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COLORADO'S ENTERPRISE ZONE PROGRAM

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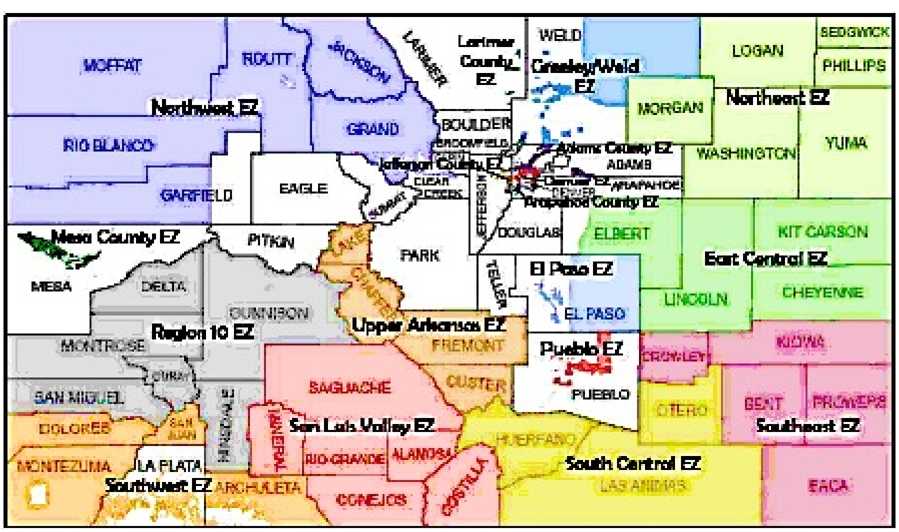
Colorado's Enterprise Zone (EZ) Program provides tax credits and incentives to businesses and individuals for investing in economically distressed areas of the state in an effort to encourage economic development. This issue brief describes the process for designating EZs, the benefits to taxpayers for participation, and recent legislative efforts to evaluate the effectiveness of the program.

Enterprise Zone Program

Enterprise zones. Colorado law authorizes the designation of up to 16 areas with EZ status. The 16 EZs, as illustrated in Figure 1, include over 70 percent of the area of the state. Of this area, 95 percent of the land is rural and 5 percent is urban. Within these EZs, there are 30 counties designated as enhanced rural enterprise zones (EREZ), which must meet more stringent economic and population criteria than urban EZs. EREZs offer some larger tax credits and incentives than urban EZs.

EZ designation. EZ status is determined by the Economic Development Commission within the Colorado Governor's Office of Economic Development and International Trade (OEDIT). Areas with high unemployment rates, low per capita income, and/or slower population growth may be granted EZ status.

Figure 1
Colorado Enterprise Zones



Source: Colorado Office of Economic Development and International Trade

As of January 1, 2012, populations in an EZ cannot exceed 115,000 in urban and 150,000 in rural zones. In addition to the population requirements, an area must meet at least one of the following criteria in order to be designated as an EZ:

- county unemployment rate at least 25 percent above the state average;
- county per capita income less than 75 percent of the state average; or
- county population growth rate less than 25 percent of the state average.

Tax credits. The EZ Program offers ten tax credits that taxpayers can use to offset their state income tax liability. If the credit exceeds a taxpayer's tax liability, it can be carried forward and applied to taxes in future years. Credits must be certified by local EZ administrators prior to being used.

Income tax credits for business activities in enterprise zones reduce General Fund revenue that would otherwise be used to fund other state programs and services. For FY 2011-12, individual and corporate taxpayers claimed $72.1 million in EZ income tax credits, up 64.3 percent from $43.9 million claimed in the prior year. The most used tax incentive under the program is the 3 percent investment tax credit. The credit is equal to 3 percent of any qualified investment that is used exclusively in a Colorado EZ. In FY 2011-12, taxpayers claimed $45.3 million for the 3 percent investment tax credit, which was 62.8 percent of the total EZ credits claimed.

Other tax credits in the program are based on job creation and training, contributions to nonprofit and local government projects, vacant building rehabilitation, and research and development.

Incentives. The Colorado Strategic Fund provides incentive payments for eligible businesses that create new jobs anywhere in the state. The incentives and criteria for the program depend on whether the business is located in an EZ or not. In an EZ, businesses must create at least five jobs in a six-month time period, retain the employees for at least a year, and the new jobs must increase the business's workforce over the previous three-year average. The average wages of new employees must be at least 100 percent of the county average wage in order to qualify for an incentive. Incentive payments are awarded by OEDIT on a first-come, first-served basis after the first full year of employment.

Certification process. Beginning in 2012, taxpayers seeking to make a qualifying investment or engage in any activity for which the taxpayer intends to claim a tax credit under the EZ Program must have zone administrators precertify the investments before they are made. The taxpayer must certify that he or she is aware of the EZ Program, that the tax credits are a contributing factor to the investment activity, and that the activity will not begin until after certification. The precertification process can be completed online at the following link:

www.colorado.gov/apps/oedit/enterpriseCert/home.jsf

Recent legislation. During the 2012 legislative session, the General Assembly passed House Bill 12-1241, which created the EZ Review Task Force. The 15-member task force is charged with reviewing EZ designation criteria, the tax credits provided by the program and their effectiveness, as well as other issues the task force finds necessary. The task force is required to report its progress, findings, and recommendations to specified legislative committees of references before November 1, 2013.

Additionally, beginning January 1, 2016, the bill requires the executive director of OEDIT to review EZ designations at least once every five years to determine if EZ boundaries meet at least one of the three statutory criteria for determining economic distress. Modifications to boundaries that are needed as a result of a review cannot be made in a "high unemployment period" as defined by law.