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# Budget Briefs

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## DEVELOPMENT ZONES AND TECHNOLOGY ZONES

The biennial state budget act (2001 Wisconsin Act 16), passed by the legislature and signed by Governor Scott McCallum on August 30, 2001, designates two new development opportunity zones and also establishes technology and agricultural development zones.

### BACKGROUND

The Department of Commerce (Commerce) administers a variety of programs intended to spur economic development, including the development of: 1) development zones, 2) enterprise development zones, and 3) development opportunity zones, all of which offer tax credits to businesses that create or retain jobs in economically distressed areas. Prior to Act 16, the only development opportunity zone in effect was in Kenosha, although Beloit, West Allis, and Eau Claire previously had zones.

**Development Zones.** Commerce may invite local governments to nominate areas as development zones or local governments themselves may nominate areas. An application must show that the area meets certain criteria of economic distress and how the zone will affect full-time employment for the targeted population. Once Commerce approves an application, it certifies tax credits to businesses operating in a particular zone. A total of \$38,155,000 in tax credits is available for all of the zones. Zones are effective for 20 years with a possible five-year extension. The first zones were designated in 1989, and the department is currently authorized to approve 22 zones, 20 of which have already been designated.

**Enterprise Development Zones.** Unlike development zones, enterprise development zones are limited to one business. Commerce approves applications from businesses in areas that are experiencing economic distress. It may designate as many as 79 zones, at least 10 of which must be for environmental remediation purposes. Since the law was passed in 1995, Commerce has designated 40 zones. Zones may exist for as long as seven years, tax benefits may not exceed \$3 million for each zone.

### NEW DEVELOPMENT OPPORTUNITY ZONES

Development opportunity zones are designated specifically by law. Act 16 designates two new development opportunity zones in Milwaukee and Beloit, effective September 1, 2001, for seven years. If a person or corporation within a zone submits a project plan to Commerce, the person or corporation may claim certain tax benefits during the zone's duration, but the maximum amount of tax credits that can be claimed by all businesses in each zone is \$4.7 million. (The zone's designation can expire in fewer than seven years if the department determines in its annual review that the forgone tax revenues will equal or exceed the \$4.7 million limit.) The plan must include the following major elements, as well as other information specified by law: 1) the amount of money to be invested in the zone, including construction, rehabilitation, repair, or remodeling; 2) the number of full-time jobs that will be created, retained, or substantially upgraded as a result of the economic activity within the zone in relation to the estimated tax benefits it receives; 3) the plans to hire employees from among the targeted population; and 4) the local government's commitment to the project.

The Milwaukee zone benefits the Boston Store in The Grand Avenue shopping mall and seeks to retain the corporate offices there. The Beloit zone relates to the Gateway Project, a 1,600 acre area for housing, commercial and retail development, and a light industrial park.

Commerce must revoke the tax credits if the corporation or person: 1) is found to have supplied false or misleading information to obtain the benefits; 2) leaves the zone to conduct substantially the same business outside the zone; or 3) ceases operations in the zone and does not renew them within 12 months. The act also extends certification for tax credits to a person whose activity is instrumental in enabling another to conduct economic activity that would not have occurred without that person's involvement, provided that the tax benefits are passed through to the other person. This provision will apply in the Milwaukee zone, because the renovation of the Boston Store building will be conducted by the building owner but the jobs retained or created would be the result of the store's economic activity.

### **AGRICULTURAL DEVELOPMENT ZONE**

Act 16 creates an Agricultural Development Zone program. Commerce may designate one zone for 10 years in a rural municipality with a population of 6,000 or fewer or a population density under 150 persons per square mile. Businesses located in the zone may claim up to a total of \$5 million in tax benefits. In determining whether to certify a business for tax benefits, Commerce must consider the number of jobs to be created or retained by the business and other factors to be specified in rules promulgated by the department.

### **TECHNOLOGY ZONES**

The new Technology Zones program allows Commerce to designate up to eight technology zones and to certify new or expanding high-technology businesses located in each to receive a share of \$5 million in tax credits per zone. Commerce must consider how many new jobs the business is expected to create, the extent and nature of the high technology used, the likelihood of attracting related enterprises, the amount of capital investment the business is likely to make in the state, and its economic viability. Each zone will be in effect for 10 years, and a business may claim tax credits for three years, except that the department may extend that to five years if it determines that the business is growing.

### **NEW TAX CREDITS**

In addition to other development zone tax credits previously available, Act 16 created two new tax credits for the development and technology zones, effective January 1, 2002. Each is subject to the maximum of total tax credits allowed for the applicable zone. The **Development Zone Capital Investment Credit** applies to economic activity in the Beloit and Milwaukee development opportunity zones and the agricultural development zone. Businesses in the zones would be able to claim an income and franchise tax credit amounting to 3% of a) the purchase price of depreciable tangible personal property if at least 50% of its use is in the claimant's business at a location in the zone and b) the costs of acquisition, construction, and rehabilitation of real property in the zone. The **Technology Zones Tax Credit** is equal to the total of the following taxes a business pays during the tax year related to the technology zone: a) real and personal property taxes, b) state income and franchise taxes, and c) state, county, and special district sales and use taxes. In both programs, credits not fully used to offset income or franchise taxes may be carried forward for up to 15 years.

### **FOR MORE INFORMATION**

For additional information, contact Bill Wheeler in the Department of Commerce at (608) 267-2045.