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**Fighting Poverty and Promoting Economic Growth
by Creating Investment Zones:
A Strong Incentive for Private Business to Invest
where Investment is Most Needed**

J. Tomas Hexner and Arthur MacEwan

Center for Global Development and Sustainability



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Foreword

Puerto Rico's economic crisis continues but the threat of default has been temporarily stilled by the passage of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in June 2016. PROMESA is a first step; economic improvement cannot end there. The following paper, "Fighting Poverty and Promoting Economic Growth by Creating Investment Zones: A Strong Incentive for Private Business to Invest where Investment is Most Needed" examines how helpful Investment Zones legislation would be to Puerto Rico.

The Congress should create "Investment Zones" throughout the states and territories of the United States. Investment Zone legislation would be an especially powerful mechanism for attaining one of the principal goals of PROMESA—economic growth in Puerto Rico.

An Investment Zone would be a county, city/town or zip code area that has at least 25,000 residents and unemployment and poverty rates at least twice the national average. Firms that established operations in these areas would be subject to a 12% tax rate on earnings. Only business active in the Zones would be eligible for this low tax rate. Earnings from intangible assets would be eligible for the tax advantage, encouraging R&D to stay in the country. The Act would create Investment Zones in 38 states, and the District of Columbia, and would include *all of Puerto Rico*; the Zones would include 12.5% of the country's population. The employment and income impacts of creating Investment Zones would be large as compared to the cost to the Treasury in terms of lost taxes. Moreover, firms, particularly high-tech firms, which would otherwise establish operations abroad, would remain in the country. While this legislation would apply to the whole country as a national policy, the benefits to Puerto Rico would be especially large.

For firms operating in Puerto Rico the Investment Zone program would be a significant improvement over the Controlled Foreign Corporation (CFC) status, because CFC firms are constrained by high tax rates from repatriating earnings to parent firms in the states. With the Investment Zone program, firms would be free to move earnings to the states immediately at a highly favorable tax rate. This would be an advantage for the firms, but also for the U.S. economy as, under CFC status, firms have an incentive to use their earnings for activities elsewhere in the world.

The Heller school has had a long-standing interest in Puerto Rico and there are several reasons why this paper fits with the examination of exclusion and inequality at the Heller School and in the Center for Global Development and Sustainability. First, in the winter of 2001 SID decided to offer a course on Puerto Rico as part of its Country Development Studies Program. The idea of the Country Development Studies Program was to examine a broad range of topics—social, political, cultural, economic—that affected the

development of a country or region. The current paper updates some of the findings from SID's early work on Puerto Rico. Second, though part of the USA, the commonwealth of Puerto Rico displays many of the attributes of a developing nation—low income, high unemployment, migration, brain drain, and linguistic and cultural barriers—that make it hard for Puerto Rico to achieve the quality of life that one might expect from a region in the USA. Like other excluded regions and groups of interest to the Center for Global Development and Sustainability, Puerto Rico is a region that has been excluded from development by its better-off neighbor. Puerto Rico illustrates in a microcosm many of the larger themes central to international economic development. Third, Puerto Rico has remained the poorest region of the United States since the Spanish-American War, 1898, with no signs that it is converging to the standard of living in the mainland of the USA. Exclusion tends to persist, unless these myths about what's best for Puerto Rico's economy are addressed. Last, the paper matters because it redresses the shortage of information about Puerto Rico in the media and in academia.

Fighting Poverty and Promoting Economic Growth
by
Creating Investment Zones
A Strong Incentive for Private Business to Invest where
Investment is Most Needed¹

J. Tomas Hexner and Arthur MacEwan²

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For firms operating in Puerto Rico the Investment Zone program would be a significant improvement over the Controlled Foreign Corporation (CFC) status, because CFC firms are constrained by high tax rates from repatriating earnings to parent firms in the states. With the Investment Zone program, firms would be free to move earnings to the states immediately at a highly favorable tax rate. This would be an advantage for the firms, but also for the U.S. economy as, under CFC status, firms have an incentive to use their earnings for activities elsewhere in the world.

¹ This set of documents, including the draft legislation included here, was originally prepared in 2009 for consideration by Congress in that year. The draft legislation was updated in 2013 simply by changing the dates in the proposed bill. The analysis and discussion here, however, are based on data from the 2000 Census and other information of that earlier period because sufficiently detailed data were not yet available from the 2010 census. Many things have changed since the 2000 census. In particular, some of the regions of the country that would have qualified as Investment Zones would not qualify today and other regions would qualify. However, most of the zones that, because of their high rates of poverty and unemployment, are listed here as Investment Zones would likely still be Investment Zones today. Most important, the rationale for creating Investment Zones has not changed.

² J. Tomas Hexner is an independent consultant based in Cambridge, Massachusetts. Arthur MacEwan is Professor Emeritus of Economics at the University of Massachusetts Boston.

I.

The creation of Investment Zones throughout the United States—in the states and the territories—would provide a strong foundation for reducing poverty and promoting economic growth. Although a program of Investment Zones would not focus on Puerto Rico, it would be an especially effective means to meet a major goal established in PROMESA—that is, the goal of promoting economic growth in Puerto Rico.

The idea of Investment Zones—or Enterprise Zones, as they have been called in the past—was originally promoted by Congressman and Secretary of Housing and Urban Development Jack Kemp in the 1980s and 1990s. Although the concept received support from both other Republicans³ and Democrats, it did not develop into the enactment of legislation, perhaps because the impact on firms' bottom lines was not sufficiently strong and because the concerns were less prominent about the international location of firms and U.S. competitiveness.

This legislation proposed here, however, by establishing lowered tax rates for business operating in the Investment Zones, goes directly to firms' bottom lines and will thus lead them to invest in the country's depressed areas. These areas will reap the benefits that have in the past gone to controlled foreign corporations, but the jobs and revenue will remain in the United States.

Indeed, the National Investment Zones Act would supply a strong incentive for firms to establish new operations and expand existing operations in those economically depressed areas of the country, areas most in need of new investment.⁴ These areas will be designated "Investment Zones." With the incentive of a lower tax rate in the Zones, private businesses will create jobs, raise value added per job, and generate income. The Act will create Investment Zones in 38 states, Puerto Rico and the District of Columbia; the Zones will include 12.5% of the country's population. The employment impacts will be explained below.

For the country as a whole the benefits will be extensive – in urban areas such as the South Bronx, South Los Angeles, and Detroit, in rural areas such as Navajo County of Arizona and Washington County of Mississippi, and in towns such as Lawrence, Massachusetts, and Compton, California. As businesses respond to the incentives of the Investment Zones, these areas will be raised toward the general level of prosperity that exists in the United States.

Puerto Rico stands to gain significantly from the creation of the Investment Zones. With a high unemployment rate and nearly half the population classified as in

³ For example, the legislation included here in Attachment #1 had the support of the now-Speaker of the House, Representative Paul Ryan.

⁴ Please see Attachment 1 for the full text of the draft of National Investment Zone Act that was prepared in 2009 and updated in 2013. The areas that, based on 2000 Census data, would have become Investment Zones under the Act are listed in Attachment 2.

poverty, the island has a special need for programs that will generate economic expansion. The creation of Investment Zones is one such program, and the entire island would be eligible for the Zone designation. Furthermore, the Investment Zone designation will be especially attractive to R&D-oriented businesses that derive a significant portion of their profits from intangible assets. These sorts of businesses have been well established in Puerto Rico through the provisions of earlier economic development programs, and thus they are likely to respond especially favorably to the incentives of the Investment Zones.

Moreover, for firms operating in Puerto Rico the Investment Zone program would be a significant improvement over the Controlled Foreign Corporation (CFC) status under which they can now operate. In particular, under CFC status firms are constrained by high corporate taxes from repatriating earnings to parent firms in the states. With the Investment Zone program, firms would be free to move earnings to the states immediately at a highly favorable tax rate. This would be an advantage for the firms, but also for the U.S. economy as, under CFC status, firms have an incentive to use their earnings for activities elsewhere in the world.

II.

The incentive offered to firms in the legislation to create national Investment Zones is that in the Zones firms will pay taxes at a 12% rate on earnings, well below current rates. The Act defines an Investment Zone as a county, city/town or zip code area that has at least 25,000 residents and unemployment and poverty rates at least twice the national average. In 2000, there were 395 areas in the country that would have been eligible as Investment Zones in 38 states, Puerto Rico, and the District of Columbia (77 counties, 105 cities/towns, and 212 zip codes areas in 38 states and DC plus the entire island of Puerto Rico). These areas include 12.5% of the population in 2000. The bill and a list of the areas that would have been eligible as Investment Zones on the basis of the situation in 2000 are attached.⁵

It is important to note that the definition of Investment Zones in the proposed legislation includes areas that meet the unemployment and poverty criteria but do not meet the population criteria, if they are contiguous with other areas that meet the unemployment and poverty criteria and these areas together meet the population criterion. This provision means, in particular, that all of Puerto Rico will be an Investment Zone (including those counties/*municipios* that have populations below the 25,000 cut off).⁶

⁵ Again, Attachment #2 provides a complete list of the Investment Zone areas. It has been necessary to use data for 2000 to determine these areas because the Census for that year provides information at the required level of detail; more recent, sufficiently detailed data were not available when the list was created.

⁶ In creating the list of Investment Zones in Attachment #2, this contiguity provision has not been applied other than for Puerto Rico.

III.

Previous attempts at Investment Zone legislation have on the whole failed, largely because they were not oriented toward the bottom line. Provisions of the proposed act, however, take the business perspective into account while carefully guarding against abuse.

First, as is clear throughout the bill, the lower tax rate of Investment Zones is available only to *active* businesses in the Zones. Only reasonable passive activity would be included, preventing firms from establishing “post-office-box operations” in an Investment Zone in order to reap the tax advantages.

Second, the bill provides that earnings from intangible assets will be eligible for the tax benefits of the Investment Zones. (See sections of the proposed bill 1400, 6a, 6b1B, and 6b1D – Attachment #1) This provision is included to make Investment Zones competitive with countries – such as Ireland and Singapore – that have succeeded with low or nonexistent taxes in attracting firms with significant reliance on earnings from intangibles. The goal is to keep the R&D and the revenue from intangible income in the 50 states and Puerto Rico.

In the current context of globalization, this provision promises to be especially important. Many firms based in the United States are increasingly careful in locating their ownership of intangible assets and, importantly, the necessary research and development activity that both creates the intellectual property and also, for tax purposes, defines the ownership location in these sophisticated and competitive tax havens. In doing so, the firms take on costs such as deferral associated with the repatriation of their profits, but such costs appear to be far outweighed by the greatly reduced effective taxation on intangible income. In the Investment Zones, the U.S. would regain its competitive advantage relative to these “tax havens” by offering an attractive 12% tax rate. Firms would see multiple benefits, including the elimination of the complexities of repatriation of profits, easier management oversight and control over a local R&D process and a considerable reduction in the uncertainties associated with tax reform.

By creating conditions where R&D oriented firms would keep the ownership of their intangible assets in American Investment Zones, the federal government would increase its tax revenues. Even at the low 12% rate, the tax revenue is far greater than the large loss of U.S. tax revenues that would take place due to deferral if the ownership were located in other countries, such as Ireland or Singapore. Additionally, there would be employment gains because the location of ownership depends on the location of research and development (e.g., at the outset there would be more clinical trials in Puerto Rico and over time integrating more activity in the R&D chain).

While labor market conditions in areas that will be Investment Zones may not always meet the needs for this expansion of research and development, in many Zones – e.g., those in urban areas – appropriate labor will be available nearby. And even when the

activity does not directly generate jobs for people in the Zone, the indirect impacts will be significant.

As noted above, Puerto Rico already has many firms that operate widely in the global economy and are heavily reliant on earnings from their intangible assets. It can be expected, therefore, that as Puerto Rico becomes an Investment Zone, many of these firms will choose to locate the ownership of intangible assets in Puerto Rico and conduct the requisite research and development.

IV.

Preliminary estimates have been undertaken to determine the cost of the proposed legislation to the federal government. Under a favorable but reasonable set of assumptions regarding businesses' response to the tax incentives in the Investment Zones, the net costs to the Treasury over a 12-year period for this national program would be, in present value terms, \$2 billion per year, or a total of \$25 billion. (Twelve years is the minimum time that that business would be assured that an Investment Zone, once created, would remain an Investment Zone.) Under these circumstances 1.2 million jobs would be created in the Zones. These cost and job-creation estimates assume a substantial response over the first five years by firms that base their activity on intangible assets and a moderate response by other firms. (In this situation, as explained above, many of the newly employed people would come from outside of the Zones.)

A second, conservative cost estimate assumes that there is no response by firms based on intangible assets and only a moderate response by other firms. In this case the net costs over the 12 year period would be, in present value terms, \$4.8 billion per year, or a total of \$57 billion. The increase of employment in the Zones would amount to 550 thousand during the first five years after the Investment Zones are created.

In these estimates, the primary costs are those that fall on the federal government as a result of the taxes lost on business activity already existing in the areas that become Investment Zones; there will also be tax loss as some business relocate from other areas of the country to the Zones. These losses will be offset by business expansion in response to the tax incentive and thus by the generation of a larger tax base. Also, some small gain will accrue to the government from a reduction of unemployment compensation payments, a reduction of social spending, and an increase in personal income tax payments. Details of the cost estimates, including a full specification of the assumptions on which they are based and including an estimate of the "break even" point, are included in Attachment #3.

These estimates of the budgetary impact of the proposed legislation indicate that the cost to the federal government of this poverty-reducing and business-promoting national program will be small relative to the expected social gains. The most immediate gains are seen in the increased employment figures noted above. Job creation, however, tells only a part of the story. In direct correlation with increased employment, hundreds of

thousands of families will be pulled out of poverty. Furthermore, insofar as the job creation is in firms that base their activity on intangible assets, the new positions will be skilled jobs. Even while some of these skilled jobs will go to people outside of the Zones, their creation will generate new opportunities for people in the Zones – a new labor market environment with transformative potential. Beyond the direct impact on labor markets and poverty, firms already operating in areas that become Investment Zones will receive the direct tax benefit of the program. These are often small, locally owned firms. Also, their existence, operating as they are in economically depressed areas, is often tenuous. With the creation of the Investment Zones, these local firms and entire communities are more likely to prosper.

There is still another social gain from this creation of Investment Zones that is not fully accounted for in the estimates that have been set out here. The proposed Investment Zones legislation holds out the promise of attenuating – if not stopping and reversing – the movement of many U.S. based firms, often high-tech firms, out of the country to tax havens such as Ireland and Singapore. The damaging structural change that has been involved in this movement can be transformed in a way that brings immediate benefits to low-income areas of the United States and long-term benefits to the whole country.

The estimation of the costs and benefits of such programs over several years always involves a degree of uncertainty. The estimates presented here, however, do not appear unreasonable and the social gains are likely to be substantial.

Attachment #1: H.R. Draft of Proposed Investment Zones Legislation

Attachment #2: List of Areas Eligible to Become Investment Zones

Attachment #3: Cost Estimate Procedures and Assumptions

A BILL

To amend the Internal Revenue Code of 1986 to promote freedom, fairness, and economic opportunity by establishing National Investment Zones to promote prosperity in economically depressed areas.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) Short Title- This Act may be cited as the 'National Investment Zones Act of 2013'.

(b) Table of Contents- The table of contents for this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Findings.
- Sec. 3. National Investment Zones.
- Sec. 4. Study.
- Sec. 5. Effective date.

SEC. 2. FINDINGS.

The Congress finds that the establishment of a National Investment Zones program that offers a substantial tax incentive to corporations, including controlled foreign corporations in a possession of the United States, partnerships, and sole proprietorships conducting an active business within such zones and electing to participate will achieve--

- (1) a higher level of private sector economic activity necessary to alleviate poverty and unemployment in economically depressed regions of the United States, including the possessions of the United States;
- (2) the removal of tax disincentives to do business in economically depressed areas and thus promote economic growth, development, employment, a higher standard of living and a higher quality of life in economically depressed areas;
- (3) improved taxation of business investment in plant, equipment and inventories in economically depressed

areas, encouraging businesses to operate in those areas;
and
(4) comparable tax treatment of businesses in economically depressed areas in all parts of the United States and its possessions, thereby promoting universal economic prosperity.

SEC. 3. NATIONAL INVESTMENT ZONES.

(a) In General- Subchapter Y of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new part:

` PART III--NATIONAL INVESTMENT ZONES

- ` Sec. 1400U. National Investment Zone designation procedure.
- ` Sec. 1400U-1. National Investment Zone eligibility criteria.
- ` Sec. 1400U-2. Effect of National Investment Zone designation on individuals, estates and trusts conducting an active trade or business within a national Investment Zone.
- ` Sec. 1400U-3. National Investment Zones individual taxable income.
- ` Sec. 1400U-4. Effect of National Investment Zone designation on corporations.
- ` Sec. 1400U-5. National Investment Zones corporate taxable income.
- ` Sec. 1400U-6. Conduct of an active trade or business within a National Investment Zone by corporations, partnerships, and sole proprietors.
- ` Sec. 1400U-7. Definitions and special rules.

` SEC. 1400U. NATIONAL INVESTMENT ZONE DESIGNATION PROCEDURE.

` (a) Designated Zone- The Secretary shall designate the areas in the United States and possessions of the United States that meet the requirements of section 1400U-1 and publish a list of such designated zones.

` (b) Effective Date of Zone Designation- The effective date of the designation of any zone as a National Investment Zone pursuant to this section shall be January 1 of the year following its designation.

` (c) Eligibility Review- Between January 1 and April 30 of the year after the release of the decennial census, the Secretary shall undertake a review of each National Investment Zone designation whereby the Secretary shall determine whether the zone continues to meet the National Investment Zones Eligibility Criteria established by section 1400U-1. If this review determines that a National Investment Zone no longer meets the National Investment Zone Eligibility Criteria established by section 1400U-1, then the Secretary shall revoke the designation effective at the end of the calendar year. Not later than June 30 after said determination, the Secretary shall issue a notice to all taxpayers making National Investment Zone elections with respect to said zone in the taxpayer's previous taxable year that the designation will be revoked at the end of the calendar year for said National Investment Zone. The Secretary shall publish the decennial eligibility review results for all National Investment Zones no later than June 30.

` (d) Effect of Revocation of Designation- An electing taxpayer with respect to a National Investment Zone whose designation is revoked continues to qualify for the Individual or Corporate Alternative National Investment Zones tax under sections 1400U-2 and 1400U-4 until the end of the taxpayer's 12th taxable year following the year of zone designation revocation.

` SEC. 1400U-1. NATIONAL INVESTMENT ZONE ELIGIBILITY CRITERIA.

` (a) National Investment Zone Eligibility Criteria- A National Investment Zone can be a city, town, county, or zip code area that--

` (1) has greater than 25,000 residents (or would if a contiguous city, town, county, or zip code area were included and the contiguous city, town, county. or zip code area also meets the requirements of paragraphs (2) and (3));

` (2) has a poverty rate at least two times the national poverty rate; and

` (3) has an unemployment rate at least two times the national average unemployment rate.

`(b) No Overlap With Existing Zones of Different Type- No part of a National Investment Zone may also be part of a previously established Investment Zone, or of an existing Enterprise Community (Subchapter U zones), or of a District of Columbia Enterprise Zone (Subchapter W zones).

` SEC. 1400U-2. EFFECT OF NATIONAL INVESTMENT ZONE DESIGNATION ON INDIVIDUALS, ESTATES AND TRUSTS CONDUCTING AN ACTIVE TRADE OR BUSINESS WITHIN A NATIONAL INVESTMENT ZONE.

`(a) Individual Alternative National Investment Zone Tax- In the case of a taxpayer other than a corporation, if, for any taxable year, the taxpayer has National Investment Zone individual taxable income, then, in lieu of any tax imposed by section 1 or section 55, the taxpayer may elect to pay a tax which shall consist of the sum of--

`(1) a tax computed on the taxpayer's taxable income reduced by the amount of National Investment Zone tentative individual taxable income (if greater than zero), at the rates and in the manner as if this subsection had not been enacted, plus

`(2) a tax of 12 percent of the National Investment Zone individual taxable income.

`(b) Years for Which Election Is Effective- An election under subsection (a) shall be effective for the three taxable years of the electing taxpayer following the year in which the election is made and for all succeeding taxable years of such taxpayer, unless--

`(1) the taxpayer ceases to have National Investment Zone taxable income,

`(2) the taxpayer revokes the election (after the initial three-year period), or

`(3) the period described in section 1400U(d) has expired.

`(c) Effect of Cessation of Business Operations in Zone During Initial Three-Year Period- If a taxpayer has made an election under this section and if such election has been terminated or revoked under subsection (b)(1) due to cessation of business in the zone during any of the three years immediately after the year in which the election is made, such taxpayer shall be treated as having been subject to tax under chapter 1 at the otherwise applicable rate for individuals for the years the alternative National Investment Zone tax was applicable.

` (d) New Election Following Termination- If a taxpayer has made an election under this section and if such election has been terminated or revoked under subsection (b), such taxpayer shall not be eligible to make an election under this section for any taxable year before the 3rd taxable year which begins after the 1st taxable year for which such termination is effective, unless the Secretary consents to such election.

` SEC. 1400U-3. NATIONAL INVESTMENT ZONE INDIVIDUAL TAXABLE INCOME.

` (a) National Investment Zone Individual Tentative Taxable Income- National Investment Zone tentative individual taxable income shall be equal to taxable income (as defined by section 63 without regard to section 179(e)) arising from the conduct of an active trade or business (as defined in section 1400U-6) within one or more National Investment Zones.

` (b) National Investment Zone Individual Taxable Income Adjustments- National Investment Zone individual taxable income shall be equal to National Investment Zone individual tentative taxable income less--

` (1) expenditures made to acquire inventory property held in a National Investment Zone, and

` (2) the amount, if any, the taxpayer elects to deduct pursuant to section 179(e) that exceeds the limitations in section 179(b).

` SEC. 1400U-4. EFFECT OF NATIONAL INVESTMENT ZONE DESIGNATION ON CORPORATIONS.

` (a) Corporate Alternative National Investment Zone Tax- In the case of a corporation (other than an S corporation), if for any taxable year, the taxpayer has National Investment Zone corporate taxable income, then, in lieu of any tax imposed by section 11 or section 55, the taxpayer may elect to pay a tax which shall consist of the sum of--

` (1) a tax computed on taxable income reduced by the amount of National Investment Zone tentative corporate taxable income (if greater than zero) at the rates and in the manner as if this subsection had not been enacted, plus

` (2) a tax of 12 percent of the National Investment Zone corporate taxable income.

` (b) Special Rule for Non-Domestic Corporations- In the case of an electing corporation organized under the laws of a possession of the United States doing business in a National Investment Zone, this section shall apply as if such corporation were a domestic corporation subject to tax under this title.

` (c) Years for Which Election Is Effective- An election under subsection (a) shall be effective for the three taxable years of the electing corporation following the year in which the election is made and for all succeeding taxable years of such corporation, unless--

` (1) the corporation ceases to have National Investment Zone taxable income,

` (2) the corporation revokes the election, or

` (3) the period described in section 1400U(d) has expired.

` (d) Effect of Cessation of Business Operations in Zone During Initial Three-Year Period- If a taxpayer has made an election under this section and if such election has been terminated or revoked under subsection (c)(1) due to cessation of business in the zone during any of the three years immediately after the year in which the election is made, such taxpayer shall be treated as having been subject to tax under chapter 1 at the otherwise applicable rate for domestic corporations for the years the alternative National Investment Zone tax was applicable.

` (e) New Election by National Investment Zone Corporation Following Termination- If an electing corporation has made an election under this section and if such election has been terminated or revoked under subsection (c), such corporation (and any successor corporation) shall not be eligible to make an election under this section for any taxable year before the 3rd taxable year which begins after the 1st taxable year for which such termination is effective, unless the Secretary consents to such election.

` SEC. 1400U-5. NATIONAL INVESTMENT ZONE CORPORATE TAXABLE INCOME.

` (a) In General- National Investment Zone corporate tentative corporate taxable income shall be taxable income (without regard to section 179(e)) arising from the conduct of an active trade or business within one or more National Investment Zones.

` (b) Adjustments- National Investment Zone corporate taxable income shall be equal to National Investment Zone corporate tentative taxable income less--

- ` (1) expenditures made to acquire inventory property held in a National Investment Zone, and
- ` (2) the amount, if any, the taxpayer elects to deduct pursuant to 179(e) that exceeds the limitations in section 179(b).

` SEC. 1400U-6. CONDUCT OF AN ACTIVE TRADE OR BUSINESS WITHIN A NATIONAL INVESTMENT ZONE BY CORPORATIONS, PARTNERSHIPS, AND SOLE PROPRIETORS.

` (a) Active Trade or Business- For purposes of this part, the conduct of an active trade or business means the conduct of a trade or business that derives no more than 25 percent of its gross income from passive activities (as defined by section 469). For purposes of this subsection, the generation of income from intangible assets is not a passive activity.

` (b) Income and Expenses Within a National Investment Zone- For purposes of this part--

` (1) GROSS INCOME- Gross income from within a National Investment Zone shall mean--

` (A) compensation for labor or services performed by the electing corporation, partnership, or sole proprietor within a National Investment Zone;

` (B) rentals or royalties from property (including intangible property) located in a National Investment Zone;

` (C) gains, profits, and income derived from the sale of inventory property held within a National Investment Zone; and

` (D) income from the sale of property (including intangible property) that is produced, created, fabricated, manufactured, extracted, processed, cured, aged, grown or harvested within the National Investment Zone.

` (2) EXPENSES- Expenses shall be allocated and apportioned to the income producing activities to which they are related. Expenses which are not allocable or apportioned to any specific income producing activities shall be allocated on the basis of gross income such that the ratio of the expense allocated to the National Investment Zone is the same as the ratio of gross income within the National Investment Zone to all gross income within the United States and a possession of the United

States of the taxpayer or controlled group (in the case of a corporation that is a member of a controlled group of corporations as defined in section 1563(a)).

`(c) Alternative Formulary Method-

`(1) IN GENERAL- A corporation (or controlled group in the case of a corporation that is a member of a controlled group of corporations (as defined in section 1563(a))), partnership, or sole proprietor that so elects, in a form and manner prescribed by the Secretary, may determine the share of its income, expense, and other items attributable to the conduct of an active trade or business within a National Investment Zone by multiplying its apportionment ratio by the amount of the income, expense, and other items for purposes of determining its National Investment Zone corporate taxable income.

`(2) APPORTIONMENT RATIO- The apportionment ratio shall be the ratio of--

`(A) the sum of the remaining basis in depreciable property held in a National Investment Zone for the entire taxable year, of the inventory property held in a National Investment Zone at the end of the taxable year, and of the compensation paid to National Investment Zone-based employees during the taxable year, and

`(B) the sum of the remaining basis in depreciable property held in the United States and its possessions for the entire taxable year, of the inventory property held in the United States and its possessions at the end of the taxable year, and of the compensation paid to employees within the United States and its possessions during the taxable year.

`(3) MANDATORY USE OF ALTERNATIVE FORMULARY METHOD- If a taxpayer--

`(A) derives greater than 10 percent of its gross income from sales to related parties (as defined in section 1313(c)), or

`(B) expenses attributable to purchases from related parties (as defined in section 1313(c)) account for greater than 10 percent of its expenses, then said taxpayer shall use the alternative formulary method.

` SEC. 1400U-7. DEFINITIONS AND SPECIAL RULES.

` For purposes of this part--

` (1) POSSESSION OF THE UNITED STATES- The term `possession of the United States' means the Virgin Islands, Guam, American Samoa, the Commonwealth of Puerto Rico, and the Commonwealth of the Northern Mariana Islands.

` (2) INVENTORY-

` (A) INVENTORY PROPERTY- The term `inventory property' means property described in section 1221(a)(1) and any expenditures that were capitalized pursuant to section 263A.

` (B) NO DOUBLE COUNTING- The deduction afforded by section 1400U-3(b)(1) is in lieu of the deduction provided upon the sale of inventory property.

` (3) SPECIAL RULE- For purposes of a corporation making an election under this part, section 7701(a)(4) shall include an electing corporation organized under the laws of a possession of the United States and section 7701(a)(5) shall not apply.'.

(b) Conforming Amendments- Section 179 of the Internal Revenue Code of 1986 is amended by inserting at the end the following new subsection:

` (e) No Limitation on Amount in National Investment Zones-

` (1) IN GENERAL- The limitations of subsection (b) shall not apply with respect to property placed in service in a National Investment Zone.

` (2) PROPERTY REMOVED FROM NATIONAL INVESTMENT ZONE- Property expensed pursuant to this section that is removed from service within a National Investment Zone but not disposed of by the taxpayer shall be treated as if it had been, as of the date of the removal, disposed of by the taxpayer and repurchased by the taxpayer at a price equal to what its remaining basis would have been if the election under this section had not been exercised with respect to the property.'.

(c) Clerical Amendment- The table of parts for subchapter Y of chapter 1 of such Code is amended by inserting after the item relating to part II the following new item:

` Part III. National Investment Zones.'

SEC. 4. STUDY.

The Secretary shall undertake a study of the National Investment Zone program established by this Act to determine its effectiveness in promoting economic growth and reducing poverty in the designated zone areas. The study shall be submitted to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate no later than December 31, 2016.

SEC. 5. EFFECTIVE DATE.

The amendments made by this Act shall apply to taxable years beginning after December 31, 2013.

END

Attachment # 2

LIST OF INVESTMENT ZONES* (no overlap among zones)

State	Division	Area	Political Location	Population
Alabama	Zip Code	35401	Tuscaloosa	37,785
Alabama	Zip Code	35630	Florence	30,894
Alabama	Zip Code	36605	Mobile	33,578
Alabama	City	Bessemer city, Alabama	Bessemer	29,949
Alabama	City	Birmingham city, Alabama	Birmingham	243,072
Alabama	City	Gadsden city, Alabama	Gadsden	38,836
Alabama	City	Prichard city, Alabama	Prichard	28,903
Alabama	County	Dallas County	Dallas County	46,365
Alabama	County	Pike County	Pike County	29,605
Arizona	Zip Code	85006	Phoenix	31,906
Arizona	Zip Code	85008	Phoenix	56,368
Arizona	Zip Code	85009	Phoenix	55,943
Arizona	Zip Code	85017	Phoenix	40,784
Arizona	Zip Code	85040	Phoenix	63,103
Arizona	Zip Code	85041	Phoenix	32,232
Arizona	Zip Code	85713	Tucson	47,697
Arizona	County	Apache County	Apache County	69,423
Arizona	County	Graham County	Graham County	33,489
Arizona	County	Navajo County	Navajo County	97,470
Arkansas	Zip Code	72315	Blytheville	27,381
Arkansas	City	Pine Bluff city, Arkansas	Pine Bluff	54,618
Arkansas	City	West Memphis city, Arkansas	West Memphis	27,752
Arkansas	County	Mississippi County	Mississippi County	51,979
Arkansas	County	Phillips County	Phillips County	26,445
Arkansas	County	St. Francis County	St. Francis County	29,329
California	Zip Code	90002	Los Angeles	44,342
California	Zip Code	90003	Los Angeles	59,003
California	Zip Code	90004	Los Angeles	67,859
California	Zip Code	90005	Los Angeles	43,032
California	Zip Code	90006	Los Angeles	62,535
California	Zip Code	90007	Los Angeles	44,689
California	Zip Code	90008	Los Angeles	30,996
California	Zip Code	90011	Los Angeles	101,770
California	Zip Code	90012	Los Angeles	30,332
California	Zip Code	90016	Los Angeles	47,019
California	Zip Code	90018	Los Angeles	46,890

* With the exception of Puerto Rico this list does not include areas that would meet the definition of Investment Zones by the contiguity provision. Based on an analysis at the county level of the 12 states that do not have any qualifying locations that can be classified as Investment Zones, three states – Alaska, North Dakota and South Dakota – would have contiguous counties that would meet the criteria.

State	Division	Area	Political Location	Population
California	Zip Code	90019	Los Angeles	67,917
California	Zip Code	90020	Los Angeles	42,376
California	Zip Code	90023	Los Angeles	47,582
California	Zip Code	90024	Los Angeles	44,088
California	Zip Code	90026	Los Angeles	73,410
California	Zip Code	90028	Los Angeles	30,337
California	Zip Code	90029	Los Angeles	41,643
California	Zip Code	90031	Los Angeles	38,716
California	Zip Code	90033	Los Angeles	49,582
California	Zip Code	90037	Los Angeles	56,776
California	Zip Code	90038	Los Angeles	32,729
California	Zip Code	90044	Los Angeles	86,075
California	Zip Code	90047	Los Angeles	47,992
California	Zip Code	90057	Los Angeles	44,102
California	Zip Code	90059	Los Angeles	37,956
California	Zip Code	90062	Los Angeles	29,236
California	Zip Code	90302	Inglewood	30,902
California	Zip Code	90303	Inglewood	27,781
California	Zip Code	90304	Inglewood	28,385
California	Zip Code	90744	Wilmington	53,271
California	Zip Code	91103	Pasadena	27,430
California	Zip Code	91205	Glendale	41,431
California	Zip Code	91402	Van Nuys	66,240
California	Zip Code	91405	Van Nuys	50,873
California	Zip Code	91605	North Hollywood	57,351
California	Zip Code	91768	Pomona	36,286
California	Zip Code	92101	San Diego	27,178
California	Zip Code	92102	San Diego	47,250
California	Zip Code	92105	San Diego	73,477
California	Zip Code	92113	San Diego	47,479
California	Zip Code	92115	San Diego	56,885
California	Zip Code	92173	San Diego	28,471
California	Zip Code	92507	Riverside	48,508
California	Zip Code	92570	Perris	36,879
California	Zip Code	92701	Santa Ana	58,329
California	Zip Code	92703	Santa Ana	70,210
California	Zip Code	93117	Goleta	49,810
California	Zip Code	93304	Bakersfield	44,326
California	Zip Code	93305	Bakersfield	35,603
California	Zip Code	93307	Bakersfield	59,539
California	Zip Code	93405	San Luis Obispo	31,777
California	Zip Code	93458	Santa Maria	43,667
California	Zip Code	93550	Palmdale	67,384
California	Zip Code	93905	Salinas	58,471
California	Zip Code	94102	San Francisco	29,059
California	Zip Code	94601	Oakland	55,130
California	Zip Code	94603	Oakland	31,239
California	Zip Code	94621	Oakland	31,233
California	Zip Code	94801	Richmond	28,726
California	Zip Code	95351	Modesto	47,753
California	Zip Code	95660	North Highlands	32,201
California	Zip Code	95815	Sacramento	25,244
California	Zip Code	95820	Sacramento	37,028
California	Zip Code	95824	Sacramento	30,682

State	Division	Area	Political Location	Population
California	Zip Code	95838	Sacramento	35,008
California	Zip Code	95901	Marysville	38,412
California	City	Bell city, California	Bell	36,667
California	City	Bell Gardens city, California	Bell Gardens	44,054
California	City	Calexico city, California	Calexico	27,042
California	City	Chico city, California	Chico	59,444
California	City	Compton city, California	Compton	93,226
California	City	Delano city, California	Delano	38,981
California	City	East Los Angeles CDP, California	East Los Angeles	124,366
California	City	El Centro city, California	El Centro	37,801
California	City	El Monte city, California	El Monte	116,249
California	City	Eureka city, California	Eureka	25,929
California	City	Florence-Graham CDP, California	Florence-Graham	60,132
California	City	Huntington Park city, California	Huntington Park	61,370
California	City	Long Beach city, California	Long Beach	461,381
California	City	Lynwood city, California	Lynwood	69,899
California	City	Madera city, California	Madera	43,370
California	City	Maywood city, California	Maywood	28,083
California	City	Merced city, California	Merced	63,991
California	City	North Highlands CDP, California	North Highlands	44,079
California	City	Parkway-South Sacramento CDP, California	Parkway-South Sacramento	36,490
California	City	San Bernardino city, California	San Bernardino	185,388
California	City	Stockton city, California	Stockton	242,714
California	City	Westmont CDP, California	Westmont	31,542
California	City	Willowbrook CDP, California	Willowbrook	34,138
California	County	Fresno County	Fresno County	799,407
California	County	Tulare County	Tulare County	368,021
Colorado	Zip Code	80204	Denver	32,820
Colorado	Zip Code	80205	Denver	29,518
Colorado	Zip Code	80302	Boulder	29,753
Colorado	Zip Code	80631	Greeley	45,870
Connecticut	City	Hartford city, Connecticut	Hartford	121,578
Connecticut	City	New Haven city, Connecticut	New Haven	123,626
District of Columbia	Zip Code	20001	Washington	33,711
District of Columbia	Zip Code	20019	Washington	52,686
District of Columbia	Zip Code	20020	Washington	50,024
District of Columbia	Zip Code	20032	Washington	31,676
Florida	Zip Code	32209	Jacksonville	39,739
Florida	Zip Code	32505	Pensacola	29,267
Florida	Zip Code	33010	Hialeah	45,804
Florida	Zip Code	33054	Opa Locka	28,231
Florida	Zip Code	33311	Fort Lauderdale	65,363
Florida	Zip Code	33404	West Palm Beach	29,985
Florida	City	Daytona Beach city, Florida	Daytona Beach	64,070
Florida	City	Fort Pierce city, Florida	Fort Pierce	37,489

State	Division	Area	Political Location	Population
Florida	City	Gainesville city, Florida	Gainesville	95,605
Florida	City	Homestead city, Florida	Homestead	32,046
Florida	City	Miami city, Florida	Miami	362,563
Florida	City	North Miami city, Florida	North Miami	60,036
Florida	City	Riviera Beach city, Florida	Riviera Beach	30,414
Florida	City	Tallahassee city, Florida	Tallahassee	150,581
Florida	City	University CDP, Florida	University CDP	30,681
Florida	City	West Little River CDP, Florida	West Little River CDP	32,287
Florida	County	Hardee County	Hardee County	26,938
Florida	County	Hendry County	Hendry County	36,210
Georgia	Zip Code	30904	Augusta	28,222
Georgia	Zip Code	31601	Valdosta	29,780
Georgia	City	Atlanta city, Georgia	Atlanta	416,629
Georgia	City	Macon city, Georgia	Macon	97,719
Georgia	County	Bulloch County	Bulloch County	55,983
Georgia	County	Clarke County	Clarke County	101,489
Georgia	County	Dougherty County	Dougherty County	96,065
Illinois	Zip Code	60608	Chicago	92,147
Illinois	Zip Code	60609	Chicago	79,592
Illinois	Zip Code	60612	Chicago	38,185
Illinois	Zip Code	60615	Chicago	44,636
Illinois	Zip Code	60616	Chicago	47,259
Illinois	Zip Code	60621	Chicago	47,575
Illinois	Zip Code	60623	Chicago	108,189
Illinois	Zip Code	60624	Chicago	45,472
Illinois	Zip Code	60636	Chicago	51,304
Illinois	Zip Code	60637	Chicago	57,162
Illinois	Zip Code	60640	Chicago	73,786
Illinois	Zip Code	60644	Chicago	59,043
Illinois	Zip Code	60649	Chicago	54,757
Illinois	Zip Code	60651	Chicago	77,378
Illinois	Zip Code	60653	Chicago	34,683
Illinois	Zip Code	60827	Chicago	33,132
Illinois	Zip Code	61820	Champaign	33,628
Illinois	City	East St. Louis city, Illinois	East St. Louis	31,530
Illinois	County	Jackson County	Jackson County	59,612
Indiana	Zip Code	46201	Indianapolis	39,556
Indiana	Zip Code	46218	Indianapolis	34,420
Indiana	Zip Code	46806	Fort Wayne	27,068
Indiana	City	East Chicago city, Indiana	East Chicago	32,414
Indiana	City	Gary city, Indiana	Gary	102,746
Indiana	City	Muncie city, Indiana	Muncie	67,468
Indiana	City	West Lafayette city, Indiana	West Lafayette	28,949
Kansas	Zip Code	66044	Lawrence	30,944
Kentucky	Zip Code	40508	Lexington	27,379
Kentucky	County	Bell County	Bell County	30,060
Kentucky	County	Floyd County	Floyd County	42,441
Kentucky	County	Harlan County	Harlan County	33,202
Kentucky	County	Knox County	Knox County	31,795

State	Division	Area	Political Location	Population
Kentucky	County	Letcher County	Letcher County	25,277
Kentucky	County	Perry County	Perry County	29,390
Kentucky	County	Pike County	Pike County	68,736
Louisiana	Zip Code	70363	Houma	26,209
Louisiana	Zip Code	70601	Lake Charles	34,954
Louisiana	City	Alexandria city, Louisiana	Alexandria	46,738
Louisiana	City	Baton Rouge city, Louisiana	Baton Rouge	227,920
Louisiana	City	Monroe city, Louisiana	Monroe	53,091
Louisiana	City	Shreveport city, Louisiana	Shreveport	200,549
Louisiana	County	Avoyelles Parish	Avoyelles	41,481
Louisiana	County	De Soto Parish	De Soto	25,494
Louisiana	County	Iberia Parish	Iberia Parish	73,266
Louisiana	County	Lincoln Parish	Lincoln	42,509
Louisiana	County	Morehouse Parish	Morehouse	31,021
Louisiana	County	Natchitoches Parish	Natchitoches	39,080
Louisiana	County	Orleans Parish	Orleans Parish	484,674
Louisiana	County	St. Landry Parish	St. Landry Parish	87,700
Louisiana	County	St. Mary Parish	St. Mary Parish	53,500
Louisiana	County	Tangipahoa Parish	Tangipahoa Parish	100,588
Louisiana	County	Washington Parish	Washington Parish	43,926
Maryland	City	Baltimore city	Baltimore city	651,154
Massachusetts	Zip Code	02115	Boston	25,202
Massachusetts	Zip Code	02125	Boston	33,952
Massachusetts	City	Lawrence city, Massachusetts	Lawrence	72,043
Massachusetts	City	Springfield city, Massachusetts	Springfield	152,082
Michigan	Zip Code	48126	Dearborn	46,576
Michigan	Zip Code	49022	Benton Harbor	35,013
Michigan	City	Detroit city, Michigan	Detroit	951,270
Michigan	City	East Lansing city, Michigan	East Lansing	46,704
Michigan	City	Flint city, Michigan	Flint	124,939
Michigan	City	Kalamazoo city, Michigan	Kalamazoo	77,092
Michigan	City	Mount Pleasant city, Michigan	Mount Pleasant	26,101
Michigan	City	Saginaw city, Michigan	Saginaw	61,842
Minnesota	Zip Code	55404	Minneapolis	26,883
Minnesota	Zip Code	55411	Minneapolis	31,672
Mississippi	Zip Code	39501	Gulfport	26,100
Mississippi	City	Columbus city, Mississippi	Columbus	26,032
Mississippi	City	Hattiesburg city, Mississippi	Hattiesburg	44,697
Mississippi	City	Jackson city, Mississippi	Jackson	184,032
Mississippi	City	Meridian city, Mississippi	Meridian	40,035
Mississippi	City	Vicksburg city, Mississippi	Vicksburg	26,170
Mississippi	County	Adams County	Adams County	34,340
Mississippi	County	Bolivar County	Bolivar County	40,633
Mississippi	County	Coahoma County	Coahoma County	30,622
Mississippi	County	Copiah County	Copiah County	28,757
Mississippi	County	Leflore County	Leflore County	37,947
Mississippi	County	Oktibbeha County	Oktibbeha County	42,902
Mississippi	County	Pike County	Pike County	38,940

State	Division	Area	Political Location	Population
Mississippi	County	Sunflower County	Sunflower County	34,369
Mississippi	County	Washington County	Washington County	62,977
Mississippi	County	Yazoo County	Yazoo County	28,149
Missouri	City	St. Louis city	St. Louis city	348,189
Montana	Zip Code	59801	Missoula	28,839
Nebraska	Zip Code	68111	Omaha	25,890
Nevada	Zip Code	89030	North Las Vegas	53,794
Nevada	Zip Code	89101	Las Vegas	52,628
Nevada	Zip Code	89106	Las Vegas	25,772
New Jersey	Zip Code	07304	Jersey City	41,744
New Jersey	Zip Code	07501	Paterson	32,857
New Jersey	City	Atlantic City city, New Jersey	Atlantic City	40,517
New Jersey	City	Camden city, New Jersey	Camden	79,904
New Jersey	City	Lakewood CDP, New Jersey	Lakewood CDP	36,141
New Jersey	City	Newark city, New Jersey	Newark	273,546
New Jersey	City	New Brunswick city, New Jersey	New Brunswick	48,573
New Mexico	Zip Code	87108	Albuquerque	37,660
New Mexico	City	Hobbs city, New Mexico	Hobbs	28,475
New Mexico	County	Cibola County	Cibola County	25,595
New Mexico	County	Dona Ana County	Dona Ana County	174,682
New Mexico	County	Luna County	Luna County	25,016
New Mexico	County	McKinley County	McKinley County	74,798
New Mexico	County	San Miguel County	San Miguel County	30,126
New York	Zip Code	10002	New York County	84,838
New York	Zip Code	10026	New York County	30,760
New York	Zip Code	10027	New York County	55,449
New York	Zip Code	10029	New York County	75,919
New York	Zip Code	10030	New York County	26,239
New York	Zip Code	10031	New York County	60,341
New York	Zip Code	10032	New York County	63,513
New York	Zip Code	10033	New York County	58,300
New York	Zip Code	10034	New York County	41,753
New York	Zip Code	10035	New York County	32,052
New York	Zip Code	10040	New York County	46,772
New York	Zip Code	10701	Yonkers	63,310
New York	Zip Code	11101	Long Island	25,619
New York	Zip Code	11433	Jamaica	28,628
New York	Zip Code	11691	New York	56,020
New York	City	Buffalo city, New York	Buffalo	292,648
New York	City	Elmira city, New York	Elmira	30,940
New York	City	Ithaca city, New York	Ithaca	29,006
New York	City	Newburgh city, New York	Newburgh	28,233
New York	City	Poughkeepsie city, New York	Poughkeepsie	29,871
New York	City	Rochester city, New York	Rochester	219,766
New York	City	Syracuse city, New York	Syracuse	147,326
New York	City	Utica city, New York	Utica	60,679
New York	County	Bronx County	Bronx County	1,332,650

State	Division	Area	Political Location	Population
New York	County	Kings County	Kings County	2,465,326
North Carolina	Zip Code	27260	Highpoint	25,692
North Carolina	Zip Code	27893	Wilson	41,160
North Carolina	Zip Code	28301	Fayetteville	35,195
North Carolina	City	Greenville city, North Carolina	Greenville	60,385
North Carolina	County	Halifax County	Halifax County	57,370
North Carolina	County	Robeson County	Robeson County	123,339
Ohio	Zip Code	43211	Columbus	25,074
Ohio	Zip Code	43605	Toledo	31,927
Ohio	Zip Code	43607	Toledo	26,472
Ohio	Zip Code	43609	Toledo	27,681
Ohio	Zip Code	44306	Akron	25,479
Ohio	Zip Code	45056	Oxford	27,676
Ohio	Zip Code	45701	Athens	31,262
Ohio	City	Bowling Green city, Ohio	Bowling Green	29,562
Ohio	City	Cleveland city, Ohio	Cleveland	478,393
Ohio	City	Dayton city, Ohio	Dayton	166,193
Ohio	City	East Cleveland city, Ohio	East Cleveland	27,217
Ohio	City	Lima city, Ohio	Lima	40,263
Ohio	City	Youngstown city, Ohio	Youngstown	82,026
Ohio	County	Athens County	Athens County	62,223
Oklahoma	Zip Code	73119	Oklahoma	28,819
Oklahoma	County	Cherokee County	Cherokee County	42,521
Pennsylvania	Zip Code	15213	Pittsburgh	28,296
Pennsylvania	Zip Code	15701	Indiana	34,019
Pennsylvania	Zip Code	18102	Allentown	42,818
Pennsylvania	City	Chester city, Pennsylvania	Chester	36,854
Pennsylvania	City	Harrisburg city, Pennsylvania	Harrisburg	49,100
Pennsylvania	City	Reading city, Pennsylvania	Reading	81,201
Pennsylvania	City	State College borough, Pennsylvania	State College borough	38,420
Pennsylvania	City	York city, Pennsylvania	York	40,889
Pennsylvania	County	Philadelphia County	Philadelphia County	1,517,550
Puerto Rico	Entire	Commonwealth of Puerto Rico	Puerto Rico	3,816,000
Rhode Island	City	Providence city, Rhode Island	Providence	173,618
South Carolina	Zip Code	29115	Orangeburg	33,141
South Carolina	Zip Code	29203	Columbia	42,384
South Carolina	City	North Charleston city, South Carolina	North Charleston	79,442
South Carolina	City	Spartanburg city, South Carolina	Spartanburg	39,407
South Carolina	County	Dillon County	Dillon County	30,722
South Carolina	County	Marion County	Marion County	35,466
South Carolina	County	Williamsburg County	Williamsburg County	37,217
Tennessee	Zip Code	37206	Nashville	27,805
Tennessee	Zip Code	38106	Memphis	33,958
Tennessee	Zip Code	38109	Memphis	52,306
Tennessee	Zip Code	38114	Memphis	34,064
Tennessee	Zip Code	38127	Memphis	51,174

State	Division	Area	Political Location	Population
Texas	Zip Code	75216	Dallas	49,440
Texas	Zip Code	75702	Tyler	26,407
Texas	Zip Code	76119	Fort Worth	40,285
Texas	Zip Code	76903	San Angelo	33,679
Texas	Zip Code	77004	Houston	30,562
Texas	Zip Code	77009	Houston	42,306
Texas	Zip Code	77012	Houston	25,333
Texas	Zip Code	77016	Houston	29,700
Texas	Zip Code	77020	Houston	28,541
Texas	Zip Code	77022	Houston	31,829
Texas	Zip Code	77023	Houston	32,909
Texas	Zip Code	77026	Houston	27,523
Texas	Zip Code	77033	Houston	27,747
Texas	Zip Code	77036	Houston	76,146
Texas	Zip Code	77060	Houston	35,891
Texas	Zip Code	77076	Houston	30,047
Texas	Zip Code	77087	Houston	36,076
Texas	Zip Code	77093	Houston	45,907
Texas	Zip Code	77506	Pasadena	39,424
Texas	Zip Code	77550	Galveston	30,142
Texas	Zip Code	77705	Beaumont	39,969
Texas	Zip Code	77803	Bryan	28,112
Texas	Zip Code	78207	San Antonio	56,645
Texas	Zip Code	78210	San Antonio	36,665
Texas	Zip Code	78211	San Antonio	31,180
Texas	Zip Code	78228	San Antonio	58,129
Texas	Zip Code	78237	San Antonio	36,292
Texas	Zip Code	78242	San Antonio	28,776
Texas	Zip Code	78705	Austin	26,972
Texas	Zip Code	79107	Amarillo	34,290
Texas	Zip Code	79701	Midland	25,037
Texas	City	Huntsville city, Texas	Huntsville	34,985
Texas	City	Port Arthur city, Texas	Port Arthur	57,756
Texas	City	San Marcos city, Texas	San Marcos	34,005
Texas	City	Texarkana city, Texas	Texarkana	34,898
Texas	City	Waco city, Texas	Waco	114,032
Texas	County	Bee County	Bee County	32,359
Texas	County	Brazos County	Brazos County	152,415
Texas	County	Cameron County	Cameron County	335,227
Texas	County	El Paso County	El Paso County	679,622
Texas	County	Hidalgo County	Hidalgo County	569,463
Texas	County	Kleberg County	Kleberg County	31,549
Texas	County	Maverick County	Maverick County	47,297
Texas	County	Nacogdoches County	Nacogdoches County	59,203
Texas	County	Starr County	Starr County	53,597
Texas	County	Val Verde County	Val Verde County	44,856
Texas	County	Webb County	Webb County	193,117
Utah	Zip Code	84604	Provo	48,426
Virginia	Zip Code	23220	Richmond	30,021
Virginia	Zip Code	23223	Richmond	43,690
Virginia	Zip Code	23224	Richmond	31,611

State	Division	Area	Political Location	Population
Virginia	Zip Code	23607	Newport News	26,361
Virginia	City	Blacksburg town, Virginia	Blacksburg	39,393
Virginia	County	Buchanan County	Buchanan County	26,978
Virginia	County	Harrisonburg city	Harrisonburg city	40,468
Washington	Zip Code	98225	Bellingham	42,629
Washington	Zip Code	98901	Yakima	28,799
Washington	City	Pasco city, Washington	Pasco	31,976
Washington	County	Whitman County	Whitman County	40,740
West Virginia	City	Huntington city, West Virginia	Huntington	51,529
West Virginia	City	Morgantown city, West Virginia	Morgantown	27,161
West Virginia	County	Logan County	Logan County	37,710
West Virginia	County	McDowell County	McDowell County	27,329
West Virginia	County	Mingo County	Mingo County	28,253
West Virginia	County	Wyoming County	Wyoming County	25,708
Wisconsin	Zip Code	53204	Milwaukee	42,331
Wisconsin	Zip Code	53206	Milwaukee	33,095
Wisconsin	Zip Code	53208	Milwaukee	35,283
Wisconsin	Zip Code	53210	Milwaukee	30,781
Wisconsin	Zip Code	53212	Milwaukee	30,836

Attachment #3

Estimating the Impact of the Proposed Investment Zone Legislation on the Federal Budget

A. Assumptions

In order to estimate the costs to the federal budget of implementing the proposed Investment Zone legislation, it is necessary to make several assumptions about the response of businesses to the tax incentive and about the way those responses affect employment and employment related government programs. As indicated in the text, estimates were made on the basis of (1) a favorable but reasonable assumption about business response and (2) a conservative assumption about business response.

The assumptions on which the estimates were based were:

1. In the first estimate, it is assumed that firms respond by undertaking a significant amount of new activity based on intangible assets over a five year period. This increase amounts to 50% of preexisting business activity – as measured by earnings – in the Investment Zone areas. In addition, it is assumed that there is a 6% increase over the same five year period in traditional business activity in the Zones. The 5 year 50% increase in activity based on intangible assets may seem high, especially in light of the time it can sometimes take to bring a product to market (e.g., as in the case of new pharmaceuticals). There is certainly a great deal of uncertainty as to how quickly and how much firms would respond to the tax incentive of the Investment Zones. It seems reasonable, however, to assume that firms would do all they could to take advantage of the tax incentive in the shortest possible time. Moreover, this assumption should be viewed as the upper end of a reasonable range.
2. In the second estimate, it is assumed that the only increase is the 6% increase in traditional business activity. This assumption should be viewed as the lower end of a reasonable range.
3. The increase in activity based on intangible assets yields employment increases 10% as great as the percentage increase of business activity. So the 50% increase in this type of business activity yields a 5% increase in employment over the five year period. The increase in traditional business activity yields an employment increase 66.7% as great as the percentage increase of this type of business activity. So the 6% increase in this traditional type of business activity yields a 4% increase in employment over the five year period.
4. After the five year period, it is assumed that there is no further change in the amount of business activity in the Zones.

5. The average tax rate on earnings in the areas of the Investment Zones is specified at 26% before the implementation of the proposed legislation. This figure is based on the average corporate taxes paid as a percent of corporate earnings over the 2001-2005 period as reported in the 2007 *Economic Report of the President* (from the Department of Commerce, Bureau of Economic Analysis data). For Puerto Rico, however, an 18.8% rate was used, which is the average rate derived from IRS tax data on corporations in U.S. possessions and reflects the effective tax rate after all credits.

6. Relocation of existing business into the Investment Zones from other areas would be 2% of existing business in the Zone areas for counties, 2.25% for cities/towns, and 2.5% for zip code areas. (These different rates are based on the belief that Zone counties are most distant from existing businesses and that Zone zip code areas are closest to other existing businesses.)

7. When firms relocate from areas outside of Zones to the Zones, the area that loses the business will be able to make up 25% of the employment loss and 37.5% of the business activity.

8. One-half of the people newly employed as a result of expansion in the Investment Zones were receiving unemployment compensation prior to their employment; the annual compensation payments were \$3,500, half of which was paid by the federal government.

9. Federal social spending will decline by \$500 for each person newly employed. The same assumption was used for those unemployed as a result of business migration.

10. Federal personal income tax payments will increase by \$500 for each person newly employed. The same assumption was used for those unemployed as a result of business migration.

11. In computing present value at the inception of the implementation of the Investment Zones, a discount rate of 5% was used.

B. Break Even Point

In addition to the cost estimates described in the text, a third set of estimates was undertaken to determine the point at which there would be no cost to the federal government. That is, these estimates were designed to answer the question: What sort of response from business would be necessary so that over the 12 year period used in these estimates the costs would be zero?

Because there are two assumptions regarding business response – an assumption regarding the increase of traditional activity and an assumption regarding the increase of activity based on intangible assets – there are many possible answers to this question. Two possible answers are the following:

1. Were traditional activity to increase by 6% (as in both estimates discussed in the text) and were activity based on intangible assets to increase by 88.4%, then there would be no present value budgetary impact on the Federal Government over the 12 year period. In this case, 1.67 million new jobs would be created in the Investment Zones.

2. Were activity based on intangible assets to increase by 50% (as in the “favorable but reasonable” estimate discussed in the text) and were traditional activity to increase by 21.6%, then there would be no present value budgetary impact on the Federal Government over the 12 year period. In this case, 2.50 million jobs would be created in the Investment Zones.

C. Puerto Rico

At this time, separate impact estimates are not presented for Puerto Rico or for any other individual Investment Zones or sub-groups of Investment Zones.