

JOBZ Tax Exemptions

Minnesota Job Opportunity Building Zones

JOBZ Fact Sheet

Job Opportunity Building Zones are located throughout Minnesota, with the exception of the seven-county Minneapolis-St. Paul metropolitan area. A qualified business is a business located in a Zone that has entered into a Business Subsidy Agreement (BSA) with a local government. Businesses relocating operations into a Zone from another location in Minnesota must also sign a relocation agreement with the Minnesota Department of Employment and Economic Development. Qualified businesses in these Zones are eligible for JOBZ exemptions from sales, income, and property taxes and may be eligible for a refundable jobs credit based on increased payroll.

Sales tax

The sales tax exemption includes both state and local sales and use tax and applies to:

- goods and taxable services, and
- construction materials and supplies

Goods and taxable services. To qualify for exemption, these items must be purchased by a qualified business and primarily used or consumed in the Zone. A “qualified business” means the BSA must be signed and in effect – purchases before the effective date of the BSA are not exempt. “Primarily,” for sales tax purposes, means fifty percent or more.

Examples of items that can be purchased exempt:

- production equipment (no need to apply for a capital equipment refund because the exemption is up front);
- non-production equipment (desks, chairs, file cabinets, copy machine, clocks, computers, administrative and accounting software, artwork on the walls);
- supplies (office supplies, paper products); and
- utilities (gas, propane, electric, water, telephones)

To buy items exempt, the qualified JOBZ company must give the seller a completed Certificate of Exemption, Form ST3, using Exemption Code M, and writing in “Code 11” or “JOBZ”.

Construction materials and supplies to construct or improve real property in a Zone are exempt if after completion of the construction, the property is used by a qualified business. This exemption applies whether the purchases are made by the qualified business or by the contractor.

To buy items exempt, the contractor or subcontractor must give the seller a completed Certificate of Exemption, Form ST3, using Exemption Code M, and writing in “Code 11” or “JOBZ”. Contractors or subcontractors must fill out the exemption certificate *using their own name* and information where the certificate asks for “Name of purchaser” etc. The name of the JOBZ company is *not required* on the form; however, it *may* be written in anywhere on the form.

Contractors or subcontractors may purchase *equipment* exempt only if the equipment is *incorporated into* the qualifying facility. Contractors or subcontractors must pay tax on equipment purchased, leased or rented for *use* in a Job Zone. For example, if a subcontractor leases a crane or bobcat to use during construction in a Job Zone, it is subject to sales tax.

Motor vehicles: a motor vehicle purchased by a qualified business is exempt if the motor vehicle is principally garaged in the Zone and is primarily used as part of, or in direct support of, the person’s operations carried on in the Zone. To claim exemption, the buyer must submit a statement at the time of registration indicating that the business is a qualified JOBZ business, and that they have a BSA with the local government.

Wind energy production tax.

Wind energy conversion systems located in a job opportunity building zone are exempt from the wind energy production tax.

This fact sheet is intended to help you become more familiar with Minnesota tax laws and your rights and responsibilities under the laws. Nothing in this fact sheet supersedes, alters, or otherwise changes any provisions of the tax law, administrative rules, court decisions, or revenue notices. Alternative formats available upon request.

Property tax benefits

Qualified businesses located in a Zone are exempt from some property taxes. The exemption applies only to improvements to real property, and personal property, that is classified by the assessor as class 3 property (commercial/industrial). The land value and any improvements that do not qualify (because they may be excluded from the Zone in the business subsidy agreement or because they are not class 3 property) continue to be subject to all property taxes. In addition, the exemption does not apply to levies to pay general obligation bonds or to school district debt service levies.

The property tax exemption begins for a current assessment year if *both* of the following conditions are met:

- the business subsidy agreement is signed by July 1, and
- the qualified business occupies the property by July 1 of that year. To be occupied means that business operations have begun.

Note that the *assessment* year is the year *before* the tax statements are mailed and due to be paid.

Example: to qualify for JOBZ exemption for taxes payable in 2009, the business must have a fully executed business subsidy agreement in place and must occupy the JOBZ property by July 1, 2008.

TIF Districts and JOBZ. Tax increment financing has limited applicability to JOBZ projects because property in a Zone is exempt from property taxes, which means that there are few, if any, increments for a TIF district to capture.

Business income

Businesses are allowed an exemption from individual and corporate tax, including alternative minimum tax, for income attributable to Zone activities.

The actual exemption is determined through the use of the business's "Zone percentage" which determines the exemption based on the actual physical location of the business property, and the actual physical location of the employees when performing the work.

It is a two-factor formula based on the proportion of Zone property and Zone payroll compared to total Minnesota property and payroll.

$$\text{Zone percentage} = \frac{\frac{\text{Zone property}}{\text{MN property}} + \frac{\text{Zone payroll}}{\text{MN payroll}}}{2}$$

A business with a 100% Zone percentage is allowed a subtraction of 100% of their net business income in the computation of their tax.

A business with a Zone percentage less than 100% calculates its JOBZ subtraction by multiplying its net income by its Zone percentage.

For purposes of determining the Zone percentage, "property" is defined in the same manner as it is defined for purposes of apportionment of income under M. S. 290.191. Download Schedule JOBZ and Instructions from our website for more details.

Zone payroll is defined as that portion of Minnesota payroll, as defined in M. S. 290.191, that is paid for services performed inside the Zone, or is paid for services performed outside the Zone by an employee with an office in the Zone, whose work outside the Zone is incidental to the work that the employee performs inside the Zone.

Relocations occurring after August 31, 2005. For businesses that relocate into a JOBZ zone pursuant to a business subsidy agreement entered into after August 31, 2005, the JOBZ income or franchise tax exemption is determined by applying the business relocation payroll percentage to the business income exemption determined by applying the Zone percentage.

The relocation payroll percentage is a fraction:

$$\text{Zone percentage} = \frac{\text{Payroll from the relocated operations in the last full year prior to the relocation.}}{\text{Zone payroll for the tax year}}$$

This relocation payroll percentage is multiplied by the business income exemption determined by applying the Zone percentage. The result is the JOBZ income or franchise tax exemption for these relocating qualified businesses.

Zone percentage for MN resident sole proprietors.

The denominator of the property and payroll factor in the Zone percentage calculation is changed to worldwide sources (not just Minnesota property and Minnesota payroll) for Minnesota resident sole proprietors since Minnesota residents will be multiplying their Zone percentage by their worldwide business income.

Zone percentage for members of a unitary group.

If the qualified business is a member of a unitary group, the denominator of the property and payroll factors are the payroll and property factors of the entire group.

No carryover of subtraction benefits. If a JOBZ subtraction reduces the taxpayer's Minnesota taxable income below zero, there is no carryover of the loss to prior or future years.

Minimum fee

Zone property and payroll are excluded from the computation of the minimum fee of a corporation, partnership, or S corporation. Furthermore, if all of an entity's Minnesota property and payroll is in a Zone, the entity is exempt from the minimum fee.

Limitation on business subtraction

The business income subtraction, and the minimum fee base exclusion for all corporations, other than those exempt, are limited to twenty percent of the sum of Zone payroll and the adjusted basis of Zone property at the time it is first used in the Zone.

Rental or capital gain income

Rental income. Individuals and businesses (but not C corporations) are eligible for an income tax exemption if they rent or lease real or tangible personal property located in the Zone to a qualified business. If tangible personal property was used both inside and outside the Zone, the subtraction must be prorated based on the number of days that the property was used in the Zone.

Capital gain income. Individuals and businesses (but not C corporations) are eligible for an income tax exemption for the gain on the sale or exchange of real or tangible personal property located in the Zone and used by a qualified business. The exemption for the gain on the sale of real property must be prorated for the number of days the asset was held during the period of Zone designation. Tangible personal property must be prorated based on the number of days the property was used by a qualified business in the Zone.

Example. Jackie sells her warehouse on June 30, 2004.

The warehouse was used by a qualified business and located in an area designated as a Zone since January 1, 2004. Jackie bought the property on January 1, 1994, and owned it for a total of 3834 days, 182 of which were as Zone property. She realized a gain on the sale of the property of \$100,000.

Jackie may take a subtraction for 182/3834 (.04747) of the \$100,000 gain, or \$4747.

Gain on the sale of a qualified business. Individuals are eligible for an income tax exemption for capital gains on the sale of an ownership interest in a qualified business that is a partnership or corporation that has a Zone percentage of at least 25%. The exemption is calculated by multiplying the gain by the business's Zone percentage in the year prior to the sale. (For this calculation, the denominator of the Zone percentage is the total payroll and property factors of the business, not simply its total Minnesota payroll and property.) At the request of the individual, the qualified business

must certify to the individual in writing the applicable Zone percentage.

Refundable income tax credits. Individuals who qualify for the subtraction of income are required to prorate their Child and Dependent Care Credit and their Working Family Credit (but not the Education Credit).

JOBZ Credit

A refundable credit is generally available for qualified businesses that pay an average wage to employees working in the Zone in excess of \$30,000 per year. The calculation of the credit factors in wages paid to employees working outside the Zone in the tax year as well as wages paid to Minnesota employees in 2003.

Calculating the credit. The credit is 7% of the lesser of:

the **adjusted Zone payroll** in the Zone for the taxable year --- adjusted to exclude the salary in excess of \$100,000 for those earning more than \$100,000 --- less the payroll in 2003, **or**

the total Minnesota payroll for the taxable year, less the total Minnesota payroll for 2003

minus

\$30,000 multiplied by [the number of full-time equivalent employees employed in the Zone for the taxable year minus the number of full time equivalent employees (FTE's) employed in the Zone in 2003].

Example. Business Y expands from a location in the Metro area into a Zone. Business Y had a \$2 million Minnesota payroll in 2003 all outside the Zone.

- 2004, Business Y payroll in Minnesota outside the Zone is \$2.1 million.
- 2004 Zone payroll for Business Y is \$1,050,000.
- 2004 Business Y has 30 full time employees working in the Zone (average wage of \$35,000).

To determine the credit

1. Determine the lesser of:

a. Adjusted Zone payroll for 2004	\$1,050,000
Subtract Zone payroll for 2003	- 0
(Lesser of a and b—use this figure)	\$1,050,000
or	
b. Total Minnesota payroll for 2004	\$3,150,000
Subtract total Minnesota payroll for 2003	-2,000,000
	\$1,150,000
2. Determine the number of full-time employee equivalents in the Zone for the taxable year. 30
3. Number of FTE's working in the Zone in 2003. 0

4. Multiply the difference of Step 2 and 3 by \$30,000. \$900,000
5. Subtract the amount from Step 4 from the amount determined in Step 1. \$150,000
6. Multiply the amount from Step 5 by .07. \$10,500

The credit in this example is \$10,500.

Full time equivalent (FTE) employee. A full-time equivalent employee is anyone who is considered full-time, or for those working less than full-time, the equivalent to 2080 expected hours of work time. For example, a part-time employee scheduled to work 32 hours a week is equal to a .80 full-time equivalent employee calculated as follows:

Expected hours/week:	32
Calendar weeks:	$\times 52$
Annualized hours:	1664

$$1664 \div 2080 = .80$$

An employee who is considered a full time employee is considered a part time employee for purposes of the credit if the employee did not work in the Zone for the entire year. For example a full time employee hired on July 1 of Year 1 is considered .5 full time equivalent employee in Year 1.

The \$30,000 base amount and the \$100,000 maximum wage amounts will be adjusted yearly for inflation beginning in 2005.

<u>Year</u>	<u>Base amount</u>	<u>Maximum wage</u>
2005	\$30,690	\$102,300
2006	\$31,640	\$105,480
2007	\$32,880	\$109,600

Claiming individual and corporate tax benefits

Qualified businesses or individuals eligible for the business income, rental or capital gain subtraction, minimum fee reduction, or JOBZ jobs credit should complete Schedule JOBZ to calculate the subtraction and carry the subtraction or credit over to their corporate or individual income tax return.

Partners, S corporation shareholders, and beneficiaries of an estate or trust do not complete Schedule JOBZ, but should receive their prorata share of the subtraction on Schedule KPI, KS or KF, respectively. They report the subtraction on line 11 of Form M1 and include Schedule KPI, KS, or KF with their return.

Form M500

Form M500 is sent to JOBZ businesses in the fall of each year, to report the previous year's tax benefits. The form is due in our office October 15. The form primarily asks for sales tax benefits, and you must also attach the Schedule JOBZ that was attached to your income tax return.

The filing of Form M500 is in addition to any reporting requirements agreed to in the Business Subsidy Agreement with the Zone administrator.

JOBZ Resources

Get fast, accurate help by contacting the right person.

Sales and Use Tax

Jeanne Aura, 651-556-6836
jeanne.aura@state.mn.us

C corporation Franchise Tax

Duane Gudknecht, 651-297-7000
duane.gudknecht@state.mn.us

S corporations and Partnership Tax

Kevin Tjernagel, 651-556-3838
kevin.tjernagel@state.mn.us

Property Tax

Jason Nord 651-556-6108
jason.nord@state.mn.us

Stephanie Nyhus 651-556-6109
stephanie.nyhus@state.mn.us

Minnesota Relay (TTY) 711

References:

M.S. 290.191, Apportionment of net income
M.S. 297A.68, Subd. 37 Job opportunity building zones
M.S. 297B.03 (13), Exemptions
M.S. 469.310, Definitions
M.S. 469.316, Individual income tax exemption
M.S. 469.317, Corporate franchise tax exemption
M.S. 469.318, Jobs credit
M.S. 272.02, Subd. 64 Job opportunity building zone property
M. S. 272.029, Subd. 7 Wind energy production tax. Exemption