Bill Analysis

Peter A. Cooper *Legislative Service Commission*

H.B. 547

124th General Assembly
(As Introduced)

Reps. Young, Brinkman, Calvert, Collier, DeWine, Distel, Hughes, Lendrum, Schaffer, Seitz

BILL SUMMARY

- Increases the tax credit for companies investing in new manufacturing machinery and equipment to 20% of the increased investment cost.

- Eliminates the differential in the credit percentage, which is based on whether the machinery or equipment is installed in an "eligible area" (13.5%) or not (7.5%).

CONTENT AND OPERATION

Tax credit for new manufacturing machinery and equipment

(R.C. 5733.33)

Current law

Current law permits businesses to claim a tax credit for purchasing new manufacturing machinery and equipment. The credit may be claimed by corporations subject to the corporation franchise tax and by owners of business entities that are not subject to entity-level income taxation (e.g., sole proprietorships, partnerships, S corporations, and some limited liability companies). To qualify for the credit, manufacturing machinery and equipment must be purchased between July 1, 1995, and December 31, 2005, and must be placed into service by December 31, 2006. The business must be the first to use the machinery and equipment in Ohio (even though it may have been used elsewhere).

The credit equals a percentage of a business' increased investment in a county. The percentage depends on whether the property is placed into service in an "eligible area": 13.5% for investment in an eligible area, and 7.5% for investment anywhere else. Generally, an "eligible area" is an area characterized by poverty, unemployment, or recent job loss (the specific criteria are presented below, under "***Eligible area criteria***").

The increase in investment is measured on the basis of how much a business has increased its new investment in a county above its average annual new investment in the county during a three-year baseline period. For example, if a business invests $300,000 in Meigs County during 2002 and invested an annual average of $100,000 in Meigs County during 1996, 1997, and 1998, its credit is computed on the basis of the incremental increase of $200,000. (See R.C. 5733.33(A)(9)(e).) If a business makes incremental increases in investment in more than one county, a credit is computed on the basis of the incremental increases in each county. Investment is measured by the cost of the machinery or equipment as determined for the purpose of depreciation and cost recovery under federal income tax law.

Proposed enhancement of credit

The bill increases the credit percentage to 20% of the incremental investment in new manufacturing machinery and equipment, and applies the increased percentage throughout the state. Thus, the credit percentage will no longer depend on whether the machinery or equipment is placed in service within an area qualifying as "eligible." The change applies to both corporation franchise and personal income tax credits, but the bill does not amend the personal income tax credit statute (R.C. 5747.31) because that statute automatically incorporates the bill's changes to the corporation franchise tax statute (R.C. 5733.33).

Eligible area criteria

Under current law not continued by the bill, larger credits are available for machinery and equipment placed into service within an "eligible area." There are four categories of eligible areas: labor surplus area, distressed area, inner city area, and situational distress area.

A labor surplus area is an area designated as such by the United States Department of Labor.

A distressed area is an entire municipal corporation with a population of at least 50,000, or an entire county (including municipal corporations in the county) that satisfies two of the following three criteria: (1) the unemployment rate is 25% greater than the national rate (averaged over five years), (2) the per capita income is 80% or less of the median per capita income among all counties in the United States, (3) at least 25% of residents have incomes below the poverty line (in the case of municipal corporations), or transfer payments amounting to at least 25% of the total county income (in the case of counties).

An inner city area is a "targeted investment area" established by a municipal corporation consisting of census tracts where at least 20% of the population in each tract have incomes below the poverty line, and tracts contiguous to those tracts.

A situational distress area is an entire county or municipal corporation where a major employer has closed or "downsized," thereby adversely affecting the local economy. Status as a situational distress area must be obtained by applying to the Department of Development.

Conforming amendment

(R.C. 715.83)

The bill makes a conforming amendment to a statute governing joint economic development districts ("JEDDs"). Because the bill eliminates references to "eligible area" for the purpose of the tax credit, it also eliminates a reference to these areas in a statute that extends special "eligible area" status to the whole of a JEDD if the JEDD is composed at least in part of an eligible area. (JEDDs are special-purpose districts created by combinations of townships and municipal corporations to foster economic development in the designated district (see R.C. 715.70 to 715.83).)

HISTORY

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