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## UEZ Pamphlet Law Summary 2021

- Commissioner of Community Affairs becomes the new UEZ Authority chair
- Phases out the "UEZ-impacted business district" component of the UEZ program, prohibits new applications for the UEZ employee tax credit and for the UEZ corporation business tax exemption
- New process for a zone development plan, which would have a five-year life. Requirement for an updated preliminary zone development plan for municipalities with plans that are 5 years old or older
- Currently designated UEZs can retain UEZ designation for 10 years
- UZ-4 and UZ-5 (Business to Business sales tax exemptions limited to the first \$100,000 of annual taxable purchases for each exemption certificate.
  - *The UZ-5 is used directly by a business to make tax-free purchases of tangible personal property and services, except for motor vehicles, telecommunications, and utilities. The purchase exemption is available up to the first \$100,000 in taxable purchases (up to \$6,250 in tax). However, there is no limitation for any purchases by grocery stores and supermarkets located in designated food desert communities.*
  - *The UZ-4 is provided by a qualifying business to building contractors for a contractor's use in purchasing construction materials, supplies, and services without paying Sales Tax when used exclusively to improve, alter, or repair a qualified business in a UEZ location. The purchase exemption is also available up to the first \$100,000 in taxable purchases (up to \$6,250 in tax), but there is no limitation for new construction or substantial improvements, alterations, or repairs to the real property of a UEZ business, as defined in the law.*

*(The intent of the \$100,000 cap is to limit the UEZ tax expenditure incurred by the State to allow for ZAF funds to be restored, with the State committing no more than \$6,625 in tax expenditures per business, per certificate, per year.*

*For example, for a single purchase costing over \$100,000, a business would have to pay sales taxes on any amount above \$100,000 and any subsequent purchases made within that tax year would be subject to the full sales tax since the business would have exhausted its tax exemption for that year. In the case of a \$300,000 purchase, the first \$100,000 of the transaction would be tax free, however \$200,000 would be taxable,*

*resulting in a tax liability of up to \$13,250. All subsequent purchases for that tax year would be fully taxable.*

- New Zone Assistance Fund (ZAF) allocation formula – 50% weight to MRI Distress Score, the average number of unemployed persons in each UEZ municipality, and the number of commercial and industrial parcels and 50% weight to gross taxable sales subject to reduced UEZ sales tax. When ZAF funds are received by a UEZ municipality, they must be placed in a new trust or an existing UEZ trust. The Division of Local Government Services must promulgate regulations, policies, or procedures as necessary to implement this
- At the end of each State fiscal year, DCA must review the local UEZs' expenditures of funds received from the Zone Assistance Fund. If DCA finds funds were expended inappropriately, the local UEZ must repay the ZAF funds to the Department through the forfeiture of future ZAF disbursements. DCA must withhold future funding to the local UEZ until it enters and complies with a corrective action plan developed by the Department
- Expanded criteria for use of ZAF funds
- 25% cap on Zone Assistance Fund (ZAF) use for public safety expenses (i.e., police and fire)
- 10% cap on ZAF Fund use to cover administrative expenses
- Initial \$42.5 million ZAF appropriation from the General Fund
- FY2023 ZAF funding set as the difference between:
  - UEZ tax expenditures for FY2022 (July 1, 2021 – June 30, 2022)- *the ZAF base fund amount*
  - AND
  - UEZ tax expenditures between January 1, 2022 and June 30, 2022 multiplied by two
- In FY2024 and beyond total ZAF would be determined by a Treasury methodology (in consultation with UEZA) to compare the combined UEZ tax expenditures for the UEZ Special Sales Tax Rate and UEZ Exempt Business Purchases in the prior State fiscal year to the FY2022 UEZ tax expenditures (ZAF base fund amount)
- Total ZAF funding capped at \$82.5 million (increases annually in line with the CPI) with a \$60 million. If revenues come in below \$60 million, the business-to-business sales tax exemption maximum can be lowered by Treasury (in consultation with UEZA) to as low as \$50,000 to generate more savings

- State Treasurer must provide the UEZA an annual report of the aggregate amount, expressed in dollars, of the incentives provided under the UEZ program to qualified businesses and municipalities
- The UEZA must conduct an annual review to assess the UEZ program's progress. The review includes the number of participating businesses, unemployment rate, median household income, and number of jobs in each enterprise zone to assess the program's progress
- Requires an MOU between UEZA and the Department of Labor and Workforce Development assist in data gathering and information sharing between the two agencies to further the UEZA's ability to evaluate enterprise zone performance, compliance, and initiate enforcement actions as applicable.

There are several provisions that include new responsibilities for DCA including the following:

#### **UEZ Authority**

- Approving all local UEZs 5-year plans
- Consulting with Treasury on determining the annual total Zone Assistance Fund allocations and on potentially lowering the business-to-business tax exemption maximum if necessary (ZAF revenues fall short)
- Conducting annual review at the end of the State fiscal year of each local UEZ's use of ZAF funds. Deducting any inappropriately spent funds from future ZAF distributions. Withholding any future ZAF distributions until the local UEZ enters and complies with a DCA corrective action plan
- Preparing an annual report that must include the number of participating businesses, unemployment rate, median household income, and number of jobs in each UEZ
- Entering an MOU with NJDOL to assist in data gathering and information sharing to further the UEZA's ability to evaluate enterprise zone performance, compliance, and initiate enforcement actions.

#### **Local Government Services**

- Preparing regulations, policies, or procedures to implement requirements for municipalities to place their Zone Assistance Fund allocations in segregated UEZ trusts.