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Bill Analysis
Legislative Service Commission

H.B. 635

123rd General Assembly
(As Introduced)

Rep. Britton

BILL SUMMARY

- Exempts inventory from taxation if it is located within a federally designated empowerment zone.

CONTENT AND OPERATION

Tax exemption for inventory in empowerment zones

(sec. 5709.54)

The bill exempts inventory from property taxation if it is located in any of Ohio's four empowerment zones (discussed below). For the purposes of the exemption, "inventory" includes not only a business' merchandise and property held for manufacture, but also property held by a public utility or long-distance telephone company that would be taxed like inventory if it were held by a business.

Federal empowerment zones

Federal law provides for the designation of up to 31 "empowerment zones" throughout the United States. Zones located in urban areas are designated by the Secretary of Housing and Urban Development; zones located in rural areas are designated by the Secretary of Agriculture. Designations are made on the basis of nominations by state and local governments. The designations are effective for ten years.

Among the 31 zones that may be designated in the United States, four are located at least partly in Ohio: Cincinnati, Cleveland, Columbus, and Ironton (shared with Huntington, West Virginia).¹

¹ Somewhat different rules apply to the Cleveland empowerment zone as compared to the other three zones in Ohio because the Cleveland zone is considered one of the "Round 1"

Businesses located in each of the empowerment zones in Ohio are entitled to two federal tax incentives:

- The ability to "expense" on a current basis an additional \$20,000 in tangible property acquisitions. Outside an empowerment zone, the expensing deduction is limited to \$20,000 in 2000 (rising to \$24,000 in 2001 and to \$25,000 in 2003). Expensing allows businesses to deduct the cost of acquiring tangible property in the year in which it is placed into service, rather than depreciating the cost over the economic life of the property.
- Tax-exempt bond financing for facilities used to conduct a trade or business in an empowerment zone.

Businesses in the Cleveland zone also are entitled to an additional federal tax incentive: an annual federal income tax credit equal to 20% of the first \$15,000 in wages paid to employees who live and work primarily in the zone. The percentage of the credit declines to 15% in 2005, 10% in 2006, and 5% in 2007. The credit is eliminated in 2008. The credit cannot exceed \$3,000 per employee (declining to \$2,250 in 2005, \$1,500 in 2006, and \$750 in 2007).

In order to be designated as an empowerment zone, state and the local governments were required to submit a strategic plan consisting of the following elements:

- The development activities to be undertaken in the zone;
- Contributions to the plan to be made by the local community;
- The public and private resources available to implement the plan;
- Federal funding sources to be applied to implement the plan;
- Methods to evaluate the effectiveness of the plan, including how effective the plan is in making economically disadvantaged persons economically self-sufficient;

empowerment zones, even though it and the Los Angeles zones were not designated until January 1, 2000--some five years after the original Round 1 zones were designated. The other three zones in Ohio are among the 20 "Round 2" zones designated December 31, 1998. Round 2 zones have somewhat more relaxed eligibility standards than Round 1 zones, but businesses in Round 2 zones are not entitled to all of the incentives that businesses in Round 1 zones are entitled to.

- Avoiding any means of inducing businesses to relocate to the zone from other areas.

At the time of designation, the zones had to satisfy the following criteria:

- A poverty rate of at least 20% in each census tract in the zone and at least 25% in 90% or more of the census tracts (excluding up to three areas in the zone that are devoted to commercial or industrial development--so-called "developable sites").
- Population not greater than 200,000.
- Not more than 20 square miles in area.
- Otherwise characterized by pervasive poverty, unemployment, or "general distress."

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	03-29-00	p. 1742

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