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ENTERPRISE ZONES

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The enclosed material discusses the concept of urban enterprise zones, outlines the administration's proposals for the zones, and includes the major arguments for and against their creation.

Because of considerable congressional interest in the enterprise zone concept, we have included a comparison of the major bills relating to enterprise zones introduced in the 97th Congress along with a bibliography for those who desire to research the subject in greater detail.

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COMPARISON OF 97th CONGRESS BILLS PROPOSING ENTERPRISE ZONES
OR REVITALIZATION AREAS

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COMPARISON OF 97th CONGRESS BILLS PROPOSING ENTERPRISE ZONES OR REVITALIZATION AREAS

	H.R. 3824 (Kemp, Garcia, et al.) S. 1310 (Chaffee, Boschwitz, et al.) "Urban Jobs and Enterprise Zone Act of 1981"	S. 1240 (Heinz, Riegel) "Urban and Rural Re- vitalization Act of 1981"	H.R. 2965 (Noriek) "Enterprise Development Act of 1981"	H.R. 2950 (Rangel) "Targeted Area Re- vitalization Act"	H.R. 6009 (Conable, et al.) "Enterprise Zone Tax Act of 1982"	S. 2298 (Boschwitz, et al.) "Enterprise Zone Tax Act of 1982"
NUMBER OF ZONES	10 to 25	Not Specified	Not Specified	Number may not exceed 25;	Up to 25 a year for 3 years	10 to 25 a year for 3 years; thereafter unlimited.
LENGTH OF LIFE OF ZONES	From designation to year 2001; property remains qualified after zone designation ceases to apply.	Subject to local discretion; property remains qualified after zone designation ceases to apply.	10 years	5 years	Maximum of 24 years after designation; otherwise subject to State/local discretion.	Same as H.R. 6009.
SIZE OF ZONE	Minimum population 4,000 in metro areas; 2,500 in non-metro area. Must have continuous boundary and encompass only complete census tracts.	Not Specified	o Minimum population 5,000, located in incorporated areas with minimum population of 10,000 o Must have continuous boundary.	Minimum population 4,000; continuous border; may be based on census tracts, or on census enumeration districts where no census tracts exist.	Minimum population 4,000; if in an SNSA, otherwise 2,500; or must be entirely within an Indian reservation; must have continuous boundary.	Same as H.R. 6009.

COMPARISON OF 97th CONGRESS BILLS PROPOSING ENTERPRISE ZONES OR REVITALIZATION AREAS--continued

ADMINISTERING AGENCY	H.R.	S.	H.R.	H.R.	H.R.	S.
(Kemp, Garcia, et al.) S. 1310 (Chaffee, Boschwitz, et al.) "Urban Jobs and Enterprise Zone Act of 1981"	3824	1240 (Heinz, Riegel) "Urban and Rural Revitalization Act of 1981"	2965 (Rowak) "Enterprise Development Act of 1981"	2950 (Rangel) "Targeted Area Re- vitalization Act"	6009 ("Enterprise Zone Tax Act of 1982")	6009 ("Enterprise Zone Tax Act of 1982")
HUD	Commerce	Commerce	Governor of State	HUD	HUD	Boschwitz, et al.) "Enterprise Zone Tax Act of 1982"
LOCAL COMMITMENT	May include, but not limited to: o increase in level or efficiency of local services; o reduction of tax rates or fees; o simplification or streamlining of regulations; o jobs and job training and other assistance to employees and residents of areas.	Local government agrees to stimulate development of jobs and businesses within the area.	None Specified	None specified.	State and local governments must agree to reduce the various burdens borne by employers and employees. May include, but is not limited to: (same as first three elements under H.R. 3824) plus: o involvement by private entities, neighborhood asso- ciations and com- munity groups, to provide jobs, job training, and technical, fin- ancial or other assistance. o may involve con- tracting out to private sector various services now provided by the local govern- ment.	Same as H.R. 6009.

COMPARISON OF 97TH CONGRESS BILLS PROPOSING ENTERPRISE ZONES OR REVITALIZATION AREAS—continued

H.R. 3824 (Kemp, Garcia, et al.)	S. 1310 (Chaffee, Boschwitz, et al.)	H.R. 1240 (Heinz, Riegel)	H.R. 2965 (Rowak)	H.R. 2950 (Rangel)	H.R. 6009 ("Targeted Area Re- vitalization Act")	H.R. 6009 ("Enterprise Zone Act of 1982")	(Conable, et al.)	"Enterprise Zone Act of 1982"	(Boschwitz, et al.)	"Enterprise zone Tax Act of 1982"
ELIGIBILITY REQUIREMENTS	Must be wholly within a UDAG-qualified area; must be an area of pervasive poverty, unemployment, and general distress "demonstrated through unemployment statistics and census data on incomes; or an area of population decline, with either chronic abandonment of structures or substantial property tax arreages.	Any area designated by one or more local governments, subject to approval of Secretary of Commerce.	High unemployment, using BLS data, or if Secretary finds: <ul style="list-style-type: none"> o large concentration of low-income persons; o substantial out-migration (rural areas); o substantial unemployment; o actual or threatened abrupt rise in unemployment; and o significant decline in per capita employment. 	Based on 1980 Census data, specified levels of low income or high unemployment.	Based on 1980 Census data, or for most recent period for which BLS data are available; or poverty rate of 20 percent or more for each Census tract or minor civil division according to most recent census data; or 70 percent of households have incomes below 80 percent of those in area; or population must have decreased 20 percent or more between 1970 and 1980, according to Census.	Same as H.R. 6009.				

COMPARISON OF 97th CONGRESS BILLS PROPOSING ENTERPRISE ZONES OR REVITALIZATION AREAS--continued

H.R. 3824 (Kemp, Garcia, et al.) S. 1310 (Chaffee, Boschwitz, et al.) "Urban Jobs and Enterprise Zone Act of 1981"	S. 1240 (Heinz, Riegel) "Urban and Rural Re- vitalization Act of 1981"	H.R. 2965 (Rowak) "Enterprise Development Act of 1981"	H.R. 2950 (Range) "Targeted Area Re- vitalization Act"	H.R. 6009 (Conable, et al.) "Enterprise Zone Tax Act of 1982"	H.R. 6009 (Conable, et al.) "Enterprise Zone Tax Act of 1982"
DEFINITION OF QUALIFIED BUSINESS OR PROPERTY					
o At least 40% of employees eligible for CETA;	o 50% of employees must reside in zone.	50% of employees must provide substantially all their service in the area, and except in extenuating circumstances, at least 50% of their hours of service must be by residents of the area.	o Any person actively engaged in conduct of a trade or business within a zone for the 3 most recent taxable years (or for such part of three years that the entity has been in existence or the zone designation), with 80 percent of gross receipts for taxable year resulting from active conduct of a trade or business within a zone.	o Any person actively engaged in conduct of a trade or business within a zone for the 3 most recent taxable years (or for such part of three years that the entity has been in existence or the zone designation), with 80 percent of gross receipts for taxable year resulting from active conduct of a trade or business within a zone.	o Any person actively engaged in conduct of a trade or business within a zone for the 3 most recent taxable years (or for such part of three years that the entity has been in existence or the zone designation), with 80 percent of gross receipts for taxable year resulting from active conduct of a trade or business within a zone.
	o At least 50% of gross receipts attributable to activities in zone;	o Any tangible personal or real property used predominantly by taxpayer in active conduct of trade or business.	o Any interest in a business held by taxpayer in which he is active participant in management.		
	o Any tangible personal or real property, used predominantly by taxpayer in active trade or business, acquired by taxpayer after designation of enterprise zone, including low-income rental property.				

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- o Property remains qualified after zone designation ceases to apply.

Same as
H.R. 6009.

COMPARISON OF 97th CONGRESSILLS PROPOSING ENTERPRISE ZONES OR REVITALIZATION AREAS—continued

	H.R. 3824 (Kemp, Garcia, et al.) S. 1310 (Chaffee, Boschwitz, et al.)	S. 1240 (Heinz, Riegel) "Urban and Rural Re- vitalization Act of 1981"	H.R. 2965 (Nowak) "Enterprise Development Act of 1981"	H.R. 2950 (Rangel) "Targeted Area Re- vitalization Act"	H.R. 6009 (Conable, et al.) "Enterprise Zone Tax Act of 1982"	S. 2298 (Boschwitz, et al.) "Enterprise Zone Tax Act of 1982"
TAX REDUCTIONS						
o Refundable tax credits:	o Tax credits for 12% of qualified employee's wages up to \$15,000 a year.	o Increases in targeted jobs tax credit; all residents eligible as targeted group.	o Optional additional \$40,000 first year depreciation.	o Investment tax credit for new buildings, and additional \$400,000 for used property.	o Jobs tax credits on first \$10,000 of individual's wages:	o Nonrefundable 5% income tax credit to qualified zone employees.
Employees— 5 % of salary, up to an amount of \$1,500 Employers – 5% for first eligible employee, up to an amount of \$100,000.	o Accelerated depreciation: 3 years, straight line method.	o Investment tax credit for rehabilitation of existing buildings.	o 25% of 1st year wages; 25% of 2nd year wages; and 15% of 3rd year wages.	o Credit for interest on loans made to businesses in targeted areas:	o Nonrefundable 10%, up to \$300,000 for corporations, up to \$100,000.	o Refundable tax credits for employers of 5% of wages paid to CETA-eligible employees, no maximum on wages.
o Reduces gross income of trades or businesses in zones:	Same	1981-1997 – 50% 1998 – 40% 1999 – 30% 2000 – 20% 2001 – 10%	1981-1997 – 50% 1998 – 40% 1999 – 30% 2000 – 20% 2001 – 10%	o Tax benefits apply beginning calendar 1981.	o Tax benefits apply beginning calendar 1981 if loans made after December 31, 1981, to (cont.)	o 50% of business income earned in zone is tax exempt. (cont.)

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COMPARISON OF 97th CONGRESS BILLS PROPOSING ENTERPRISE ZONES OR REVITALIZATION AREAS—continued

	H.R. 3824 (Kemp, Garcia, et al.)	S. 1310 (Chaffee, Boschwitz, et al.)	S. 1240 ("Urban Jobs and Enterprise Zone Act of 1981")	H.R. 2965 ("Heinz, Riegel")	H.R. 2950 ("Niwak")	H.R. 6009 ("Targeted Area Re- vitalization Act")	H.R. 6009 ("Enterprise Zone Tax Act of 1982")	S. 2298 ("Boschwitz, et al.")	S. 2298 ("Enterprise Zone Tax Act of 1982")
TAX REDUCTIONS (cont.)	○ Excludes as income of any taxpayer any interest on any mortgage or loans, or other financing provided to any qualified business in an enterprise zone, using percentages shown above.				be used directly in active conduct of trade or business in targeted area.	first 3 years, with declining percentages for following years through year 7.			
					○ Nonrefundable investment tax credit for investment in zones which are used in zone for all of their depreciable life: 3% or 5%	for machinery or equipment; 10% for construction or rehabilitation of commercial, industrial, or rental housing structures within a zone.			

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TAX REDUCTIONS (cont.)					
<ul style="list-style-type: none"> o Eliminates capital gains tax. o Same as H.R. 3824. 	<ul style="list-style-type: none"> o Operating loss carryover for firms in zone, for life of zone or 15 years, whichever is longer. o Carryover of any unused employment tax credits for life of zone or 15 years, whichever is longer. 	<ul style="list-style-type: none"> o Operating loss carryover for firms in zone, for life of zone or 15 years, whichever is longer. o Same as H.R. 3824. 	<ul style="list-style-type: none"> o Same as H.R. 3824. 	<ul style="list-style-type: none"> o Same as H.R. 3824. 	<ul style="list-style-type: none"> o Same as H.R. 3824.

COMPARISON OF 97th CONGRESS BILLS PROPOSING ENTERPRISE ZONES OR REVITALIZATION AREAS—continued

H.R. 3824 (Kemp, Garcia, et al.) S. 1310 (Chaffee, Boschwitz, et al.)	S. 1240 (Heinz, Riegel) "Urban Jobs and Enterprise Zone Act of 1981"	H.R. 2965 (Nowak) "Enterprise Development Act of 1981"	H.R. 2950 (Range) "Targeted Area Re- vitalization Act"	H.R. 6009 (Conable, et al.) "Enterprise zone Tax Act of 1982"	S. 2298 (Boschwitz, et al.) "Enterprise Zone Tax Act of 1982"
FOREIGN TRADE ZONES					
Encourages establishment in Enterprise Zones.	Not Specified	Provides point system for varying degrees of poverty, unemployment, job declines.	Not Specified	Both State and local government must request zone, and must establish incentives for the zones. Secretary of HUD will give primary emphasis to quality and strength of the State and local incentives, and also will give heavy weight to other contributions, including those from the private sector.	Similar to H.R. 6009, and preference given to zones whose size and location will stimulate primarily new economic activity and minimize unnecessary tax losses to the Federal Government.
SELECTION PROCESS					
PREFERENCE given to "worst off" areas, areas whose governments are making greatest effort; areas whose governments have widest support; areas where governments already have made efforts similar to those listed under "Local Commitment" above. Also see "Sense of Congress"	Preference given to "worst off" areas where governments are making greatest effort; areas whose governments have widest support; areas where governments already have made efforts similar to those listed under "Local Commitment" above. Also see "Sense of Congress"	Amends definition of a "small business corporation," increasing permitted number of stockholders from 15 to 100.	Provides additional borrowing authority for Small Businesses Investment Corporations.	o Continued availability of industrial development bonds (IDB) to small businesses in (cont.)	Same as H.R. 6009.
OTHER					
o HUD must promote coordination with other government agencies;					

COMPARISON OF 97th CONGRESS BILLS PROPOSING ENTERPRISE ZONES OR REVITALIZATION AREAS--cont'd

<p>H.R. 324 <u>(Kemp, Garcia, et al.)</u> <u>S. 1310 (Chafee, Boschwitz, et al.)</u> <u>"Urban Jobs and Enterprise Zone Act of 1981"</u></p>	<p><u>S. 1240 (Leinz, Riegel)</u> <u>"Urban and Rural Re- vitalization Act of 1981"</u></p>	<p>H.R. 2965 <u>(Nowak)</u> <u>"Enterprise development Act of 1981"</u></p>	<p>H.R. 2950 <u>(Barrel)</u> <u>"Targeted Area Re- vitalization Act"</u></p>	<p>H.R. 6009 <u>(Conable, et al.)</u> <u>"Enterprise Zone Tax Act of 1982"</u></p>	<p>H.R. 6009 <u>(Boschwitz, et al.)</u> <u>"Enterprise Zone Tax Act of 1982"</u></p>
<p>OTHER (cont.)</p>					
		<ul style="list-style-type: none"> ○ Optional cash accounting method may be used by qualified business in zone. 	<ul style="list-style-type: none"> Same as H.R. 3824. 	<ul style="list-style-type: none"> Authorizes not to exceed \$300,000 in appropriations for fiscal year 1982. (to comparable authorization in other bills.) 	<ul style="list-style-type: none"> zone, even if IDB's are terminated for other locations. ○ Same as H.R. 6009. ○ Persons displaced from zone are not entitled to any benefits under the Uniform Relocation Assistance and Real Property Acquisitions Act of 1970.

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SENSE OF CONGRESS	<ul style="list-style-type: none"> o Zones are declared small entities for purposes of regulatory flexibility. 	<p>(H.R. 3824 only) – Local governments will attempt to use this law to encourage employment of disadvantaged groups within the zones; prospective effect of Enterprise zone on unemployment will be considered in selection process.</p>	Not Specified	Not Specified	<p>To encourage local community involvement, State and local governments could provide for the creation of "neighborhood Enterprise Associations" by zone residents to provide for equity participation, city services in their areas, and other purposes.</p>

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Enterprise Zones: Selected References

These publications may be available at a nearby public or research library.

Aronowitz, Stanley, and Cary Goodman. Ghetto enterprise zones: a walk on the supply side. *Nation*, Feb. 21, 1981: 207-208.

Comments on the Kemp-Garcia Act (H.R. 3824) which calls for a sharp break with traditional Democratic strategies for dealing with urban poverty and inner-city decay. The Act calls for the establishment of enterprise zones as a tool for urban revitalization.

Bendick, Marc, Jr., and Mary Lou Egan. Private sector jobs in the inner city: the Control Data experience. CUED [National Council for Urban Economic Development] commentary, Jan. 1981: 13-17.

"Can private enterprise provide quality jobs for inner-city residents and still remain profitable? The Selby Bindery, operated by the Control Data Corporation in a poor neighborhood in St. Paul, has done just that. The financial viability of the plant suggests that the experience can be replicated by firms in other cities."

Butler, Stuart M. Enterprise zones: a real solution to urban decay. *Lincoln review*, v. 1, winter 1980: 25-31.

Proposes the establishment of "enterprise zones" in the most depressed urban areas. "Within these areas almost all zoning and other controls would be abolished, and there would be a major reduction in property and business taxes. The aim would be to bring about a dramatic reduction in the bureaucratic obstacles and costs facing small entrepreneurs, so that they would be far more inclined to set up business in depressed areas."

----- The Urban Jobs and Enterprise Zone Act (H.R. 7563, S. 2823). Washington, Heritage Foundation, 1980. 11 p. (Heritage Foundation. Issue bulletin no. 62)

"The Enterprise Zone concept is an important development in thinking on urban affairs. It is indicative of a significant shift in the attitude of many experts: away from the belief that the only solution to decay is a massive injection of tax dollars and artificial jobs, and towards a realization that the real need is to unharness the innovative abilities of the entrepreneur."

----- Urban renewal: a modest proposal. *Policy review*, v. 13, summer 1980: 95-107.

Discusses the concept of the enterprise zone.

Cohodas, Nadine. Urban enterprise zone plan stresses business tax breaks.

Congressional quarterly weekly report, v. 39, May 9, 1981: 805-808.

Discusses the proposed Urban Jobs and Enterprise Zone Act, designed "to offer tax incentives within designated zones to entice jobs and businesses--especially small businesses--back into decaying areas."

Davis, Irwin L. Seven requirements determine the success of downtown revitalization projects. Journal of housing, v. 37, Aug.-Sept. 1980: 452-453.

Discusses the importance of downtown to the entire community and examines ways to revitalize older central business districts.

Enterprise zones: the new fluoride for urban decay. Regulation, v. 4, Sept.-Oct. 1980: 4-6.

Hellman, Daryl A., Gregory H. Wassall, and Lawrence Falk. State financial incentives to industry. Lexington, Mass., Lexington Books, 1976. 146 p.

Jacobs, Susan S., and Michael Wasylensko. Government policy to stimulate economic development: enterprise zones. Resources in review, v. 3, Mar. 1981: 6-10.

"Urban enterprise zones as an approach to inner city revitalization: what is known about how they work and their potency as an economic stimulus? As a special feature, Resources in Review pulls together an analysis of the enterprise zone mechanism as governmental policy, the provisions of the Urban Jobs and Enterprise Zone Act of 1980, a look at foreign trade zones in the U.S., and a bibliography on these topics."

Mounts, Richard. The 'urban enterprise zone' hustle. Commonweal, v. 108, Mar. 13, 1981: 139-142.

Maintains that the proposed Urban Jobs and Enterprise Zone Act "presents already hard-pressed local governments with up-front costs and uncertain future benefits, threatens some still-vital neighborhoods with both physical and social disruptions, offers the wrong kind of aid to new small businesses, and offers minimal promise of employment for people in the zones who need it the most."

Mudge, Bob, and others. The new American city: three paths to urban renewal. Harvard political review, v. 8, winter 1981: 7-11.

Examines the probable Federal urban role of the Reagan administration and considers the emergence of "the tendency to allow local areas greater discretion in spending federal funds, and the tendency to involve private enterprise in federal aid programs."

Murphy, Joseph H. State and local tax incentives for urban growth: a concept whose time never was? Fordham urban law journal, v. 6, spring 1978: 457-479.

Article reviews New York State's tax benefit programs available to private businesses which invest in urban industrial, commercial or housing development. The author's conclusion suggests that these programs are a "cosmetic approach to a problem requiring massive economic legislation."

Peirce, Neal R., and Carol Steinbach. Enterprise zones—would they mean the loss of other Federal help? National journal, v. 13, Feb. 14, 1981: 265-268.

Says big-city mayors like the idea of tax incentives to stimulate economic development in depressed areas but worry that Congress might cut off other city aid.

Reilly, Ann M. Can urban enterprise zones work? Dun's review, v. 117, Feb. 1981: 48-50, 55

"The Reagan Administration is high on this idea for revitalizing depressed inner-city areas. But seasoned urban economists are not so sure."

Stanfield, Rochelle L. Economic development aid--shell game or the key to urban rejuvenation? National journal, v. 13, Mar. 21, 1981: 494-497.

The Adminstration is decidedly cool toward economic development aid intended to stimulate private investment in cities, contending that over-all national economic growth is the right answer. City officials call that naive."

Stewart, Jon A. Enterprise zones: tool of urban revitalization. Transatlantic perspectives, no. 4, Jan. 1981: 2-6.

Reports the initial results of the German Marshall Fund's analysis of foreign experience with enterprise zones.

Thoryn, Michael. Enterprise zones: elixir for blight? Nation's business, v. 69, Feb. 1981: 56-58.

"Conservatives and liberals have joined to support what has been called the cornerstone of Reagan urban policy: a program that would use tax incentives to spur inner-city business formation."

U.S. Congress. House. Committee on Banking, Finance and Urban Affairs. Subcommittee on the City. Federal tax policy and urban development. Hearing, 95th Cong., 1st sess. June 16, 1977. Washington, U.S. Govt. Print. Off., 1977. 293 p.

U.S. Congress. House Committee on Small Business. Subcommittee on Capital, Investment and Business Opportunities. Neighborhood business district revitalization. Hearing, 95th Cong., 2d sess. Sept. 25, 1978. Washington, U.S. Govt. Print. Off., 1978. 66 p.

----- Revitalization of business districts. Hearing, 95th Cong., 1st sess. Oct. 18, 1977. Washington, U.S. Govt. Print. Off., 1978. 52 p.

U.S. Congress. Joint Economic Committee. Subcommittee on Fiscal and Intergovernmental Policy. Keeping business in the city. Hearings, 95th Cong., 2d sess. Mar. 6-7, 1978. Washignton, U.S. Govt. Print. Off., 1978. 189 p.

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