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Tax Reduction Incentives for Businesses and the Arts

Tax free zones are designated areas in which specified businesses are exempt from state sales tax. They have been utilized both independently and in conjunction with other tax incentives, usually as part of a larger economic development effort, such as enterprise zones.

Enterprise Zones

Enterprise zones combine a variety of tax incentives and government programs to stimulate growth in depressed areas. They vary greatly, consisting of various incentive combinations, depending upon the location and aim. Some seek to attract new businesses and industry to an area, others to aid existing establishments. Studies regarding the effectiveness of enterprise zones are inconclusive. Most agree that smaller enterprise zones are more likely to produce significant effects and that tax incentives actually make little difference (Fisher and Peters 1997). The basic state and local tax system is a larger determinant of new businesses' success. Often the incentives offered are not enough to counteract the disadvantages inherent in the area, notably location. The benefits of enterprise zones are greatly increased when tax abatements are combined with government programs (Fisher and Peters 1997).

A Sample of Enterprise Zone Tax Incentives:

Rhode Island (<http://www.riedc.com/growth/zones/entzoneframe.html>.)

- Business tax credit of 50% for wages paid to newly hired enterprise zone employees, provided company employment is increased by 5%; 75% credit for employees hired who live in the zone
- Business owners living inside the enterprise zone receive a \$50,000 deduction on personal income tax; reduced to \$25,000 in the fourth and fifth years of operation
- Tax credits available for interest loans to enterprise zone businesses

Alabama (www.ado.state.al.us/backa.html)

- \$2,500 tax credit for each permanent employee hired in the enterprise zone; if the employees were previously unemployed for 90 days, the business qualifies for a state income or franchise tax abatement of 80% the first year, 60% the second and 20% the fourth and fifth years
- Tax credit for new investments in the enterprise zone or improvements to existing facilities on 10% of the first \$10,000 invested, 5% on the next \$90,000 and 2% on remaining investment
- Sales and use tax exemptions on purchases of materials used in construction and improvement of buildings in the zone
- Exemptions from the state income and corporate franchise taxes for five years

Colorado (www.state.co.us/gov_dir/revenue_dir/fyi/html/gener106.html www.state.co.us/gov_dir/fyi/html/income11.html.)

- Tax credits for new jobs created, research and development, improvements to existing buildings, and job training for businesses within the enterprise zone
- State sales and use tax exemptions on equipment used in manufacturing or mining in the enterprise
- A 3% tax credit for investment in property used within the enterprise zone

Arkansas (www.aedc.state.ar.us/climate/exemptions.html).

- Entire state has been declared an enterprise zone
- Sales tax exemptions for machinery, equipment and building materials
- Corporate income tax credit equal to the average hourly wage of each new employee with a \$2,000 cap per employee, multiplied by 100; if the area has an unemployment rate of at least 3% above the state average, a multiplier of 200 is used.
- Property exemption for all finished goods and raw materials awaiting shipment to out- of-state customers

Tax Free Zones in Arts Districts

In Rhode Island tax free zones have been established to promote the growth of arts districts. The cities of Pawtucket and Westerley have implemented zones that allow artists who live and sell their work within the district an exemption on the state sales tax. Local politicians are hoping the incentives will attract artists to the area, which in turn will generate tourism. However, some Pawtucket artists have expressed their doubts about the effectiveness of the tax incentives, given that many sell much of their work outside of the tax free zone (*Providence Journal Bulletin* 12/20/98, pg. 15C).

Connecticut also offers tax incentives to promote the arts. Arts "manufacturing facilities" located within enterprise zones are exempt from property taxes on improvements of the buildings. These facilities include any building manufacturing products for the entertainment industry such as multi media goods and goods for live entertainment. Goods used by establishments whose primary function is gambling and alcohol consumption are excluded from the tax abatement (General Statutes of Connecticut, 1997).

New York Tax Free Weeks

New York State has conducted five tax-free weeks since 1996. During these weeks most clothing and footwear under \$500 is exempt from the 8.25% state and local sales taxes. The results have been overwhelmingly positive for all New York businesses, even those not participating in the exemption. During the first tax free week in January of 1996, businesses experienced a 73% increase in sales and 48% increase during the second week in September, 1996—this second week had no tax exemption for shoes (Press Release, Mayor's Office 1/15/98). The January 1998 week generated an estimated \$200 million in extra sales for participating businesses and saved consumers \$25 million (Press Release, New York Assembly Speaker Sheldon Silver, 1/14/99).

Conclusion

The effectiveness of tax free zones is difficult to gage. When used in addition to other incentives, the effect of the sales tax break alone can only be roughly estimated. The success of the tax free weeks in New York are proof that a tax break can increase sales dramatically, although these results are based on isolated blocks of time, not permanently implemented policy.

Sources:

Castelucci, John "Westerley, Pawtucket hope arts districts will bring tourists," *Providence Journal-Bulletin*, 12/20/98, News Section, pg. 15C.

General Statutes of Connecticut, Revised to 1997 Title 32, Commerce and Economic

Development, www.cslnet.ctstateu.edu/statutes/title32/t32-p10.htm#16.

Fisher, Peter S., Peters, Alan H. 1997. "Tax and Spending Incentives and Enterprise Zones." *New England Economic Review*, March/April 1997, pg. 128-9

Press Office, Assembly Speaker Sheldon Silver, 1/14/99 "Silver Urges Buyers to Use Sales Tax Breaks," www.assembly.state.ny.us.

Press Office, Mayor Guiliani, 1/15/98 "Mayor Guiliani and Modell's Get Set for Another Sales Tax-Free Shopping Week," www.ci.nyc.ny.us/html/om/html/releases.html.

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