



## COLORADO'S ENTERPRISE ZONE PROGRAM

*By Louis Pino*

Colorado's Enterprise Zone Program was created by the General Assembly in 1986. The program provides state income tax credits to business 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 enterprise zones and enhanced rural enterprise zones, tax credits available for investing in designated enterprise zone areas, and the administration and certification process for enterprise zone tax credits.

### Enterprise Zone Program

**Enterprise zone designation.** The Economic Development Commission within the Governor's Office of Economic Development and International Trade determines enterprise zone status. Any county, municipality, or group of contiguous municipalities or counties may propose an area to be designated as an enterprise zone. To be designated as an enterprise zone, an area must have a population of less than 115,000 and meet one of the following criteria:

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

Colorado law limits the number of enterprise zones to 16. The commission is required to review enterprise zone designations at least once every ten years to ensure that each enterprise zone continues to meet the criteria. The shaded portions of the map in Figure 1 illustrate the 16 enterprise zones as of January 1, 2016.

### **Enhanced Rural Enterprise Zones.**

Counties can apply to the commission to have those areas within their boundaries already included in an enterprise zone designated as an enhanced rural enterprise zone. In some cases, businesses located in a designated enhanced rural enterprise zone are eligible for larger income tax credits (see Table 1 below).

A county can be designated as an enhanced rural enterprise zone if it meets two or more of the following criteria:

- a population of 5,000 or less;
- an unemployment rate of at least 50 percent above the state unemployment rate;
- a population growth rate less than 25 percent of the state average;
- an average per capita income of less than 75 percent of the state average; or
- the total assessed value of all nonresidential property within the county ranks in the lower one-half of all counties.

The commission is required to revise the list of eligible counties every two years. For calendar years 2015 and 2016, 29 of Colorado's 64 counties (45 percent) are designated enhanced rural enterprise zones. Figure 2 shows the counties designated as enhanced rural enterprise zones.

**Administrators.** A local enterprise zone administrator oversees each zone. The administrator is designated by the applicable local governments and is responsible for implementing the zone's economic development plans. In addition, the administrator is responsible for submitting annual documentation to the commission about the achievements of the zone's economic development objectives.

**Tax credits.** As of January 1, 2016, the enterprise zone program offers ten different state tax credits. Table 1 on page 3 provides a list and description of tax credits available to corporations, business partnerships, and individuals who locate, invest, or contribute to qualifying activities within a zone.

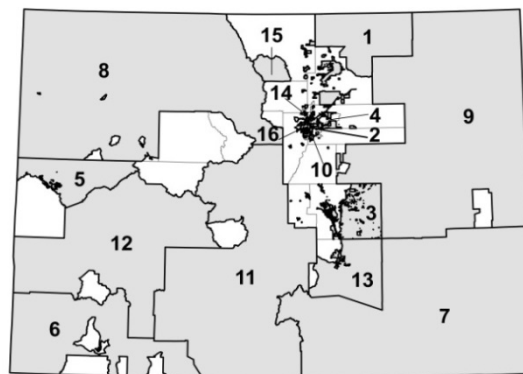
Each income tax year, taxpayers seeking to claim a tax credit (excluding the Contribution Project credit) must have a zone administrator precertify the investments before they are made. The taxpayer must certify that he or she is aware of the program and that the tax credits are a contributing factor to the investment activity.

In FY 2014-15, the commission certified approximately \$97 million in enterprise zone tax credits. The investment tax credit made up 64 percent, or \$61.5 million of these certified credits. Taxpayers contributing to qualified projects earned the next highest amount at nearly \$19 million, or 20 percent of certified credits

Not all tax credits that are certified are actually claimed. Some recipients do not follow through with the program requirements. Others may not have enough tax liability in the current year to claim the certified credit. Only tax credits that are claimed impact state revenue. However, credits not claimed in the current year

may be carried forward and used in future years. Table 1 shows the amount of enterprise zone credits certified and claimed in FY 2014-15.

**Figure 1**  
**Colorado Enterprise Zones**

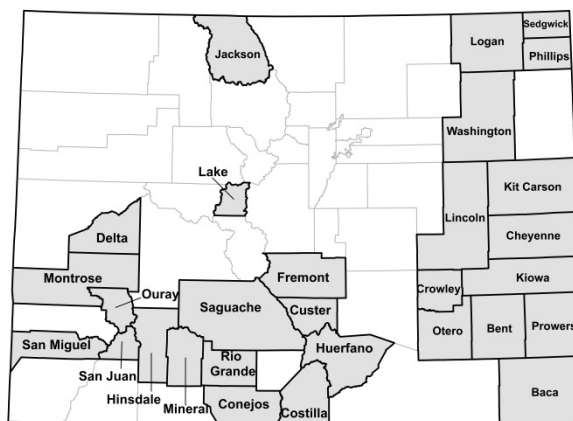


Source: Colorado Legislative Council.

#### List of Enterprise Zones

- |                     |                          |
|---------------------|--------------------------|
| 1. Weld             | 9. Northeast Central     |
| 2. Denver           | 10. South Metro          |
| 3. Pikes Peak       | 11. Central and Southern |
| 4. Adams            | 12. Region 10            |
| 5. Mesa             | 13. Pueblo               |
| 6. Southwest        | 14. North Metro          |
| 7. Southeast Cental | 15. Larimer              |
| 8. Northwest        | 16. Jefferson            |

**Figure 2**  
**Counties Designated as Enhanced Rural Enterprise Zones (2015-16)**



Source: Colorado Legislative Council.

**Table 1**  
**Enterprise Zone Tax Credits**

<b>Tax Credit</b>	<b>Description</b>	<b>Amount Certified*</b>	<b>Amount Claimed**</b>
Enterprise Zone Investment Tax Credit (ITC)	An income tax credit equal to 3 percent of qualified investments located in an enterprise zone.  The credit is limited to \$750,000 each year for tax years 2014 and later; credits above the limit may be carried forward for fourteen years. The Economic Development Commission may waive the limit.	\$61.5 million	\$6.5 million
Qualified Job Training Program Investment	A 12 percent income tax credit for an investment in a qualified job training program.	\$9.5 million	\$0.4 million
Employee Sponsored Health Insurance Credit	A \$1,000 income tax credit for each new business facility employee insured under a health insurance plan, with the employer covering at least 50 percent of the cost.	\$1.4 million	\$0
New Business Facility Employee Credit	A \$1,100 income tax credit for each new business facility employee working within the enterprise zone.  An additional \$2,000 credit for each new business facility employee if the business is located in an enhanced rural enterprise zone.  If the new business facility is located in an enhanced rural enterprise zone and engaged in a business that adds value through manufacturing or processing to agricultural commodities, an additional credit of \$500 per new business employee is allowed.	\$3.6 million	\$1.1 million
Vacant Commercial Building Rehabilitation Building Rehabilitation Tax Credit	The owner or tenant of a building in an enterprise zone that is at least 20 years old and has been completely vacant for at least two years can claim a tax credit of 25 percent of the cost of rehabilitating such building for commercial use. The credit is limited to \$50,000 per building.	\$0.6 million	\$0.1 million
Research and Development Increase Tax Credit	A 3 percent credit on expenditures for research and experimental activities conducted in an enterprise zone.	\$1.0 million	\$0.2 million
Commercial Vehicle Investment Tax Credit	A 1.5 percent credit on a qualified commercial vehicle purchase.	\$0.1 million	\$0
Contribution Project Credit	A taxpayer who makes a monetary or in-kind contribution to a zone administrator for implementing the economic development plan of the enterprise zone may claim an income tax credit of 25 percent of the value of the contribution, up to a maximum credit of \$100,000 per year. In-kind contributions shall not exceed 50 percent of the total credit claimed.	\$18.9 million	\$5.7 million
<b>Total</b>		<b>\$96.6 million</b>	<b>\$14.0 million</b>

Sources: \* Colorado Office of Economic Development and International Trade 2015 Annual report. \*\* Department of Revenue 2015 Annual Report.