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# Budget Briefs

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## KENOSHA DEVELOPMENT OPPORTUNITY ZONE

The biennial state budget act (1999 Wisconsin Act 9), passed by the legislature and signed by Governor Tommy Thompson on October 27, 1999, designates a development opportunity zone within the City of Kenosha. The major business in the zone is expected to be DaimlerChrysler, which has announced it will expand its engine manufacturing facility in that city.

### BACKGROUND

The Wisconsin Department of Commerce (Commerce) administers the development zone, enterprise development zone, and development opportunity zone programs, all of which offer tax credits to businesses that create or retain jobs in economically distressed areas. At the time of passage of Act 9, the state had no development opportunity zones in effect, although such zones previously existed in Beloit, West Allis, and Eau Claire.

**Development Zones.** Since its creation in 1987, the Development Zone Program has expanded from the eight zones originally authorized to the currently authorized 22 zones, 20 of which have been designated. Nearly \$30 million in tax credits has been allocated to date. Local governing bodies may nominate an area for designation as a zone, and Commerce certifies tax credits to businesses that operate within a particular zone. 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. Designation as a zone is effective for seven years, with the possibility of up to five one-year extensions.

**Enterprise Development Zones.** Enterprise development zones were first authorized by 1995 Wisconsin Act 27. Act 9 increased the maximum number of zones that may be designated by Commerce from 50 to 79, with the provision that at least 10 of the additional zones should provide for significant environmental remediation. To date, Commerce has designated 49 zones. Unlike a development zone, each enterprise development zone is limited to only one business. This type of zone may exist for only seven years, and the total amount of credits is limited to \$3 million.

### KENOSHA DEVELOPMENT OPPORTUNITY ZONE

Section 560.795(1)(d), Wisconsin Statutes, as created by Act 9, designates an area of Kenosha as a development opportunity zone, effective for 84 months, beginning January 1, 2000. If a corporation operating within the zone submits a project plan to Commerce by July 1, 2000, it is entitled to claim certain tax benefits during the zone's duration, but the maximum amount of tax credits that can be claimed by all businesses located in the zone is \$7 million. (The zone's designation can expire in less than seven years if the department determines in its annual review that the forgone tax revenues will equal or exceed the \$7 million limit.) The plan must include the following major elements, as well as other information specified by law:

- The amount of money the corporation intends to invest in the zone, including construction, rehabilitation, repair or remodeling;
- 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;

- The corporation's plans to hire employees from among the targeted population; and
- The city's commitment to the corporation's project.

Commerce can revoke the tax credits if the corporation: 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.

**Development Opportunity Zone Investment Tax Credit.** An eligible corporation in the development opportunity zone may claim an investment tax credit against income taxes for depreciable tangible personal property purchased after Commerce has certified the business for tax benefits. The credit, which is generally 2.5% of the purchase price, can be applied only to taxes on income generated by or directly related to business activity in the zone. Credits can be carried forward for 15 years to offset future tax liability if the company continues to operate in the zone. The credit is available only for property that has at least 50% of its use in the development zone and cannot be claimed for property transferred from a company's facilities outside the zone.

**Development Zone Tax Credit.** A development zone tax credit is available in all three types of development zones for amounts spent on environmental remediation and the creation or retention of full-time jobs in the zone. The credit for environmental remediation is 50% of the amount spent for that purpose in the zone.

Job-related credits vary depending on the type of job created or retained. One type of credit applies to a specifically targeted population that includes those persons who: 1) reside in an empowerment zone or a federally designated enterprise community; 2) are employed in an unsubsidized job but meet the eligibility requirements for a Wisconsin Works (W-2) employment position; 3) are employed in a W-2 trial job; or 4) are eligible for W-2 child care assistance. Act 9 requires that at least one-third of job creation tax benefits claimed must be based on jobs created and filled by members of the targeted population. Act 9 increases the credit for creating a job filled by a member of the targeted group from \$6,500 to \$8,000 per job. An \$8,000 credit is also available for job retention if Commerce determines that a significant capital investment was made to retain a full-time job.

Act 9 also increased the credit for creating or retaining a job not filled by a member of the targeted population to \$6,000 from \$4,000. Job-related tax credits may only be claimed against the taxes imposed on income generated in the zone.

## FOR MORE INFORMATION

For copies of the changes to Sections 560.70, 560.785, 560.795, and 560.797, Wisconsin Statutes, contact the Legislative Reference Bureau at (608) 266-0342 or use the searchable text of 1999 Wisconsin Act 9 available at <http://folio.legis.state.wi.us>. For additional information, call Bill Wheeler in the Department of Commerce's Bureau of Enterprise Development at (608) 267-2045.