacks Capital Gains Tax incentives. Rep. Nowak also has included good business eligibility requirements.

Sen. Heinz's bill seems targeted at Capital Intensive firms as it contains strong Capital Gains Tax and Depreciation incentives. This bill also favors large firms as it provides Cash Accounting to any firm and has a reduction in the Corporate Capital Gains Tax rate. Sen. Heinz's bill also requires a set out Local Commitment Package.

Determining which of these four bills is the best will depend upon which economic philosophy is preferred. If Enterprise Zoning will best meet its goals with small labor-intensive firms, then maybe either Rep. Rangel's or Rep. Nowak's

bill is preferable. If large capital intensive firms are needed, then Sen. Heinz's bill is best. If a diversified local economy is the optimal method to revive the Central Cities, then Rep. Kemp's bill should be chosen. Other considerations may take precedence above which program would work best in the zones. The political acceptability and relative costs of bills may determine which one is chosen over the others. None of these bills made it out of committee to reach a floor vote. It is probable that rewritten versions of several of these will appear in the future.

It should be noted that in addition to these four bills, there have been two Rural Enterprise Zones bills introduced. These bills are targeted at economic development and growth in nonmetropolitan areas. Some of the provisions are similar to the provisions in Urban Enterprise Zone bills.

The following section will contain a summary of the Enterprise Zone Concept.

Notes

- ¹ See Congressional Record, H.R.2950, 1981
- ² See Congressional Record, H.R.2965, 1981
- ³ See Congressional Record, S.1240, 1982

Summary

The final format that Enterprise Zoning will take in the United States is yet undefined. However, the basic cornerstones of the concept and its aims are fairly well established. What actual incentives are to be employed will be determined through the legislative process. President Reagan's administration reaffirmed its support of Enterprise Zoning in this year's State of the Union Address. The administration has now set out the basic outline of what it would like to see in an Enterprise Zone bill. They hope to have a bill that follows Rep. Kemp's eligibility requirements and contains incentives close to his proposals. While no formal legislative proposal has yet been made, either an amendment to Kemp's bill or an entire new bill is expected. A summary of the administration's proposals appears in Appendix D.

The State of Kansas is now considering its own Enterprise Zone bill. It remains to be seen if this bill will pass this session of the legislature. A copy of this bill appears in Appendix E.

Legislative Prospects

Since Ronald Reagan's election as president in 1980, the momentum behind Enterprise Zoning in the U.S. has steadily increased. Now that actual administrative proposals have been made, it would appear that some form of Enterprise Zone legislation will come up for a Congressional vote this year. It would be hard to estimate what chances such a bill would have of passing. There are several key issues that may determine the chances of a bill's passage.

The first of these is the level of unemployment. Unemployment rates currently

stand at around ten percent. This is the highest level since WWII. In light of these high unemployment figures, a legislative proposal that is directed at creating jobs may be viewed more favorably. The failure of the economy to provide jobs may become a strong supporting argument for passage of an Enterprise Zone bill. The passage of other job creation bills may reduce the demand for Enterprise Zoning.

The second key issue is the role in a national urban policy that an Enterprise Zone program would play. The concept of Enterprise Zoning has a wide-based bloc of support that is both Republican and Democrat, Liberal and Conservative. Once a legislative proposal becomes a definitive issue and is designated a particular role in urban policy, this bloc of support may begin to break up. Proponents of the concept may not be supporters of a bill that reduces the Minimum Wage or that replaces other programs such as UDAG, CETA, CDBG, and EDA. There was widespread support for reduced federal spending and budget balancing in concept, but bitter battles have occurred once the concept was transformed into actual dollar reductions in specific programs. This same situation may erode the support for Enterprise Zoning. Representatives of a state that does not contain central city areas eligible for Enterprise Zone designation would have a hard time supporting an Enterprise Zone bill that would replace or reduce existing programs that provide aid in their state. Allied with these rural interests are suburban groups who would see no direct benefits from the program and who may fear the loss of existing firms to the zones. Many ethnic groups have supported the concept but are watching to see if existing urban programs are cut. Organized labor strongly opposes changes in the Minimum Wage. Robert Garcia, who was co-author with Kemp of their proposal, has stated that he could not support "any enterprise zone proposal which contains a subminimum wage."¹

The third key issue relates to Reagan's leadership abilities with Congress at the time of a vote. Reagan basically had his way with Congress in 1981. Should he again succeed in this manner, an Enterprise Zone bill that he strongly supported

might very likely become law. On the other hand, it appears that Congress may strongly resist the budget package Reagan has presented. If Congress, and the Democrats, were to win the budget battle, the chances of passage for an administration sponsored Enterprise Zone bill might decrease.

Alternative

The basic rationale for the concept of Enterprise Zoning has been that previous programs and methods have failed. Due to this, the government should take the opposite track and remove taxes and regulations to allow economic growth. The proponents of the concept have claimed that governmental intervention has failed to find a solution to the problems of inner cities. But in the same breath, they propose yet another governmental program. This program is intended to restore the central cities to their previous roles in their metropolitan and regional areas. A question that arises, is would these central cities never be redeveloped unless an Enterprise Zone program arises? Professor Donald A. Hicks of the University of Texas said,

"For some, the suspending or weeding out of regulations, and the lowering of taxes, suggests a less fettered market process. For other, however, these moves may be viewed as creating an artificial business climate that cannot operate as part of the larger economic system."²

Often firms that begin with special assistance in a special environment are unable to outgrow or wean themselves from these benefits. An example of this is the SBA's program to aid minority businesses. This program has created some firms that could not continue without further federal support.

As mentioned earlier, there are some projects being undertaken by private businesses and local governments to develop inner city areas. The New York Port Authority has announced that it will spend \$33.6 million to create three industrial parks located in the South Bronx, Staten Island, and in Elizabeth, New Jersey.³ This is only one of several projects for the South Bronx alone. The projects of the City Venture Corporation are an example of private attempts within the central cities.

Hicks also seems to question what role the central cities should have in a national economic system. He states,

"Areas that are targeted for designation as enterprise zones may be in the process of evolving (emphasis in original) to the point that they can perform new functions for the larger community...countless central cities are transforming to play equally vital, if narrower roles for the larger region, compared to their earlier roles."⁴

It is possible that governmental intervention in the form of Enterprise Zoning may disrupt this process and yield business activity reliant upon the program.

No one seems to have answered the questions raised by Hicks. They appear to be valid considerations. If an Enterprise Zone bill is passed this year that implements a full program of zone designations every year, the questions may never be answered. If a trial set of Enterprise Zones were created for study, then this question as well as many others could be addressed.

Planning As An Evil

Some would question whether the depressed areas in our central cities are "...blighted by the planning process, and by rules and regulations that stifle private initiative," as Sir Geoffrey Howe stated. The rise of planning and these rules and regulations occurred as a response to conditions that arose under laissez-faire free enterprise systems. One has only to look at the conditions that exist in cities, such as Hong Kong, that are cited as models the Enterprise Zone concept emulates, to see the health, poverty, and social conditions that result from non-planning. These same squalid conditions existed in many American cities before planning controls were implemented. Operation Bootstrap in Puerto Rico appears to be the closest example of Enterprise Zoning that we have to refer to. This program resulted in serious social problems and left little stable established economic systems in its wake. There is no doubt but that economic revival in our central cities is a desirable goal. But it is debatable whether this revival can only occur in the absence of planning and regulations providing basic health, safety, and

building codes. Planning and these basic regulations are aimed at preventing derelict areas. Is it not possible that the economic woes of the central city have been a result not of planning and regulations but of the evolution and change of the economic structure in the United States? If the latter is true, then attempts to alter the economic system to spur development in the central cities is actually a higher level of government intervention in the economic system than currently exists. It may be that the current situation of our central cities is just a stage in the evolution of our national economy and these cities would reach an economically determined new role without Enterprise Zoning.

The role of Planning in the operation of Enterprise Zones at first appears to be strictly curtailed. This may be true in traditional planning functions such as Zoning and Code development. However, the need for planning skills will increase in areas like Economic Development, Capital Budgeting and Finance, and Development Assistance. Increased levels of cooperation among various Federal, State, and Local Programs, and private groups will require strong planning and administrative skills. Neighborhood and Community Assistance Programs will need to be developed to assist existing and future residents of Enterprise Zones and surrounding areas. Improvements to and the provision of housing in the Zones will also become an important function for planners. Planners should be heavily involved in the development of Enterprise Zone Local Incentive Packages and the actual application and administration of Enterprise Zones.

From this it is easy to see that the role of Planning and Planners will not decrease should Enterprise Zoning become law, but will actually become even more important. To meet this increased role, Planners should become more aware of and involved in Enterprise Zoning. For better or for worse, it may become the major urban program of the future.

A Final Question

All of the discussion in this paper up to this point has been concerned with the

ability of Enterprise Zoning to solve the economic problems of distressed Central City areas. Perhaps the question should be expanded to include the idea of how Enterprise Zoning will help solve the economic problems of the United States. Statistics and discussion have already covered areas such as Enterprise Zoning's impact on local economies, the Federal Treasury, and unemployment. In a speech delivered at the APA's National Conference in Dallas on May 9th, 1982, Lester C. Thurow identified the productivity of the American economy as the most serious problem it faces. Does the Enterprise Zone concept respond to this national economic need? Would Enterprise Zoning provide the dollars or a vehicle with which workers can be trained or retrained to provide an adequate labor force for a more productive economic system? Relocating laid-off steel workers or automobile workers into low-income low-skill jobs within the Central Cities may be a short-term solution to Central City unemployment and poverty, but are the long-term needs of both the Central Cities and the nation as a whole met by Enterprise Zoning?

Notes

¹ Todd, Reggie, and Clint Page, "Enterprise Zones Plan Builds On Ideas In Kemp-Garcia." Nations Cities Weekly, Vol. 5, No. 6, February 8, 1982, pg. 6.

² Hicks, Donald A., Testimony before the Subcommittee on Intergovernmental Regulations, February 26, 1981.

³ Breckenridge, Charlotte, "Enterprise Zones As A Concept," U.S. Congressional Research Service, Library of Congress, pg. 24.

⁴ Hicks, #2 above.

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Appendix A
State Proposals

State Reports

Special Report: Enterprise Zone Survey . . . *enterprise zone legislation considered in Maryland, Florida, Illinois, Wisconsin, Ohio, Pennsylvania*

Although the debate at the federal level over enterprise zones is still under consideration, as noted by Joseph Burstein and Leonard A. Zax in their article on page 325, some states have either introduced specific enterprise zone legislation or legislation relative to the concept, and one state, Maryland, has passed such legislation.

Spokespersons in the states in which enterprise zone legislation is on the calendar admit that it is touchy to adopt such legislation without knowing in which direction federal law will head, and many of the statutes that are under discussion are contingent on provisions in upcoming federal legislation. One spokesperson said that the states are really "guessing" on what that federal legislation will contain.

Maryland. The act establishing enterprise zones in Maryland was signed by Governor Harry Hughes May 19. The bill is said to be intentionally vague because "no one really knows what the feds are going to do and they didn't want to commit to anything they didn't have to." The bill puts the state in a posture to take advantage of any federal legislation on the concept.

In fact, the bill describes an urban enterprise zone as "an area that has been officially designated an urban enterprise zone by the federal government." The bill fur-

ther states that any business that locates in an enterprise zone may be eligible, as determined by the local government with the approval of the governor, to receive reductions in workman's compensation premiums, exemptions from income tax, and reductions in unemployment insurance fund contributions. The legislation purposefully contained no dollar figures.

Florida. The state legislature last year adopted legislation that created the basis of the tax portion of the enterprise zone concept. Four pieces of legislation were passed, not to take advantage of any upcoming enterprise zone legislation, but, instead, as a result of rioting in Miami.

The so-called "Miami package" of bills was adopted as a means of revitalizing the riot-torn Liberty City area of Miami and other distressed areas in Florida cities.

One bill that was passed provided \$5 million in the form of grants and loans to help establish community development corporations in the state. Grants are available for up to \$100,000 for start-up funds for the corporations and loans up to \$1 million are available to businesses in distressed areas.

A second bill allows corporations a tax credit on donations that the corporation makes to public or non-profit agencies such as housing authorities or community development corporations. The donations must go to agencies that intend to use the funds on physical development or redevelopment or to increase entrepreneurial activities. For these donations, the corporations will receive a 50 percent tax credit against their state corporate taxes.

Another bill provides for any Florida corporation (not restricted to those in distressed areas) to hire a person who lives in a designated distressed area and then to write off 25 percent of the wages and salaries of that person from its state corporate taxes. The person hired must have lived in the distressed area for a period of six months to one year and the position

for which the person is hired must have been a new position or an old position that had been vacant for one year.

The fourth piece of legislation in the package allows a corporation a 96 percent reduction in ad valorem school taxes for a period of 10 years. The reduction is only available on that part of the taxes that is directly attributable to new businesses or expansion of existing businesses. Also, 50 percent of the work force for the new business or expansion must be hired from a distressed area.

There is now a bill in the legislature that would allow an area declared by local government as either distressed or blighted to be declared an enterprise zone, and legislation dealing with more tax incentives and deregulation is expected to be introduced next year.

Illinois. Enterprise zone legislation passed the state Senate May 27 and is in committee in the House. Since the House passed virtually the same bill two years ago, passage of the measure is expected before the legislature adjourns June 30.

Provisions of the bill include:

- real estate assessments in areas designated enterprise zones in the state by the Department of Commerce and Community Affairs would be zero the first year the zone is in existence and rise to 100 percent by the fifth year;

- all zoning regulations, rent controls, and building codes in the designated zones would be abolished;

- an urban homesteading program would be created in the zones and a \$1,000 exemption in state income taxes would be granted to individuals residing in the zones; and

- state sales tax exemptions would be granted for materials used in rehabilitation projects with the zones.

Wisconsin. The state legislature is debating enterprise zone legislation that would cost the state an estimated \$32 million. The state has a \$600-million deficit, however,

and the bill's chances of passage this year reportedly are doubtful.

Provisions of the bill include:

- under the plan which is indexed over five years, a business in an enterprise zone would pay no corporation taxes the first year, 25 percent of the normal rate the second year, 50 percent the third year, 75 percent the fourth year, and 100 percent the fifth year;
- a 50 percent income tax credit would be granted to any business that is newly constructed, remodeled, or expanded;
- capital gains taxes would be indexed to the federal level of a maximum of less than 50 percent, instead of the present state level of 100 percent;
- income gained from employee stock ownership programs would be exempt from state income tax;
- businesses in the zone would be exempt from rent controls;
- building codes, which are reportedly strict in Wisconsin, would be lessened in the zones; and
- air quality treatments and pretreatments would be reduced from stringent Wisconsin standards to the more lenient federal level.

Restrictions on the length of time a zone may be in existence were placed in the act at five years and no more than 21 percent of the real property in a city can be declared to be within an enterprise zone.

Although passage of the bill is not expected, it is reported that a demonstration project of one enterprise zone in the state may be attempted.

Ohio. A bill that would provide tax incentives over a five-year period to persons who establish, expand, or operate a business in a so-called "recovery zone" has been introduced in the state legislature by Senator John Kasich.

To be determined a recovery zone, an area must fall into one or more of the following categories, based on census figures:

- the unemployment rate must be 15 percent or higher and the number of households with incomes at the poverty level must equal 30

percent of the total number of households in the area;

- the unemployment rate must be 30 percent or more; or

- at least 50 percent of the households must be at poverty level.

In the case of personal property used in business by a person declared eligible for a tax incentive, the true value of the property would be equal to the book value of the property less twice the book depreciation of the property ("accelerated depreciation"). The businesses also would receive corporate tax incentives.

In order to retain eligibility for the tax incentives, the business operators must, within two years of becoming eligible for the incentives, hire 75 of their non-supervisory personnel and 50 percent of their supervisory personnel from among residents of the zone.

A similar piece of legislation is going through the legislative process in Ohio. The bill, in its present form, is not as narrowly defined as enterprise zone legislation, but encompasses some enterprise zone concepts.

Under terms of the bill, areas of chronic unemployment in the state are designated and businesses in these areas are given preferential tax treatments. An area would qualify by having a high percentage of its population receiving welfare benefits such as food stamps or general welfare relief; if the per capita income for the preceding year is less than 120 percent of the state per capita income and less than 110 percent of the county per capita income for the preceding 12 months; and if the city or county is contiguous with an already declared chronic unemployment area.

In these areas, cities are required to give up to a 50 percent property tax abatement to businesses for one to 10 years based upon agreements between the municipality and the businesses, and the cities must provide up to a 50 percent real property tax abatement for one to 10 years, also based on an agreement. The state also gives a corporation tax credit to qualifying

businesses.

Pennsylvania. Although not formally called "enterprise zone" legislation, a bill in Pennsylvania's state Senate would provide job incentives and tax credits for businesses in distressed areas. The bill, however, does not define how an area would qualify as distressed and passage of the bill reportedly is doubtful until legislation on the federal level is adopted.

Under the job incentives portion of the bill, a corporate tax credit of 3 percent of the wages paid to a resident of a distressed area would be allowed for the first year. The total credit is limited to \$500 per employee or a total of \$250,000 per firm. A 3 percent corporation tax credit would be allowed for firms investing in the areas.

Other states that have legislation applicable to the enterprise zone concept are Washington, Massachusetts, New York, and California.

*Tom Walker,
Associate Editor,
Journal Of Housing*

Appendix B

S.1310

97TH CONGRESS
1ST Session
S. 1310

To amend the Internal Revenue Code of 1954 to provide certain community development, employment, and tax incentives for individuals and businesses in depressed areas.

IN THE SENATE OF THE UNITED STATES

June 3 (legislative day, June 1), 1981

Mr. ROSENWITZ (for himself, Mr. CHAFET, Mr. HURDICK, Mr. GORTON, Mr. HATCH, Mr. HAYAKAWA, Mr. HENRIGNEY, Mr. JEPSEN, Mr. PACEY, Mr. TOWER, Mr. QUAYLE, Mr. ARMSTRONG, and Mr. KASTEN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1954 to provide certain community development, employment, and tax incentives for individuals and businesses in depressed areas.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1954 CODE.**
4 (a) **SHORT TITLE.**—This Act may be cited as the
5 "Urban Jobs and Enterprise Zone Act of 1981".

(b) Amendment of 1951 Zone.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

TITLE I—DESIGNATION OF ENTERPRISE ZONES

SEC. 101. DESIGNATION OF ZONES.

(a) General Rule.—(Chapter 80 (relating to general rules) is amended by adding at the end thereof the following new subchapter:

Subchapter C—Designation of Enterprise Zones

Sec. 7071. Designation.

“SEC. 7071. DESIGNATION.

“(a) DESIGNATION OF ZONES.—

“(1) ENTERPRISE ZONES DEFINED.—For purposes of this title, the term ‘enterprise zone’ means any area in the United States or its possessions which is designated by one or more local governments for purposes of this section if—

“(A) the Secretary, after consultation with the Secretaries of Commerce, Labor, and Treasury, and the Administrator of the Small Business Administration, approves such designation, and

“(B) the government making such designation has authority to make the local commitments under subsection (d) and provides assurances satisfactory to the Secretary that such commitments will be made in such area.

“(2) LIMITATIONS ON DESIGNATIONS.—The Secretary may not approve any designation under paragraph (1)—

“(A) unless an application therefor is submitted in such manner and in such form, and contains such information, as the Secretary shall by regulations prescribe,

“(B) if any portion of the area to be designated is already included in an area designated and approved as an enterprise zone, or

“(C) if the chief executive officer of the State or possession in which the area to be designated is located files an objection with the Secretary within 21 days of the filing of the application.

“(3) DESIGNATION BY STATES.—A designation under this subsection may be made by a State government on behalf of a local government with the consent of such local government.

“(b) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—

"(1) **IN GENERAL.**—Any designation of an area as an enterprise zone shall remain in effect during the period beginning on the date of the designation and ending on December 31, 2001, unless the Secretary revokes such designation under paragraph (2).

"(2) **REVOCATION OR DESIGNATION.**—The Secretary, after consultation with the officials described in subsection (a)(1)(A), may revoke any designation of an area only if the Secretary determines that the government which designated such area is not substantially complying with the local commitments described in subsection (d). Any such revocation shall take effect under rules similar to the rules of subsection (a).

"(c) **Area Requirements.**—

"(1) **IN GENERAL.**—The Secretary may approve the designation of any area under subsection (a) only if—

"(A) the area is within the jurisdiction of the government designating such area,

"(B) the boundary of the area is continuous and includes, if feasible, proximately located vacant or underutilized lands or buildings which are conveniently accessible to residents of the area,

"(C) the area—

"(i) has a population which, as determined under the most recent census, is at least—

"(I) 4,000 if any portion of such area is located within a standard metropolitan statistical area (within the meaning of section 103A(b)(4)(B)) with a population of 50,000 or greater, or

"(II) 2,500 in any other case, or

"(ii) is an Indian reservation (as determined by the Secretary of the Interior), and

"(D) the area meets the requirements of paragraphs (2) and (3).

"(2) **ELIGIBILITY REQUIREMENTS.**—For purposes of paragraph (1), an area meets the requirements of this paragraph if the Secretary determines that—

"(A) the area is one of pervasive poverty, unemployment, and general distress, and

"(B) the area is located wholly within an area which meets the requirements for Federal assistance under section 119 of the Housing and Community Development Act of 1974.

"(3) **UNEMPLOYMENT, POVERTY, ETC. REQUIREMENTS.**—An area meets the requirements of this paragraph if—

"(A) the average rate of unemployment in such area for the most recent 18-month period for which data are available was at least $1\frac{1}{2}$ times the average national rate of unemployment for such 18-month period;

"(B) such area was a low-income poverty area (as determined by the Bureau of the Census during its most recent census);

"(C) at least 70 percent of the residents living in the area have incomes below 80 percent of the median income of the residents of the government designating such area (determined in the same manner as under section 110(b) of the Housing and Community Development Act of 1974); or

"(D) with respect to such area—

"(i) the population of all census tracts in the area decreased by 10 percent or more between 1970 and 1980, and

"(ii) the government seeking designation of the area establishes to the satisfaction of the Secretary that—

"(I) chronic abandonment or demolition of commercial or residential structures exists in the area, or

"(II) substantial tax advantages of commercial or residential structures exist in the area.

"(4) DETERMINATIONS MADE BY SECRETARY.—

Determinations under this subsection shall be made by the Secretary on the basis of data submitted by or on behalf of the government designating the area (or persons designated by the government) if the Secretary determines that such data is reasonably accurate.

"(b) REQUIRED LOCAL COMMITMENT.—

"(1) IN GENERAL.—No area shall be designated as an enterprise zone unless the government seeking such designation agrees in writing that during any period during which the area is an enterprise zone such government will follow a course of action designed to reduce the various burdens borne by employers or employees in such area.

"(2) COURSE OF ACTION.—A course of action under paragraph (1) may be implemented by the government, private entities, or both, may be funded from the proceeds of any Federal program, and may include, but is not limited to—

"(A) a reduction of tax rates or fees,

"(B) an increase in the level or efficiency of local services,

"(7) a simplification or streamlining of governmental requirements on employers or employees, or

"(1) a commitment from private entities in the area to provide jobs and job training for, and technical, financial, or other assistance to, employees and residents of the area.

"(c) LIMITATIONS ON DESIGNATIONS.—

"(1) IN GENERAL.—The Secretary may only designate areas as enterprise zones during the period beginning on the date of the enactment of this subchapter and ending on December 31, 1994.

"(2) MINIMUM NUMBER OF DESIGNATIONS.—

During each of the 3 calendar years following the calendar year in which the date of the enactment of this subchapter occurs, the Secretary of Housing and Urban Development shall designate at least 10 but not more than 25 areas as enterprise zones.

"(3) PRIORITY OF DESIGNATION.—In deciding which areas should be designated as enterprise zones, the Secretary shall give preference to—

"(1) areas with the highest levels of poverty, unemployment, and general distress,

"(2) areas with respect to which the Government seeking or approving the designation has made (or will

S. 1310—4

make) the greatest effort to examine and remove impediments to job creation, taking into account the resources available to such Government to make such efforts,

"(3) areas which have the widest support from the Government seeking designation, the community, residents, local businesses, and private organizations, especially in meeting the local commitment described in subsection (d), and

"(4) areas with respect to which the Government of the State or possession in which the area is located has made commitments similar to the local commitments described in subsection (d).

"(c) DEFINITIONS AND SPECIAL RULE.—For purposes of this section—

"(1) SECRETARY.—The term 'Secretary' means the Secretary of Housing and Urban Development or his delegate.

"(2) GOVERNMENTS.—If more than one Government seeks the designation of an area as an enterprise zone, any reference to, or requirement of, this section shall apply to all such Governments."

(b) AMENDING AMENDMENT.—The table of subchapters for chapter 80 is amended by adding at the end thereof the following new item:

"SUBCHAPTER 1: Designation of enterprise zones."

S. 1310—19—2

1 SEC. 102. COORDINATION WITH OTHER FEDERAL PROGRAMS.

2 (a) In GENERAL.—The Secretary of Housing and
3 Urban Development shall—

4 (1) promote the coordination of all Federal hous-
5 ing, community and economic development, banking, fi-
6 nancial assistance, and employment training programs
7 which are carried on within an enterprise zone (within
8 the meaning of subchapter C of chapter 80 of the In-
9 ternal Revenue Code of 1954),

10 (2) expedite, to the greatest extent possible, the
11 consideration of applications for programs described in
12 paragraph (1) through the consolidation of forms or
13 otherwise, and

14 (3) provide, whenever possible, for the consolida-
15 tion of periodic reports required under programs de-
16 scribed in paragraph (1) into one summary report sub-
17 mitted at such intervals as may be designated by the
18 Secretary.

19 (b) PROPERTY TAX REDUCTIONS.—Any reduction of
20 taxes under any required program of local commitment under
21 section 7871(d) of the Internal Revenue Code of 1954 shall
22 be disregarded in determining the eligibility of a State or
23 local government for, or the amount or extent of, any assist-
24 ance or benefits under any law of the United States.

8 100-16

1 SEC. 103. SENSE OF CONGRESS WITH RESPECT TO DESIGNA-
2 TIONS OF FOREIGN TRADE ZONES.

3 It is the sense of the Congress that—

4 (1) whenever possible foreign trade zones shall be
5 established within enterprise zones (within the meaning
6 of subchapter C of chapter 80 of the Internal Revenue
7 Code of 1954), and

8 (2) in the case of any application for designation
9 of an area in an enterprise zone as a foreign-trade
10 zone—

11 (A) the Foreign-Trade Zone Board should
12 expedite the application process as much as
13 possible;

14 (B) in evaluating such application, the Board
15 should take into account not only current econom-
16 ic development within the enterprise zone but also
17 future development to be expected from the incen-
18 tives offered by this Act; and

19 (C) the Board should provide technical assist-
20 ance to the applicants.

21 TITLE II—TAXATION

22 Subtitle A—Refundable Credits for
23 Employers and Employees

24 SEC. 201. REFUNDABLE EMPLOYERS' CREDIT.

25 (a) In GENERAL.—Subpart A of part IV of subchapter
26 A of chapter 1 (relating to credits allowable) is amended by

8 100-16

1 inserting immediately before section 45 the following new
2 section:

3 "SEC. 45. EMPLOYMENT OF CERTAIN EMPLOYEES IN ENTER-

4 PRISE ZONES.

5 "(a) IN GENERAL.—At the election of the taxpayer,
6 there shall be allowed as a credit against the tax imposed by
7 this chapter for the taxable year an amount equal to 5 per-
8 cent of the qualified wages of the taxpayer for the taxable
9 year.

10 "(b) QUALIFIED WAGES DEFINED.—For purposes of
11 this section, the term 'qualified wages' means the wages paid
12 or incurred by the employer during the taxable year to quali-
13 fied employees.

14 "(c) WAGES DEFINED.—For purposes of this section—

15 "(1) IN GENERAL.—Except as otherwise provided
16 in this subsection, the term 'wages' has the meaning
17 given to such term by subsection (b) of section 3306
18 (determined without regard to any dollar limitation
19 contained in such section).

20 "(2) EXCLUSION OF CERTAIN AMOUNTS FOR EM-
21 PLOYEES RECEIVING ON-THE-JOB TRAINING PAY-
22 MENTS.—The term 'wages' shall not include that por-
23 tion of any amount paid or incurred by an employer for
24 any period to any individual which is equal to the
25 amount of any federally funded payments the employer

1 receives for on-the-job training of such individual for
2 such period.

3 "(3) INDIVIDUALS FOR WHOM WIN OR EMPLOY-
4 MENT CREDIT CLAIMED.—The term 'wages' does not
5 include any amount paid or incurred by the employer
6 to an individual with respect to whom the employer
7 claims credit under section 40 or 41b.

8 "(4) TERMINATION.—The term 'wages' shall not
9 include any amount paid or incurred after December
10 31, 2001.

11 "(d) QUALIFIED EMPLOYEE.—For purposes of this sec-
12 tion, the term 'qualified employee' means an individual—

13 "(1) who is certified by the designated local
14 agency as having been (during the preemployment
15 period) an eligible applicant or otherwise eligible—

16 "(A) under part B or part D of title II of the
17 (Comprehensive Employment and Training Act, or
18 "(B) under part A or part B of title IV of
19 such Act, and

20 "(2) who performs at least 50 percent of his serv-
21 ices during any period for which any computation is
22 being made under this section within an enterprise
23 zone.

24 For purposes of paragraph (1), the terms 'designated local
25 agency' and 'preemployment period' have the same meanings

1 given such terms by paragraphs (10) and (12) of section
2 51(d).

3 "(c) OTHER DEFINITIONS AND SPECIAL RULES.—

4 "(1) UNCONTROLLED GROUPS, ETC.—Under regula-
5 tions prescribed by the Secretary, rules similar to the
6 rules of section 52 and of subsections (f), (g), and (h) of
7 section 51 shall apply to the credit allowable by this
8 section, except that subsection (b) of section 51 shall
9 be applied without regard to any dollar limitation.

10 "(2) ENTERPRISE ZONE.—The term 'enterprise
11 zone' means an area for which a designation as an en-
12 terprise zone is in effect under section 7871."

13 (b) CREDIT TO BE REVENUED.—

14 (1) Subsection (b) of section 4101 (relating to
15 amounts treated as overpayments) is amended—

16 (A) by striking out "and 43 (relating to
17 earned income credit)," and inserting in lieu
18 thereof "43 (relating to earned income credit), and
19 44F (relating to employment of certain employees
20 in enterprise zones)", and

21 (B) by striking out "and 43" and inserting in
22 lieu thereof ", 43, and 44F".

23 (2) Sections 44(f)(5), 44D(b)(5), 44E(c)(1),
24 55(b)(2), 55(b)(4), and 56(c) are each amended by

1 striking out "and 43" and inserting in lieu thereof "43,
2 and 44F".

3 (3) Paragraph (4) of section 6201(a) (relating to
4 assessment authority) is amended—

5 (A) by striking out "or section 43 (relating to
6 earned income)," and inserting in lieu thereof
7 "section 43 (relating to earned income), or section
8 44F (relating to employment of certain employees
9 in enterprise zones)", and

10 (B) by striking out "under section 39 or 43"
11 in the heading thereof.

12 (c) NO DEDUCTION ALLOWED.—

13 (1) IN GENERAL.—Section 280C (relating to dis-
14 allowance of deduction for portion of wages for which
15 credit is claimed under section 40 or 44B) is amend-
16 ed—

17 (A) by adding at the end thereof the follow-
18 ing new subsection:

19 "(c) RULE FOR SECTION 44F CREDIT.—No deduction
20 shall be allowed for that portion of the wages or salaries paid
21 or incurred for the taxable year which is equal to the amount
22 of the credit allowable under section 44F (relating to credit
23 for employment of certain employees in enterprise zones).
24 This subsection shall be applied under a rule similar to the
25 rule under the last sentence of subsection (b)."; and

(B) by striking out "or 44B" in the heading and inserting in lieu thereof ", 44B, or 44P".

(2) CONFORMING AMENDMENT.—The table of sections for part IX of subchapter B of chapter 1 is amended by striking out "or 44B" in the item relating to section 280D and inserting in lieu thereof ", 44B, or 44P".

(d) CONFORMING AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting before the item relating to section 45 the following new item:

"Sec. 44P. Employment of certain employees in enterprise zone."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to wages paid after the date of the enactment of this Act in taxable years ending after such date.

SEC. 202. RETUNDANCE EMPLOYERS CREDIT.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to credits allowable), as amended by section 201, is amended by inserting immediately before section 45 the following new section:

"SEC. 46. EARNED INCOME OF EMPLOYEES IN ENTERPRISE ZONES.

"(a) IN GENERAL.—In the case of a qualified employee, there is allowed as a credit against the tax imposed by this

1 subtitle for the taxable year an amount equal to 5 percent of
2 the qualified earned income for the taxable year.

"(b) LIMITATION.—The amount of the credit allowable
4 to a taxpayer under subsection (a) for any taxable year shall
5 not exceed \$1,500.

"(c) DEFINITIONS.—For purposes of this section—

"(1) QUALIFIED EMPLOYEE.—The term 'qualified
8 employee' means an individual—

"(A) who is employed by a qualified business
9 during the taxable year, and

"(B) with respect to whom at least 50 per-
12 cent of the services performed by the individual
13 for the qualified business during the taxable year
14 are services performed in an enterprise zone.

"(2) QUALIFIED EARNED INCOME.—

"(A) IN GENERAL.—The term 'qualified
17 earned income' means earned income attributable
18 to services which were performed—

"(i) for a qualified business,

"(ii) in an enterprise zone, and

"(iii) during the 30-month period beginning on the date the qualified employee first
23 performed services for any qualified business
24 in any enterprise zone.

1 “(B) **EARNED INCOME.**—The term ‘earned

2 income’ has the meaning given such term by sec-

3 tion 43(c)(2).

4 “(C) **ENTERPRISE ZONE.**—The term ‘enterprise

5 zone’ means any area with respect to which a designa-

6 tion as an enterprise zone is in effect under section

7 7871.

8 “(D) **QUALIFIED BUSINESS.**—The term ‘qualified

9 business’ has the meaning given such term by section

10 1201(b)(2).

11 “(d) **CHIEF TO BE REPUDIABLE; ADVANCE PAY-**

12 **MENTS.**—For purposes of this title (other than this section,

13 this subpart and chapter 63), any credit allowable under this

14 section shall be treated as if it were allowed by section 43

15 and not by this section.

16 “(e) **TERMINATION.**—This section shall not apply to

17 qualified earned income attributable to services performed

18 after December 31, 2001.”

19 “(b) **CONFORMING AMENDMENT.**—The table of sections

20 for subpart A of part IV of subchapter A of chapter 1 is

21 amended by inserting immediately before the item relating to

22 section 45 the following new item:

“Sec. 140 Earned income of employees in enterprise zones.”

1 “(c) **DETERMINATIVE DATE.**—The amendments made by this

2 section shall apply to taxable years ending after the date of

3 the enactment of this Act.

4 **Subtitle B—Reduction in Capital Gain**

5 **Tax Rates**

6 **SEC. 211. CORPORATIONS.**

7 “(a) **GENERAL RULE.**—Subsection (a) of section 1201

8 (relating to alternative tax for corporations) is amended by

9 striking out paragraphs (1) and (2) and inserting in lieu there-

10 of the following:

11 “(1) a tax computed on the taxable income re-

12 duced by the amount of the net capital gain, at the

13 rates and in the manner as if this subsection had not

14 been enacted, plus

15 “(2) a tax of 28 percent of the excess (if any) of—

16 “(A) the net capital gain for the taxable

17 year, over

18 “(B) the net capital gain determined only by

19 taking into account sales or exchanges of qualified

20 property.”

21 “(b) **DEFINITION OF QUALIFIED PROPERTY.**—Section

22 1201 is amended by redesignating subsections (b) and (c) as

23 subsections (c) and (d) and by inserting after subsection (a)

24 the following new subsection:

1 " (b) DEFINITION OF QUALIFIED PROPERTY.—For pur-
2 poses of this section—

3 "(1) IN GENERAL.—The term 'qualified property'
4 means —

5 "(A) any tangible personal property which
6 was acquired by the taxpayer after the designa-
7 tion of an area as an enterprise zone and which
8 was used predominantly by the taxpayer in such
9 enterprise zone in the active conduct of a trade or
10 business,

11 "(B) any real property located in an enter-
12 prise zone which was acquired by the taxpayer
13 after the designation of an area as an enterprise
14 zone and which was used predominantly by the
15 taxpayer in the active conduct of a trade or busi-
16 ness, and

17 "(C) any interest in a corporation, partner-
18 ship, or other entity if, for the most recent taxable
19 year of such entity ending before the date of ac-
20 quisition of such interest, such entity was a qual-
21 ified business.

22 "(2) QUALIFIED BUSINESS.—

23 "(A) IN GENERAL.—The term 'qualified
24 business' means any person—

1 "(i) which is actively engaged in the
2 conduct of a trade or business during such
3 taxable year,

4 "(ii) with respect to which at least 50
5 percent of such person's gross receipts for
6 the taxable year are attributable to the
7 active conduct of a trade or business within
8 an enterprise zone, and

9 "(iii) with respect to which at least 40
10 percent of any employees hired by such
11 person after the later of the date on which—

12 "(I) such person begins the active
13 conduct of a trade or business within an
14 enterprise zone, or

15 "(II) any area in which such
16 person is actively engaged in the con-
17 duct of a trade or business is designated
18 as an enterprise zone,
19 are qualified employees.

20 "(B) EXISTING BUSINESS.—Any person
21 which—

22 "(i) was actively engaged in the conduct
23 of a trade or business in an area immediately
24 before such area is designated as an enter-
25 prise zone, and

"(ii) otherwise meets the requirements of this paragraph,

shall not be treated as a qualified business unless the average number of employees (determined on a full-time basis) during the taxable year is at least 10 percent greater than the average number of such employees during the taxable year preceding the designation of such area as an enterprise zone.

"(3) QUALIFIED EMPLOYEES.—The term 'qualified employee' has the same meaning given such term by section 44F(c).

"(4) SPECIAL RULES FOR LOW INCOME RENTAL PROPERTY.—

"(A) IN GENERAL.—In the case of property described in subparagraph (B) —

"(i) such property shall, for purposes of section 1201(a)(2)(B), be treated as qualified property, and

"(ii) ownership of such property shall, for purposes of section 128, be treated as the active conduct of a trade or business within an enterprise zone.

"(B) PROPERTY TO WHICH PARAGRAPH APPLIES.—Property is described in this subparagraph if such property—

"(i) is section 1250 property described in clauses (i)–(iv) of section 1260(e)(1)(B), or similar property designated by the Secretary of Housing and Urban Development,

"(ii) is located in an enterprise zone, and

"(iii) was—

"(I) constructed after the area's designation as an enterprise zone, or

"(II) rehabilitated after such designation and the cost of such rehabilitation was at least \$10,000 per unit with respect to each project (or \$3,000 per unit if such project was financed from a State or local agency and such agency certifies that no person is in default with respect to such financing at the time of the rehabilitation).

"(5) PROPERTY REMAINS QUALIFIED AFTER ZONE DESIGNATION CHANGES TO APPLY.—

"(A) IN GENERAL.—The treatment of property as qualified property under paragraph (1)

shall not terminate when the designation of the enterprise zone in which the property is located or used ceases to apply.

"(B) EXEMPTIONS.—Subparagraph (A) shall not apply after the first sale or exchange of property occurring after the designation ceases to apply to the zone.

"(C) ENTERPRISE ZONE.—The term 'enterprise zone' means an area with respect to which a designation as an enterprise zone is in effect under section 7871."

SEC. 212. TAXPAYERS OTHER THAN CORPORATIONS.

Subsection (a) of section 1202 (relating to deduction for capital gains) is amended to read as follows:

"(a) DEDUCTION ALLOWED.—

"(1) IN GENERAL.—If for any taxable year a taxpayer other than a corporation has a net capital gain, there shall be allowed as a deduction from gross income an amount equal to the sum of—

"(A) 100 percent of the lesser of—

"(i) the net capital gain, or

"(ii) the net capital gain determined by only taking into account sales or exchanges of qualified property (as defined in section 1201(b)), plus

"(B) 60 percent of the excess (if any) of—

"(i) the net capital gain, over

"(ii) the amount of the net capital gain taken into account under subparagraph (A).

"(2) PROPERTY REMAINS QUALIFIED AREA.
ZONE DESIGNATION CEASES TO APPLY.—

"(A) IN GENERAL.—The treatment of property as qualified property under paragraph (1) shall not terminate when the designation of the enterprise zone in which the property is located or used ceases to apply.

"(B) EXEMPTIONS.—Subparagraph (A) shall not apply after the first sale or exchange of property occurring after the designation ceases to apply to the zone."

SEC. 213. MINIMUM TAX.

"(a) CAPITAL GAINS.—Paragraph (B) of section 57(a) (relating to tax preference for capital gains) is amended by adding at the end thereof the following new subparagraph:

"(B) SALES OF CERTAIN PROPERTY NOT TAKEN INTO ACCOUNT.—For purposes of this paragraph, sales or exchanges of qualified property (as defined in section 1201(b)) shall not be taken into account."

(b) **ACCELERATED DEPRECIATION.**—Paragraph (2) of section 57(a) (relating to accelerated depreciation on real property) is amended by adding at the end thereof the following: "The preceding sentence shall not apply to any section 1250 property which is qualified property (within the meaning of section 1201(b))."

SEC. 201. EFFECTIVE DATE.

The amendments made by this subtitle shall apply to sales or exchanges after December 31, 1981, in taxable years ending after such date.

Subtitle C—Reduction in Gross Income of Trades or Businesses Operating in Zone

SEC. 221. EXCLUSION FROM GROSS INCOME.

(a) **IN GENERAL.**—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by redesignating section 126 as section 120 and by inserting after section 127 the following new section:

"SEC. 128. CERTAIN INCOME ATTRIBUTABLE TO ENTERPRISE

ZONES.

"(a) **GENERAL RULE.**—There shall be excluded from the taxable income of a taxpayer (whether or not incorporated) for the taxable year an amount equal to the applicable percentage of the sum of—

"(1) any amount received by a qualified business from the active conduct of a trade or business within an enterprise zone, or

"(2) any amount received as interest on any mortgage, loan, or other financing (other than refinancing) provided by the taxpayer to any qualified business in connection with the conduct of a trade or business within an enterprise zone.

"(b) **APPLICABLE PERCENTAGE.**—For purposes of subsection (a), the applicable percentage shall be determined in accordance with the following table:

If the taxable year begins in:	The applicable percentage is:
1981-1987.....	50
1988.....	40
1989.....	30
1990.....	20
2001.....	10.

"(c) **DEFINITIONS.**—For purposes of this section—

"(1) **ENTERPRISE ZONE.**—The term 'enterprise zone' means an area with respect to which a designation as an enterprise zone is in effect under section 7871.

"(2) **QUALIFIED BUSINESS.**—The term 'qualified business' has the same meaning given such term by section 1201(b)(2).

"(3) **TAXABLE INCOME.**—The term 'taxable income' means the excess of the income received from the active conduct of a trade or business within an en-

1 enterprise zone, less the deductions allowable under this
2 chapter which are allocable to such income.

3 "(d) ATTRIBUTION OF SECTION.—The provisions of
4 this section shall apply to—

5 "(1) amounts described in subsection (a) which are
6 received after the date of the enactment of this section
7 and before January 1, 2002, and

8 "(2) amounts described in subsection (a)(2) which
9 are received during the period described in paragraph
10 (1) and which are attributable to financing provided
11 during such period."

12 (b) CONFORMING AMENDMENT.—The table of sections
13 for part III of subchapter B of chapter 1 is amended by strik-
14 ing out the item relating to section 128 and inserting in lieu
15 thereof the following new item:

"Sec. 128 (certain income attributable to enterprise zones).
"Sec. 128 (cross reference to other Acts)."

16 Subtitle D—Other Incentives

17 SEC. 231. OPTIONAL CASH METHOD OF ACCOUNTING FOR CER-

18 TAIN SMALL BUSINESSES.

19 Section 440 (relating to general rule for methods of ac-
20 counting) is amended by adding at the end thereof the follow-
21 ing new subsection:

22 "(D) OPTIONAL CASH METHOD.—

23 "(1) IN GENERAL.—Any taxpayer which is a
24 qualified business (as defined in section 1201(b)(2)) for

8 1310—1c

1 any taxable year may elect to compute taxable
2 income—

3 "(A) under the cash receipts and disburse-
4 ments method of accounting, and

5 "(B) without any requirement to use inven-
6 tories under section 471.

7 "(2) GROSS RECEIPTS LIMITATION.—Paragraph
8 (1) shall not apply for any taxable year with respect to
9 any taxpayer if for any prior taxable year the gross re-
10 cepts of such taxpayer exceeded \$2,000,000.

11 "(3) ELECTION.—An election under paragraph (1)
12 may be made by any taxpayer without the consent of
13 the Secretary for the taxpayer's first taxable year for
14 which the taxpayer is a qualified business."

15 SEC. 232. EXTENSION OF NET OPERATING LOSS CARRYOVERS.

16 (a) GENERAL RULE.—Paragraph (1) of section 172(b)
17 (relating to net operating loss carrybacks and carryovers) is
18 amended by adding at the end thereof the following new sub-
19 paragraph:

20 "(1) In the case of any taxpayer which is a
21 qualified business (as defined in section 1201(b)(2))
22 for any taxable year, any net operating loss for
23 such taxable year shall be a net operating loss
24 carryover to each of the 20 taxable years follow-
25 ing the taxable year of such loss."

8 1310—1c

(b) TECHNICAL AMENDMENT.—Subparagraph (b) of section 172(b)(1) is amended by striking out “and (F)” and inserting in lieu thereof “(F), and (J)”.

SEC. 232. INVESTMENT CREDIT FOR CERTAIN LOW INCOME

RENTAL HOUSING.

(a) DEFINITION OF SECTION 38 PROPERTY.—Paragraph (1) of section 48(a) (defining section 38 property) is amended by striking out the period at the end of subparagraph (F) and inserting in lieu thereof “, or” and by adding immediately after subparagraph (F) the following new subparagraph:

“(G) property described in section 1201(b)(4)(B).”

(b) LEADINGS EXEMPTION.—Paragraph (3) of section 48(b) (relating to property used for lodging) is amended—

(1) by striking out “and” at the end of subparagraph (B),

(2) by striking out the period at the end of subparagraph (C) and inserting in lieu thereof “, and”,

and

(3) by adding at the end thereof the following new subparagraph:

“(D) property described in section 1201(b)(4)(B).”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to periods beginning after the date of the enactment of this Act under rules similar to the rules contained in section 48(m) of the Internal Revenue Code of 1954.

Subtitle E—Sense of the Congress With Respect to Tax Simplification

SEC. 241. TAX SIMPLIFICATION.

It is the sense of the Congress that the Internal Revenue Service should in every way possible simplify the administration and enforcement of any provision of the Internal Revenue Code of 1954 added to, or amended by, this title.

TITLE III—REGULATORY FLEXIBILITY

SEC. 301. DEFINITION OF SMALL ENTITY FOR PURPOSES OF

ANALYSIS OF REGULATORY FUNCTIONS.

Paragraph (b) of section 401 of title 5, United States Code, defining small entity, is amended to read as follows:

“(b) the term ‘small entity’ means—

“(A) a small business, small organization or

small governmental jurisdiction (within the meaning of paragraphs (3), (4), and (5), respectively),

and

“(B) any qualified business (within the meaning of section 1201(b)(2) of the Internal Revenue

1 (b) of 1954), any government designating an
 2 area as an enterprise zone (within the meaning of
 3 section 7871 of such Code) to the extent any rule
 4 will affect such zone, and any not-for-profit enter-
 5 prise operating within such zone."

○

Appendix C

H.R.3824

97th CONGRESS
1st Session
H. R. 3824

To amend the Internal Revenue Code of 1954 to provide certain community development, employment, and tax incentives for individuals and businesses in depressed areas.

IN THE HOUSE OF REPRESENTATIVES

June 4, 1981

Mr. KARP (for himself, Mr. GARNER, Mr. GRAY, Mr. HAWKINS, Mr. MONTAGU, and Mr. LOTT) introduced the following bill, which was referred to the Committee on Ways and Means, and referred concurrently to the Committee on Banking, Finance and Urban Affairs only for consideration of such portions of section 102 of the bill as fall within that committee's jurisdiction under clause 1(d), rule X

A BILL

To amend the Internal Revenue Code of 1954 to provide certain community development, employment, and tax incentives for individuals and businesses in depressed areas.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1951 CODE.**
- 4 (a) **SHORT TITLE.**—This Act may be cited as the
- 5 "Urban Jobs and Enterprise Zone Act of 1981".

(b) AMENDMENT OF 1954 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

TYPE I—DESIGNATION OF ENTERPRISE ZONES

SEC. 101. DESIGNATION OF ZONES.

(a) GENERAL RULE.—Chapter 80 (relating to general rules) is amended by adding at the end thereof the following new subchapter:

“Subchapter C—Designation of Enterprise Zones

“Sec. 7871. Designation.

“SEC. 7871. DESIGNATION.

“(a) DESIGNATION OF ZONES.—

“(1) ENTERPRISE ZONES DEFINED.—For purposes of this title, the term ‘enterprise zone’ means any area in the United States, Puerto Rico, or other possessions and territories of the United States which is designated by one or more local governments for purposes of this section if—

“(A) the Secretary, after consultation with the Secretaries of Commerce, Labor, and Treas-

11 8 2011—16

ury, and the Administrator of the Small Business Administration, approves such designation, and

“(1b) the government making such designation has authority to make the local commitments under subsection (d) and provides assurances satisfactory to the Secretary that such commitments will be made in such area.

“(2) LIMITATIONS ON DESIGNATIONS.—The Secretary may not approve any designation under paragraph (1) —

“(A) unless an application therefor is submitted in such manner and in such form, and contains such information, as the Secretary shall by regulations prescribe,

“(B) if any portion of the area to be designated is already included in an area designated and approved as an enterprise zone, or

“(C) if the chief executive officer of the State or possession in which the area to be designated is located files an objection with the Secretary within 21 days of the filing of the application.

“(3) DENOMINATION BY STATES.—A designation under this subsection may be made by a State government on behalf of a local government with the consent of such local government.

11 8 2011—16

1 "(b) Period for Which Designation is in
2 Effect.

3 "(1) In general.—Any designation of an area
4 as an enterprise zone shall remain in effect during the
5 period beginning on the date of the designation and
6 ending on December 31, 2001, unless the Secretary
7 revokes such designation under paragraph (2).

8 "(2) Revocation of designation.—The Sec-
9 retary, after consultation with the officials described in
10 subsection (a)(1)(A), may revoke any designation of an
11 area only if the Secretary determines that the govern-
12 ment which designated such area is not substantially
13 complying with the local commitments described in
14 subsection (d). Any such revocation shall take effect
15 under rules similar to the rules of subsection (a).

16 "(c) AREA REQUIREMENTS.

17 "(1) In general.—The Secretary may approve
18 the designation of any area under subsection (a) only
19 if—

20 "(A) the area is within the jurisdiction of the
21 government designating such area,

22 "(B) the boundary of the area is continuous
23 and includes, if feasible, proximately located
24 vacant or underutilized lands or buildings which

11 U.S.C. 2021-1b

1 are conveniently accessible to residents of the
2 area.

3 "(1) the area—

4 "(i) has a population which, as deter-
5 mined under the most recent census, is at
6 least—

7 "(I) 4,000 if any portion of such
8 area is located within a standard metro-
9 politan statistical area (within the
10 meaning of section 103A(IX)(B)) with a
11 population of 50,000 or greater, or
12 "(II) 2,500 in any other case, or

13 "(ii) is an Indian reservation (as deter-
14 mined by the Secretary of the Interior), and
15 "(1) the area meets the requirements of
16 paragraph (2) and (3).

17 "(2) ELIGIBILITY REQUIREMENTS.—For pur-
18 poses of paragraph (1), an area meets the requirements
19 of this paragraph if the Secretary determines that—

20 "(A) the area is one of pervasive poverty,
21 unemployment, and general distress, and

22 "(B) the area is located wholly within an
23 area which meets the requirements for Federal
24 assistance under section 119 of the Housing and
25 Community Development Act of 1974.

11 U.S.C. 2021-1b

"(3) UNEMPLOYMENT, POVERTY, ETC. REQUIRE-
MENTS.—An area meets the requirements of this para-
graph if—

"(A) the average rate of unemployment in
such area for the most recent 18-month period for
which data are available was at least $1\frac{1}{2}$ times
the average national rate of unemployment for
such 18-month period;

"(B) such area was a low-income poverty
area (as determined by the Bureau of the Census
during its most recent census);

"(C) at least 70 percent of the residents
living in the area have incomes below 80 percent
of the median income of the residents of the gov-
ernment designating such area (determined in the
same manner as under section 110(f) of the
Housing and Community Development Act of
1974); or

"(D) with respect to such area—

"(i) the population of all census tracts in
the area decreased by 10 percent or more
between 1970 and 1980, and

"(ii) the government seeking designation
of the area establishes to the satisfaction of
the Secretary that—

10 R. 3071-1b

"(1) chronic abandonment or demo-
lition of commercial or residential struc-
tures exists in the area, or

"(II) substantial tax advantages of
commercial or residential structures
exist in the area.

"(4) DETERMINATIONS MADE BY SECRETARY.—
Determinations under this subsection shall be made by
the Secretary on the basis of data submitted by or on
behalf of the government designating the area (or per-
sons designated by the government) if the Secretary
determines that such data is reasonably accurate.

"(d) REQUIRED LOCAL COMMITMENT.—

"(1) IN GENERAL.—No area shall be designated
as an enterprise zone unless the government seeking
such designation agrees in writing that during any
period during which the area is an enterprise zone such
government will follow a course of action designed to
reduce the various burdens borne by employers or em-
ployees in such area.

"(2) COURSE OF ACTION.—A course of action
under paragraph (1) may be implemented by the gov-
ernment, private entities, or both, may be funded from
the proceeds of any Federal program, and may include,
but is not limited to—

10 R. 3071-1b

"(A) a reduction of tax rates or fees,

"(B) an increase in the level or efficiency of local services,

"(C) a simplification or streamlining of governmental requirements on employers or employees, or

"(D) a commitment from private entities in the area to provide jobs and job training for, and technical, financial, or other assistance to, employees and residents of the area.

"(c) LIMITATIONS ON DESIGNATIONS.—

"(1) IN GENERAL.—The Secretary may only designate areas as enterprise zones during the period beginning on the date of the enactment of this subchapter and ending on December 31, 1996.

"(2) MINIMUM NUMBER OF DESIGNATIONS.—

During each of the 3 calendar years following the calendar year in which the date of the enactment of this subchapter occurs, the Secretary of Housing and Urban Development shall designate at least 10 but not more than 25 areas as enterprise zones.

"(3) PRIORITY OF DESIGNATION.—In deciding which areas should be designated as enterprise zones, the Secretary shall give preference to—

"(1) areas with the highest levels of poverty, unemployment, and general distress,

"(2) areas with respect to which the government seeking or approving the designation has made (or will make) the greatest effort to examine and remove impediments to job creation, taking into account the resources available to such government to make such efforts,

"(3) areas which have the widest support from the government seeking designation, the community, residents, local businesses, and private organizations, especially in meeting the local commitment described in subsection (d), and

"(4) areas with respect to which the government of the State or possession in which the area is located has made commitments similar to the local commitments described in subsection (d).

"(g) DEFINITIONS AND SPECIAL RULE.—For purposes of this section—

"(1) SECRETARY.—The term 'Secretary' means the Secretary of Housing and Urban Development or his delegate.

"(2) GOVERNMENTS.—If more than one government seeks the designation of an area as an enterprise

1 zone, any reference to, or requirement of, this section
2 shall apply to all such governments."

3 (b) **CONFORMING AMENDMENT.**—The table of sub-
4 chapters for chapter 80 is amended by adding at the end
5 thereof the following new item:

"REVENUES (I. Designation of enterprise zones."

6 **SEC. 102. COORDINATION WITH OTHER FEDERAL PROGRAMS.**

7 (a) **In GENERAL.**—Section 3 of the Department of
8 Housing and Urban Development Act is amended by adding
9 at the end thereof the following new subsection:

10 "(d) The Secretary of Housing and Urban Development
11 shall—

12 "(1) promote the coordination of all Federal hous-
13 ing, community and economic development, small busi-
14 ness, banking, financial assistance, and employment
15 training programs which are carried on within an en-
16 terprise zone (within the meaning of subchapter (I) of
17 chapter 80 of the Internal Revenue Code of 1954),

18 "(2) expedite, to the greatest extent possible, the
19 consideration of applications for programs described in
20 paragraph (1) through the consolidation of forms or
21 otherwise, and

22 "(3) provide, whenever possible, for the consolida-
23 tion of periodic reports required under programs de-
24 scribed in paragraph (1) into one summary report sub-

00 R. 3021-06

1 mitted at such intervals as may be designated by the
2 Secretary."

3 (b) **PROPERTY TAX REDUCTIONS.**—Any reduction of
4 taxes under any required program of local commitment under
5 section 7871(d) of the Internal Revenue Code of 1954 shall
6 be disregarded in determining the eligibility of a State or
7 local government for, or the amount or extent of, any assis-
8 ance or benefits under any law of the United States.

9 **SEC. 103. SENSE OF CONGRESS WITH RESPECT TO JOH CRE-**
10 **ATION.**

11 It is the sense of the Congress that—

12 (1) local governments, in meeting the provisions
13 of this bill which relate to employment of the poor and
14 unemployed, shall "attempt to facilitate to the greatest
15 extent possible the employment of poor and unem-
16 ployed persons who reside within their enterprise
17 zones, and

18 (2) local governments, in choosing areas for enter-
19 prise zone designation, shall consider the effects of
20 such designation upon employment practices and pat-
21 terns existing elsewhere within the same metropolitan
22 area.

23 **SEC. 104. SENSE OF CONGRESS WITH RESPECT TO DESIGNA-**
24 **TIONS OF FOREIGN TRADE ZONES.**

25 It is the sense of the Congress that—

00 R. 3021-10

(1) whenever possible foreign trade zones shall be established within enterprise zones (within the meaning of subchapter (I) of chapter 80 of the Internal Revenue Code of 1954), and

(2) in the case of any application for designation of an area in an enterprise zone as a foreign-trade zone—

(A) the Foreign-Trade Zone Board should expedite the application process as much as possible;

(B) in evaluating such application, the Board should take into account not only current economic development within the enterprise zone but also future development to be expected from the incentives offered by this Act; and

(C) the Board should provide technical assistance to the applicants.

TITLE II—TAXATION

Subtitle A—Refundable Credits for Employers and Employees

SEC. 201. REFUNDABLE EMPLOYERS' CREDIT.

(a) In GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to credits allowable) is amended by inserting immediately before section 45 the following new section:

H. R. 3821—16

SEC. 416. EMPLOYMENT OF CERTAIN EMPLOYEES IN ENTERPRISE ZONES.

(a) In GENERAL.—At the election of the taxpayer, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 5 per cent of the qualified wages of the taxpayer for the taxable year.

(b) QUALIFIED WAGES DEFINED.—For purposes of this section, the term 'qualified wages' means the wages paid or incurred by the employer during the taxable year to qualified employees.

(c) WAGES DEFINED.—For purposes of this section—

(1) In GENERAL.—Except as otherwise provided in this subsection, the term 'wages' has the meaning given to such term by subsection (b) of section 3306 (determined without regard to any dollar limitation contained in such section).

(2) EXCLUSION OF CERTAIN AMOUNTS FOR EMPLOYERS RECEIVING ON-THE-JOB TRAINING PAYMENTS.—The term 'wages' shall not include that portion of any amount paid or incurred by an employer for any period to any individual which is equal to the amount of any federally funded payments the employer receives for on-the-job training of such individual for such period.

H. R. 3821—16

"(3) INDIVIDUALS FOR WHOM WIN OR EMPLOYMENT CREDIT CLAIMED.—The term 'wages' does not include any amount paid or incurred by the employer to an individual with respect to whom the employer claims credit under section 4(b) or 44B.

"(4) TERMINATION.—The term 'wages' shall not include any amount paid or incurred after December 31, 2001.

"(d) QUALIFIED EMPLOYEE.—For purposes of this section, the term 'qualified employee' means an individual—

"(1) who is certified by the designated local agency as having been during the preemployment period an eligible applicant or otherwise eligible—

"(A) under part B or part D of title II of the Comprehensive Employment and Training Act, or

"(B) under part A or part B of title IV of such Act, and

"(2) who performs at least 50 percent of his services during any period for which any computation is being made under this section within an enterprise zone.

For purposes of paragraph (1), the terms 'designated local agency' and 'preemployment period' have the same meanings given such terms by paragraphs (10) and (12) of section 510(d).

H. R. 3021-14

"(e) OTHER DEFINITIONS AND SPECIAL RULES.—

"(1) CONTROLLED GROUPS, ETC.—Under regulations prescribed by the Secretary, rules similar to the rules of section 52 and of subsections (f), (g), and (h) of section 51 shall apply to the credit allowable by this section, except that subsection (h) of section 51 shall be applied without regard to any dollar limitation.

"(2) ENTERPRISE ZONE.—The term 'enterprise zone' means an area for which a designation as an enterprise zone is in effect under section 7871."

(b) CREDIT TO BE REVENUED.—

(1) Subsection (b) of section 6401 (relating to amounts treated as overpayments) is amended—

(A) by striking out "and 43 (relating to earned income credit)," and inserting in lieu thereof "43 (relating to earned income credit), and 44F (relating to employment of certain employees in enterprise zones)", and

(B) by striking out "and 43" and inserting in lieu thereof ", 43, and 44F".

(2) Sections 44(b)(5), 44(b)(5), 44(b)(1), 55(b)(2), 55(b)(4), and 55(c) are each amended by striking out "and 43" and inserting in lieu thereof "43, and 44F".

H. R. 3021-15

1 (3) Paragraph (1) of section 4301(a) (relating to
2 assessment authority) is amended—

3 (A) by striking out "or section 43 (relating to
4 earned income)," and inserting in lieu thereof
5 "section 43 (relating to earned income), or section
6 44F (relating to employment of certain employees
7 in enterprise zones)," and

8 (B) by striking out "UNDER SECTION 39 OR
9 43" in the heading thereof.

10 (c) No Deduction Allowed.—

11 (1) In GENERAL.—Section 280K (relating to dis-
12 allowance of deduction for portion of wages for
13 which credit is claimed under section 40 or 44B) is
14 amended—

15 (A) by adding at the end thereof the follow-
16 ing new subsection:

17 "(e) RULE FOR SECTION 44F CREDIT.—No deduction
18 shall be allowed for that portion of the wages or salaries paid
19 or incurred for the taxable year which is equal to the amount
20 of the credit allowable under section 44F (relating to credit
21 for employment of certain employees in enterprise zones).
22 This subsection shall be applied under a rule similar to the
23 rule under the last sentence of subsection (b)."; and
24 (B) by striking out "OR 44F" in the heading
25 and inserting in lieu thereof ", 44B, OR 44F".

H. R. 3021—4b

1 (2) CONFORMING AMENDMENT.—The table of
2 sections for part IX of subchapter B of chapter 1 is
3 amended by striking out "or 44B" in the item relating
4 to section 280K and inserting in lieu thereof ", 44B, or
5 44F".

6 (b) CONFORMING AMENDMENT.—The table of sections
7 for subpart A of part IV of subchapter A of chapter 1 is
8 amended by inserting before the item relating to section 45
9 the following new item:

"Sec. 44F. Employment of certain employees in enterprise zones."

10 (c) EFFECTIVE DATE.—The amendments made by this
11 section shall apply to wages paid after the date of the enact-
12 ment of this Act in taxable years ending after such date.
13 SEC. 292. REFUNDABLE EMPLOYERS' CREDIT.

14 (a) In GENERAL.—Subpart A of part IV of subchapter
15 A of chapter 1 (relating to credits allowable), as amended by
16 section 201, is amended by inserting immediately before sec-
17 tion 45 the following new section:

18 "SEC. 44F. EARNED INCOME OF EMPLOYEES IN ENTERPRISE
19 ZONES.

20 "(a) In GENERAL.—In the case of a qualified employee,
21 there is allowed as a credit against the tax imposed by this
22 subtitle for the taxable year an amount equal to 5 percent of
23 the qualified earned income for the taxable year.

H. R. 3021—4b

1 " (b) LIMITATION.—The amount of the credit allowable
2 to a taxpayer under subsection (a) for any taxable year shall
3 not exceed \$1,500.

4 " (c) DEBITATIONS.—For purposes of this section—

5 " (1) QUALIFIED ENTERPRISE.—The term 'qualified
6 employee' means an individual—

7 " (A) who is employed by a qualified business
8 during the taxable year, and

9 " (B) with respect to whom at least 50 per-
10 cent of the services performed by the individual
11 for the qualified business during the taxable year
12 are services performed in an enterprise zone.

13 " (2) QUALIFIED EARNED INCOME.—

14 " (A) IN GENERAL.—The term 'qualified
15 earned income' means earned income attributable
16 to services which were performed—

17 " (i) for a qualified business,

18 " (ii) in an enterprise zone, and

19 " (iii) during the 36-month period begin-
20 ning on the date the qualified employee first
21 performed services for any qualified business
22 in any enterprise zone.

23 " (B) EARNED INCOME.—The term 'earned
24 income' has the meaning given such term by sec-
25 tion 13(c)(2).

1 " (3) ENTERPRISE ZONE.—The term 'enterprise
2 zone' means any area with respect to which a designa-
3 tion as an enterprise zone is in effect under section
4 7871.

5 " (4) QUALIFIED BUSINESS.—The term 'qualified
6 business' has the meaning given such term by section
7 1201(b)(2).

8 " (d) CREDIT TO BE REFUNDABLE; ADVANCE PAY-
9 MENTS.—For purposes of this title (other than this section,
10 this subpart and chapter 63), any credit allowable under this
11 section shall be treated as if it were allowed by section 43
12 and not by this section.

13 " (e) TERMINATION.—This section shall not apply to
14 qualified earned income attributable to services performed
15 after December 31, 2001."

16 (b) CONFORMING AMENDMENT.—The table of sections
17 for subpart A of part IV of subchapter A of chapter 1 is
18 amended by inserting immediately before the item relating to
19 section 45 the following new item:

"Sec. 455. Earned income of employees in enterprise zone."

20 (c) DEBITATIVE DATES.—The amendments made by this
21 section shall apply to taxable years ending after the date of
22 the enactment of this Act.

Subtitle B—Reduction in Capital Gain

Tax Rates

SEC. 211. CORPORATIONS.

(a) **GENERAL RULE.**—Subsection (a) of section 1201 (relating to alternative tax for corporations) is amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following:

“(1) a tax computed on the taxable income reduced by the amount of the net capital gain, at the rates and in the manner as if this subsection had not been enacted, plus

“(2) a tax of 28 percent of the excess (if any) of—

“(A) the net capital gain for the taxable year, over

“(B) the net capital gain determined only by taking into account sales or exchanges of qualified property.”

(b) **DEFINITION OF QUALIFIED PROPERTY.**—Section 1201 is amended by redesignating subsections (b) and (c) as subsections (c) and (d) and by inserting after subsection (a) the following new subsection:

“(b) **DEFINITION OF QUALIFIED PROPERTY.**—For purposes of this section—

“(1) **IN GENERAL.**—The term ‘qualified property’ means

U. S. C. 1-1b

“(A) any tangible personal property which was acquired by the taxpayer after the designation of an area as an enterprise zone and which was used predominantly by the taxpayer in such enterprise zone in the active conduct of a trade or business,

“(B) any real property located in an enterprise zone which was acquired by the taxpayer after the designation of an area as an enterprise zone and which was used predominantly by the taxpayer in the active conduct of a trade or business, and

“(C) any interest in a corporation, partnership, or other entity if, for the most recent taxable year of such entity ending before the date of acquisition of such interest, such entity was a qualified business.

“(2) **QUALIFIED BUSINESS.**—

“(A) **IN GENERAL.**—The term ‘qualified business’ means any person—

“(i) which is actively engaged in the conduct of a trade or business during such taxable year,

“(ii) with respect to which at least 50 percent of such person’s gross receipts for

U. S. C. 1-1b

the taxable year are attributable to the active conduct of a trade or business within an enterprise zone, and

"(iii) with respect to which at least 40 percent of any employees hired by such person after the later of the date on which—

"(i) such person begins the active conduct of a trade or business within an enterprise zone, or

"(ii) any area in which such person is actively engaged in the conduct of a trade or business is designated as an enterprise zone,

are qualified employees.

"(B) EXISTING BUSINESS.—Any person which—

"(i) was actively engaged in the conduct of a trade or business in an area immediately before such area is designated as an enterprise zone, and

"(ii) otherwise meets the requirements of this paragraph,

shall not be treated as a qualified business unless the average number of employees (determined on a full-time basis) during the taxable year is at

U.S. STAT.—46

least 10 percent greater than the average number of such employees during the taxable year preceding the designation of such area as an enterprise zone.

"(3) QUALIFIED EMPLOYEES.—The term 'qualified employee' has the same meaning given such term by section 44(f)(d).

"(4) SPECIAL RULES FOR LOW-INCOME RESIDENT PROPERTY.—

"(A) IN GENERAL.—In the case of property described in subparagraph (B)—

"(i) such property shall, for purposes of section 1201(a)(2)(B), be treated as qualified property, and

"(ii) ownership of such property shall, for purposes of section 128, be treated as the active conduct of a trade or business within an enterprise zone.

"(B) PROPERTY TO WHICH PARAGRAPH APPLIES.—Property is described in this subparagraph if such property—

"(i) is section 1250 property described in clauses (i)–(iv) of section 1256(a)(1)(B), or similar property designated by the Secretary of Housing and Urban Development,

U.S. STAT.—46

"(ii) is located in an enterprise zone, and

"(iii) was—

"(i) constructed after the area's designation as an enterprise zone, or

"(ii) rehabilitated after such designation and the cost of such rehabilitation was at least \$10,000 per unit with respect to each project (or \$3,000 per unit if such project was financed from a State or local agency and such agency certifies that no person is in default with respect to such financing at the time of the rehabilitation).

"(5) PROPERTY REMAINS QUALIFIED AFTER ZONE DESIGNATION CEASES TO APPLY.—

"(A) IN GENERAL.—The treatment of property as qualified property under paragraph (1) shall not terminate when the designation of the enterprise zone in which the property is located or used ceases to apply.

"(B) EXCEPTIONS.—Subparagraph (A) shall not apply after the first sale or exchange of property occurring after the designation ceases to apply to the zone.

H. R. 3021—1b

"(6) ENTERPRISE ZONE.—The term 'enterprise zone' means an area with respect to which a designation as an enterprise zone is in effect under section 7871."

SEC. 212. TAXPAYERS OTHER THAN CORPORATIONS.

Subsection (a) of section 1202 (relating to deduction for capital gains) is amended to read as follows:

"(a) DEDUCTION ALLOWED.—

"(1) IN GENERAL.—If for any taxable year a taxpayer other than a corporation has a net capital gain, there shall be allowed as a deduction from gross income an amount equal to the sum of—

"(A) 100 percent of the lesser of—

"(i) the net capital gain, or

"(ii) the net capital gain determined by only taking into account sales or exchanges of qualified property (as defined in section 1201(b)), plus

"(B) 60 percent of the excess (if any) of—

"(i) the net capital gain, over

"(ii) the amount of the net capital gain taken into account under subparagraph (A).

"(2) PROPERTY REMAINS QUALIFIED AFTER ZONE DESIGNATION CEASES TO APPLY.—

H. R. 3021—1b

"(A) IN GENERAL.—The treatment of property as qualified property under paragraph (1) shall not terminate when the designation of the enterprise zone in which the property is located or used ceases to apply.

"(1) EXEMPTIONS.—Subparagraph (A) shall not apply after the first sale or exchange of property occurring after the designation ceases to apply to the zone."

10 SEC. 213. MINIMUM TAX.

(a) CAPITAL GAINS.—Paragraph (1) of section 57(a) (relating to tax preference for capital gains) is amended by adding at the end thereof the following new subparagraph:

"(b) SALES OF CERTAIN PROPERTY NOT TAKEN INTO ACCOUNT.—For purposes of this paragraph, sales or exchanges of qualified property (as defined in section 1201(b)) shall not be taken into account."

(b) ACCELERATED DEPRECIATION.—Paragraph (2) of section 57(a) (relating to accelerated depreciation on real property) is amended by adding at the end thereof the following: "The preceding sentence shall not apply to any section 1250 property which is qualified property (within the meaning of section 1201(b))."

1 SEC. 214. EFFECTIVE DATE.

The amendments made by this subtitle shall apply to sales or exchanges after December 31, 1981, in taxable years ending after such date.

5 Subtitle C—Reduction in Gross 6 Income of Trades or Businesses 7 Operating in Zone

8 SEC. 214. EXCLUSION FROM TAXABLE INCOME.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by redesignating section 128 as section 129 and 12 by inserting after section 127 the following new section:

13 "SEC. 128. CERTAIN INCOME ATTRIBUTABLE TO ENTERPRISE 14 ZONES.

"(a) GENERAL RULE.—There shall be excluded from the taxable income of a taxpayer (whether or not incorporated) for the taxable year an amount equal to the applicable percentage of the sum of—

(1) any amount received by a qualified business from the active conduct of a trade or business within an enterprise zone, or

(2) any amount received as interest on any mortgage, loan, or other financing (other than refinancing) provided by the taxpayer to any qualified business in connection with the conduct of a trade or business within an enterprise zone.

1 " (b) APPLICABLE PERCENTAGE.—For purposes of sub-
2 section (a), the applicable percentage shall be determined in
3 accordance with the following table:

"If the taxable year begins in:	The applicable percentage is:
1981-1987	50
1988	40
1989	30
2000	20
2001	10.

4 " (c) DEFINITIONS.—For purposes of this section—

5 " (1) ENTERPRISE ZONE.—The term 'enterprise
6 zone' means an area with respect to which a designa-
7 tion as an enterprise zone is in effect under section
8 7871.

9 " (2) QUALIFIED BUSINESS.—The term 'qualified
10 business' has the same meaning given such term by
11 section 1201(b)(2).

12 " (3) TAXABLE INCOME.—The term 'taxable
13 income' means the excess of the income received from
14 the active conduct of a trade or business within an en-
15 terprise zone, less the deductions allowable under this
16 chapter which are allocable to such income.

17 " (d) APPLICATION OF SECTION.—The provisions of
18 this section shall apply to—

19 " (1) amounts described in subsection (a) which are
20 received after the date of the enactment of this section
21 and before January 1, 2002, and

H. R. 3021—1A

1 " (2) amounts described in subsection (a)(2) which
2 are received during the period described in paragraph
3 (1) and which are attributable to financing provided
4 during such period."

5 (b) CONFORMING AMENDMENT.—The table of sections
6 for part III of subchapter B of chapter 1 is amended by strik-
7 ing out the item relating to section 128 and inserting in lieu
8 thereof the following new item:

"Sec. 128. Certain income attributable to enterprise zones.
"Sec. 129. Cross references to other Acts."

9 Subtitle D—Other Incentives

10 SEC. 221. OPTIONAL CASH METHOD OF ACCOUNTING FOR CER-
11 TAIN SMALL BUSINESSES.

12 Section 440 (relating to general rule for methods of ac-
13 counting) is amended by adding at the end thereof the follow-
14 ing new subsection:

15 " (f) OPTIONAL CASH METHOD.—

16 " (1) IN GENERAL.—Any taxpayer which is a
17 qualified business (as defined in section 1201(b)(2)) for
18 any taxable year may elect to compute taxable
19 income—

20 " (A) under the cash receipts and disburse-
21 ments method of accounting, and

22 " (B) without any requirement to use inven-
23 tories under section 471.

H. R. 3021—1A

1 "(2) GROSS RECEIPTS LIMITATION.—Paragraph
2 (1) shall not apply for any taxable year with respect to
3 any taxpayer if for any prior taxable year the gross re-
4 ceipts of such taxpayer exceeded \$2,000,000.

5 "(3) *Waiver*.—An election under paragraph (1)
6 may be made by any taxpayer without the consent of
7 the Secretary for the taxpayer's first taxable year for
8 which the taxpayer is a qualified business."

9 SEC. 212. EXTENSION OF NET OPERATING LOSS CARRYOVERS.

10 (a) *General Rule*.—Paragraph (1) of section 172(b)
11 (relating to net operating loss carrybacks and carryovers) is
12 amended by adding at the end thereof the following new sub-
13 paragraph:

14 "(1) In the case of any taxpayer which is a
15 qualified business (as defined in section 1201(b)(2))
16 for any taxable year, any net operating loss for
17 such taxable year shall be a net operating loss
18 carryover to each of the 20 taxable years follow-
19 ing the taxable year of such loss."

20 (b) *Technical Amendment*.—Subparagraph (B) of
21 section 172(b)(1) is amended by striking out "and (F)" and
22 inserting in lieu thereof "(F), and (J)".

1 SEC. 231. INVESTMENT CREDIT FOR CERTAIN LOW INCOME
2 RENTAL HOUSING.

3 (a) *Definition of Section 38 Property*.—Para-
4 graph (1) of section 48(a) (defining section 38 property) is
5 amended by striking out the period at the end of subpara-
6 graph (F) and inserting in lieu thereof ", or" and by adding
7 immediately after subparagraph (F) the following new sub-
8 paragraph:

9 "(1) property described in section
10 1201(b)(4)(B)."

11 (b) *Lodging Exception*.—Paragraph (3) of section
12 48(c) (relating to property used for lodging) is amended—
13 (1) by striking out "and" at the end of subpara-
14 graph (B),

15 (2) by striking out the period at the end of sub-
16 paragraph (C) and inserting in lieu thereof ", and",
17 and
18 (3) by adding at the end thereof the following new
19 subparagraph:

20 "(D) property described in section
21 1201(b)(4)(B)."

22 (c) *Effective Date*.—The amendments made by this
23 section shall apply to periods beginning after the date of the
24 enactment of this Act under rules similar to the rules con-
25 tained in section 48(m) of the Internal Revenue Code of
26 1954.

1 **Subtitle E—Sense of the Congress**
2 **With Respect to Tax Simplification**

3 **SEC. 201. TAX SIMPLIFICATION.**

4 It is the sense of the Congress that the Internal Revenue Service should in every way possible simplify the administration and enforcement of any provision of the Internal Revenue Code of 1954 added to, or amended by, this title.

8 **TITLE III—REGULATORY**
9 **FEASIBILITY**

10 **SEC. 301. DEFINITION OF SMALL ENTITY FOR PURPOSES OF**
11 **ANALYSIS OF REGULATORY FUNCTIONS.**

12 Paragraph (6) of section 601 of title 5, United States Code, defining small entity, is amended to read as follows:

14 “(6) the term ‘small entity’ means—

15 “(A) a small business, small organization or small governmental jurisdiction (within the meaning of paragraphs (3), (4), and (5), respectively), and

16 “(B) any qualified business (within the meaning of section 1201(b)(2) of the Internal Revenue Code of 1954), any Government designating an area as an enterprise zone (within the meaning of section 7871 of such Code) to the extent any rule will affect such zone, and any not-for-profit enterprise operating within such zone.”

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HM 3071-1b

Appendix D

Reagan Administration Proposals

PRESIDENT'S ENTERPRISE ZONE PLAN INCLUDES CONTROVERSIAL DEREGULATION ASPECTS

President Reagan's urban enterprise zone plan calls for relaxation or elimination of "an almost endless array of state and local regulations" within zones, a provision that seems certain to create controversy.

Regulatory relief should "be a central element of any state and local incentive package," says plan, obtained by CDD from a top White House source. Standards should be "broadened" by "requiring each agency to weigh heavily the need to stimulate economic redevelopment within enterprise zones," it says.

State and local regulations the plan suggests could be relaxed or eliminated include:

- * Relaxation of minimum wage laws. Federal minimum wage laws should be relaxed for teen-age employment as well.

- * Elimination of usury laws would increase supply of capital to zones and enable businesses to obtain start-up capital more easily.

- * Rent control should be eliminated on any new housing built within a zone and on all existing units as they are vacated. "Probably the most destructive of all state and local regulations," rent control "tends to cause a shortage of housing by encouraging demand for scarce inner city space and discouraging supply," plan says.

- * Zoning laws should be relaxed because they preclude a "broad range of potential (enterprise zone) activities" by restricting businesses and property owners from getting the most productivity from their properties.

- * Elimination of occupational licensure laws and permit requirements.

- * Removal of a zone area from the jurisdiction of central planning authorities, which tend to restrict economic activities and "foreclose business activities."

- * Rid building codes of "outdated...outmoded and unnecessarily costly methods."

Each state and local regulatory body could be granted discretionary authority to relax or eliminate regulations within a zone. Each body would be required to weigh the need for job creation and economic development against public health, safety and welfare, administration plan notes.

White House proposal would provide much more regulatory relief than major congressional bill, HR 3824, by N.Y. Reps. Kemp (R) and Garcia (D). Both Kemp and

Garcia are unhappy with deregulatory aspects of administration plan, staffers say.

Although Garcia hasn't been briefed officially on White House plan, staffer Jeff Noah says congressman's aware of what's in the proposal. Garcia can't support tampering with minimum wage laws, or relaxation of other regulations, Noah tells CDD.

Noah says it's possible all parties will agree on 1 bill. Another possibility is that the administration, and Kemp and Garcia, will introduce 1 bill, and later that sections unacceptable to both congressmen will be introduced as amendments to their bill.

Garcia would go with his own bill if necessary, says Noah. Administration had promised a briefing before Reagan's State of the Union message tonight, in which he is expected to announce his enterprise zone plan. Noah says the briefing never materialized.

"Sooner or later, they'll (administration) realize Garcia has to be included in this legislative process," Noah says. Citing 17 Democrats and 62 Republicans who support Kemp-Garcia in the House, Noah says the administration "needs us, we don't need them."

Eligibility for zone designation under administration plan would be the same as in Kemp-Garcia, including poverty and unemployment criteria. To be eligible, an area must be economically distressed and have widespread poverty and unemployment. Area must also satisfy eligibility criteria under urban development action grant program.

Under the administration's plan, a zone could be designated by a city gov't with state consent or vice versa, by legislative action. Both bodies would have to pass legislation creating state and local incentives for each zone.

State and local gov'ts would then apply to HUD for fed'l approval, allowing fed'l incentives to apply to zone. HUD, which would administer the program while Internal Revenue Service would administer tax provisions, would evaluate applications on a competitive basis.

Applicants would have to be able to provide tax and regulatory relief, improved public services and involvement in program by neighborhood and other private sector groups.

"The inadequacy of some services, such as crime protection, may make it simply impossible to do business in a potential enterprise zone area at all," White House plan states.

Plan recommends several ways to improve city services, such as increasing police patrols, providing additional funding for infrastructure maintenance and buying modern equipment.

Other recommendations include contracting with private firms to provide services usually rendered by local gov'ts. By replacing "government monopoly" with "market competition," costs will decrease and quality will improve, says plan.

Another way is through neighborhood ass'ns, which could contract directly with private firms or provide such services themselves. White House plan suggests service providers working with neighborhood groups should be allowed tax credits "equal to the cost to the city of otherwise providing these services."

If a neighborhood ass'n saves a city \$100,000 a year by collecting its own garbage, says plan, ass'n members should receive an equal tax credit to divide among themselves.

If neighborhood residents don't pay enough in taxes to take advantage of credits, they could be transferred to individuals making donations to neighborhood groups to provide services. If zone residents provide services through such groups at lower costs, they could split profits with donor.

One other method would be to grant tax credits directly to businesses which voluntarily provide local services. A large corporation might repair roads, water and sewage pipes or subway stations in a rundown area, plan says, if it could be reimbursed by tax credits.

Other possible methods include:

* User fees, charged to beneficiaries of each service.

* "Load shedding," which would mean stopping service provision to an area where a private firm could be induced to take over responsibility.

* Voluntary actions, such as day care and crime watch patrols, by private groups.

While none of these actions is required for participation in enterprise zone program, plan says "substantial credit will be given in the competitive federal approval process to state and local governments which commit to experimenting with some of these mechanisms."

White House agrees to designate up to 25 zones a year, with federal incentives effective for 20 years with a 4-year phaseout. During phaseout, federal tax reductions would be cut by 25% each year. Administration believes program should focus on large urban areas, though many rural areas would qualify for designation.

Treasury Dep't estimates cost for each zone in revenue loss could be \$9.8-13.3 million per year. Cost of 10 zones in first year could be \$98-133 million, 25 zones could be \$245-332.5 million, under these "tentative, worst-case" estimates.

Major tax credit provision not suggested in previous enterprise zone plans would allow for industrial development bonds to be issued to finance small businesses located within zones, even if administration ends use of bonds outside of zones.

A 3% tax credit for investment in property over 3 years and 5% over 5 years would be allowed. Credit would be 10% for construction or rehabilitation of commercial, industrial or rental housing structures within zones.

A nonrefundable tax credit would go to employers for wages paid to disadvantaged zone employees (designated by a reworked Comprehensive Employment and Training Act definition).

Plan would allow a 10% nonrefundable credit to employers for wages paid to zone employees, with a cap of \$15,000 on wages to which credit applies. Zone employees would be allowed a 5% nonrefundable income tax credit, with a cap of \$9,000.

Capital gains taxes on sale of zone property would be eliminated. An enterprise zone firm could carry over operating loss for the life of the zone or 15 years, whichever is more. Whenever possible, foreign trade zones should be established within enterprise zones, White House plan says.

"The main focus of the incentives is on the creation of new businesses or the expansion of existing ones," says administration plan.

Businesses operating in a zone when designated wouldn't receive credits for their past investments or established payroll expenses for previously hired employees.

Appendix E

H.B.3121 - Kansas Enterprise Act

New State Law Series M
HB 3121 - Kansas Enterprise Zone Act

This report summarizes HB 3121, Laws of 1982, which takes effect on July 1 with its publication in the statute book. The new law creates a "Kansas enterprise zone act", establishing a procedure by which governing bodies of cities may establish enterprise zones in disadvantaged areas, with a population of at least 2,500, to provide new businesses in these areas with certain tax and other economic advantages. While the new law is related to pending federal legislation, its effect is not contingent on passage of federal legislation.

HOUSE BILL No. 3121

An ACT enacting the Kansas enterprise zone act: authorizing the creation of enterprise zones located within cities; providing authority and duties for certain local officials relating thereto; providing tax incentives for business development in such zones; amending K.S.A. 1981 Supp. 12 - 1770, 12 - 1771, 12 - 1772, 12 - 1773, 12 - 1774, 12 - 1778 and 79 - 32.133, as amended by 1982 Senate Bill No. 360, and repealing the existing sections.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF KANSAS:

New Section 1. This act shall be known and may be cited as the Kansas enterprise zone act.

New Section 2. The purpose of this act is to expand and renew the local economy and improve the social and economic welfare of residents in economically distressed zone areas located within the cities of the state of Kansas, by providing incentives for business and industry to develop new business and expand existing business within economically distressed areas and thereby create new jobs and sources of income.

New Sec. 3. The governing body seeking to designate an area located within the city as an enterprise zone shall submit to the secretary of the dept. of economic development a resolution requesting such area be approved as an enterprise zone. The secretary shall review the resolution and any evidence submitted therewith to determine whether such area meets the criteria listed in section 4. The secretary shall approve or disapprove the resolution by written findings of fact and shall notify the governing body of the city of such determination. Upon the approval or disapproval of the resolution, the secretary shall transmit such findings to the governing body. If the resolution is approved, all affected state departments and agencies shall be notified that the provisions of section 3 shall be effective for the authorized enterprise zone in accordance with the provisions of this act. The secretary shall hve 30 days from receipt of such resolution to review, approve or disapprove its compliance with section 4 and if applicable, transmit notice of approval.

New Sec. 4. The secretary of the dept. of economic development shall approve a resolution submitted pursuant to section 3 only if:

- a. The area is within the corporate limits of a city; and
- b. The boundary of the area is continuous and includes, if feasible, vacant or underutilized lands or buildings which are easily accessible to residents of the area; and
- c. (1) the area has a population of at least 4,000 if any portion of the area is located in a SMSA and which has a population of at least 50,000; or
(2) the area has a population of at least 2,500 in any other case; and
- d. (1) there is widespread poverty, unemployment, and general distress; or the average rate of unemployment was at least 1.5 times the average state rate for the most recent 18 month period; or at least 70% of the residents in the area have incomes below 80% of the medium income of the residents of the city as determined by the housing & community development act of 1974; or the population of the area decreased by 10% or more between 1970 and 1980; or
(2) the area is located within a city which meets the requirements for federal assistance under section 119 of the housing and community development act of 1974.

New sec. 5. (a) Preference shall be given to enterprise zones and businesses and other local incentive projects located therein in the provision of programs, funds and services administered by the secretary of the dept. of economic development.

(b) Preference shall be given to enterprise zones and businesses and other local incentive programs not directly administered by the secretary of economic development but which directly or indirectly impact the economic viability thereof, including, but not limited to, the provision of investment capital, maintenance services for infrastructure, and the allocation of state and federal funds for social services.

(c) All state aencies shall review the rules and regulations which they administer which may negatively impact the viability of such enterprise zones, and shall take the steps to waive or modify such rules and regulations so long as such action does not adversely affect the health, safety, or welfare of the public.

(d) The secretary shall prepare a report which will provide detailed information on how cities may provide incentives for and reduce barriers to economic growth within such zones. Also the secretary shall provide all possible technical assistance to cities in aiding their implementation of this act.

Sec. 6 K.S.A. 1981 Supp. 12 - 1770 is amended to allow this act to assist both central business districts and enterprise zones whereas it had previously only been for the assistance of central business districts.

Sec. 7 K.S.A. 1981 Supp. 12 - 1771 is amended to allow for the use of Tax Increment Financing in both central business districts and enterprise zones whereas it had previously been only for central business districts.

Sec. 8 K.S.A. 1981 Supp. 12 - 1772 is amended to read that any city beginning a redevelopment project in a central business district or an enterprise zone must prepare a redevelopment plan setting out the boundries and proposals for the area whereas it had previously been only for central business districts.

Sec. 9 K.S.A. 1981 Supp. 12 - 1773 is amended to allow any city which has adopted a redevelopment plan for its central business district or enterprise zone to purchase or otherwise acquire real property upon the vote of a 2/3rds majority, including condemnation, whereas it had previously been only for central business districts.

Sec. 10 K.S.A. 1981 Supp. 12 - 1774 is amended to allow any city which has adopted a redevelopment plan for its central business district or enterprise zone to issue special obligation bonds to finance the undertaking of any project in accordnace with the approved plan and the provisions of this act, whereas it had previously been only for central business districts.

Sec. 11 K.S.A. 1981 Supp. 12 - 1778 is amended to allow the use of ad valorem taxes to pay the principal and interest on any special obligation bonds issued by the city for the purpose of a project included in an adopted redevelopment plan for a central business district or enterprise zone whereas it had previously been only for central business districts.

Sec. 12 K.S.A. 1981 Supp. 79 - 32.133 is amended to allow tax credits on new business facilities opened after a certain date, both inside and outside of an enterprise zone, and on new employees hired after a certain date; for both central business districts and enterprise zones whereas it had previously been only for central business districts.

New Sec. 13 all sales tax paid on the sale of tangible personal property or services purchased for the purpose of constructing, equiping, reconstructing, maintaining, repairing enlargeing or remodeling a new business facility located within an enterprise zone, which qualifies for an income tax credit under K.S.A. 1981 Supp. 79 - 32.133, and amendments thereto, shall be refunded. Each claim for a sales tax refund shall be verified and submitted to the director of taxation upon forms furnished by director and shall be accompanied by any additional documentation required by the director. The director shall review each claim and shall refund that amount of sales tax paid as determined under the provisions of this section. All refunds

shall be paid from the sales tax refund fund upon warrants of the director of accounts and reports pursuant to vouchers approved by the director or the director's designee.

Sec. 14. K.S.A. 1981 Supp. 12 - 1770, 12 - 1771, 12 - 1772, 12 - 1773, 12 - 1774, 12 - 1778, and 79 - 32.133, as amended by 1982 Senate Bill No. 560 are hereby repealed.

Sec. 15. This act shall take effect and be in force from and after its publication in the statute book.

ENTERPRISE ZONING:
AN ECONOMIC DEVELOPMENT TOOL

by

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B.S., Kansas State University, 1978

AN ABSTRACT OF A MASTER'S REPORT

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Abstract

ENTERPRISE ZONING: AN ECONOMIC DEVELOPMENT TOOL

Many Central Cities in the United States face serious economic problems. Unemployment, population loss, crime, high social welfare expenses, and physical decay exist in these areas throughout the country. There have been many governmental programs aimed at solving these problems. The most recent concept being discussed in the United States is one that was originated by Mr. Hall and Mr. Howe in England and is called Enterprise Zoning.

The basic precept of Enterprise Zoning is that if governmental rules and regulations and high tax rates are removed from our distressed Central Cities, entrepreneurs that are unwilling to take the risks of starting new firms due to taxes and regulations will then do so. Most legislative proposals include a combination of eligibility requirements and then a combination of tax credits, incentives, and refunds designed to increase the survival rates of new firms in the zones and provide higher post-tax profits as an incentive for the entrepreneurs. Rep. Jack Kemp is the author of the most widely discussed Enterprise Zone bill and three other, closely related, bills have also been introduced to Congress. None of these bills has yet been voted out of its committee to the floor of Congress.

Some of the more important points of controversy surrounding Enterprise Zoning include the revenue losses to the cities and the Federal Treasury, the impact of zone designation on the zone and surrounding neighborhoods, the quantity and quality of jobs created by a zone, housing supply and conditions, the type of firms that will arise or locate in a zone, and what place Enterprise Zoning will take in a National

Urban Policy. Many experts have debated these questions and no clear answer has yet surfaced.

Enterprise Zoning is viewed by some as being anti-planning in nature. In actuality, Planning as a science will be very much in demand throughout the Enterprise Zone process. While there may be less efforts in some more traditional areas like zoning, neighborhood planning and economic development skills will be in increased demand.

A final question related to Enterprise Zoning is how the concept fills the needs of our national economy. If the central cities are evolving economically into a new role in the national economy, is it in our best interests to develop programs that alter this evolution?