

**A-Engrossed Senate Bill 317 – Electronic Commerce Enterprise Zone Tax
Credit**

Joint Committee on Tax Credits (JTAX), 76th Oregon Legislative Assembly

The Honorable Ginny Burdick, Co-Chair
The Honorable Jules Bailey, Co-Chair
The Honorable Vicki Berger, Co-Chair

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What is the public policy purpose of this credit?

- The Legislature established the Electronic Commerce Enterprise Zone Tax Credit in 2001 as a targeted tool to spur projects in a growing area of economic activity — transactions, customer support or other services primarily over the Internet, as well as attendant operations for order fulfillment.
- It offers an additional, layered inducement, targeted at businesses looking at locations with the standard property tax incentive (3–5 years) in up to 10 enterprise zones, as shown in the attached map (A).
- It contributes to the creation of employment and economic activity across the state, including criteria for minimum full-time job creation by the business, and in some cases, average annual compensation and additional local requirements.

Is there an expected timeline for achieving this goal?

The timeline for achieving the above-mentioned policy goal remains ongoing.

Is economic development and job creation a primary goal of this credit? — Yes

a. Number of jobs associated with credit on an annual basis:

- Among E-commerce business firms in relevant enterprise zones:
 - There were 12 property tax exemptions in 2009–2010 on \$25 million in new investments,
 - With 460 direct, full-time jobs created and more than 1,700 existing employees.

b. Break down between permanent and temporary jobs:

The jobs referenced are full-time, permanent positions. The above-referenced figure does not take into account construction, temporary or other indirect jobs with contractors, vendors and suppliers, as well as induced benefits from these investments.

c. Break down between traded sector and domestic sector jobs:

They are exclusively traded-sector industries.

d. Estimates of average wage per job:

- The average wage is about \$37,200 per year, excluding benefits which are generally provided as well.
- This is based on conservative assumptions, relying on limited direct data where the business firm reports high average annual compensation to qualify for five years of property tax exemption.

e. Estimate of tax revenue cost per job:

- Based on revenue impacts of \$300,000 per year and attributing 200 standing jobs to the influence of the tax credit, the annual, direct cost per job would be \$1,500.
- Using employment and average wage estimates, the annual return-on-investment or “ROI” comes out conservatively to \$342,000, in terms of personal income tax revenues—a net benefit to the state on this basis at least, without considering future continuation of these jobs, indirect & induced employment, *etc.*

Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? — Yes

- This credit narrowly targets certain businesses satisfying criteria within specific geography:
 - The direct beneficiary is a business firm, first locally authorized and later qualifying for the standard enterprise zone exemption on qualified property, required to be adding jobs in the zone.
 - The business firm claims an investment tax credit equal to 25 percent of capital assets used for electronic commerce in the enterprise zone, but not more than \$2 million per year, and limited to the taxpayer’s liability, as carried forward over five subsequent years.

- Credit use is subject to special record retention, audit and retroactive repayment provisions.
- These business operations secondarily benefit businesses that constructed, equipped or supply the facility.

If so, is it effectively reaching this group?

Yes, it appears that businesses are using the credit. While the benefit may vary based on company size, etc., the credit has served as a valuable tool to retain existing Oregon companies.

What is expected to happen if this credit fully sunsets?

The sunset of this credit would mean the loss of an efficient and effective tool to market Oregon and encourage a promising source of economic activity, which some of the affected enterprise zones have used with projects each year across the state.

Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?

The credit is already limited and curtailing it further would affect potential results. It is difficult to predict the impact of a 50-percent reduction, but a 12.5-percent credit rate could weaken the program as a tool for investment.

What background information on the effectiveness of this type of credit is available from other states?

- Either alone or in a tandem situation here, this particular type of tax credit is not found in any other state.
- In contrast to Oregon's reliance on property tax abatement with its enterprise zones, comparable programs in other states depend on one or more credits against state taxes. Subject to program design, implementation, etc., some credits elsewhere are used to great effect, but various differences make comparison difficult.

Is use of a tax credit an effective and efficient way to achieve this policy goal?

- Yes, as a targeted inducement, this tax credit has been effective and has had substantial impact with only a small number of participating enterprise zones:
 - Over eight years, 29 projects and \$54 million of investment, and nearly 1,200 direct, full-time jobs have been associated with the E-commerce enterprise zone program.
 - Historically, this activity has centered on the City of Medford, which has witnessed a case of “clustering” with E-commerce industries, involving both small companies and large facility expansions.
- More recently, projects have arisen in several of the other E-commerce zones, and the program is of great interest for immediate retention opportunities and with businesses representing emerging technological trends.
- It is also efficient, in that even if the sunset is extended, the estimated, foregone revenues are decidedly modest relative to potential economic returns/benefits with just the immediate, permanent jobs.

What are the administrative and compliance costs associated with this credit?

- Such costs exist to some extent across two state agencies and local sponsoring governments, but they are diffused among related activities, including other aspects of the enterprise zone program.

Would a direct appropriation achieve the goal of this credit more efficiently?

Not likely, in that there could be greater fiscal costs and complexities in managing direct funds, as well as fine-tuning how much money to budget not knowing when to predict relevant occurrences. Having an incentive that from the outset, can be presented to applicable businesses with a high degree of certainty

What other [programs] (including state or local [funding or financing], federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?

- This tax credit is unique in its nature and already advances its goals for business development in combination with other state & local programs, especially the standard enterprise zone exemption.

Could this credit be modified to make it more effective and/or efficient? If so, how?

As noted, the credit has proven effective and efficient. Other options to explore for achieving greater job-creating effectiveness may include:

- Larger or more readily usable type of targeted tax credit; or
- Allowing it for a greater number of enterprise zones. At present, there are nine current enterprise zones with E-commerce status.

How would the return on the state's investment best be measured for this credit?

The return to the state arises from greater economic opportunities for Oregonians through further development and increased employment. Growth that within a reasonable amount of time, will substantially improve the personal income tax base and long-run revenue collections for the State of Oregon, both directly and indirectly.

Which of the following can be quantified as a "return" or "benefit" resulting from the use of this credit:

- a. Jobs & overall economic activity? — Yes
- b. Environmental goals such as energy conservation, air/water quality? — No
- c. Social goals? — No, other than through employment

The 'but-for' question arises in terms of the degree, to which without the incentive, nothing would have happened any time soon. It may never be possible to provide guarantees in such regards, but for this tax credit the following may be offered:

1. Anecdotal evidence of diverse projects in several parts of the state that have been particularly motivated or influenced by this tax credit among other factors, as related in public testimony on this and similar legislation. These cases include larger employers, as well as smaller companies with growth potential.
2. For reasons that definitely include the E-commerce enterprise zone program, the Southern Oregon region has experienced a robust, well-documented "clustering-type" situation with relevant industries, involving variously sized businesses engaged in Internet-based operations.
3. Prospective business projects remain sensitive to the sunset of this tax credit, which could detract from their decision to make major investments in Oregon, and some are presently considering enterprise zones that could then seek the one remaining electronic commerce designation.

Using the three broad categories above, how do these credits rank in terms of their expected return on investment?

- Though difficult to quantify precisely, the overall return-on-investment for this tax credit seems a little greater than that of the long-term rural enterprise zone facility tax credit (1.416), which would be the only currently sun-setting tax credit that can be commonly categorized with respect to direct business development.
- Both credits, however, involve relatively little in the way of invested public revenues.
- In Oregon, few state income tax credits relate to economic development, but the effects and quantifiable returns of even those few are not directly comparable here.
- Finally, this tax credit is also aimed in particular at helping hardship areas of the state by its linkage to enterprise zones, even if only certain ones. To the extent that it does help to offset regional disadvantages, it may contribute not only to better economic equity but also to more efficient resource allocation within Oregon.

Oregon Enterprise Zones

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