PUERTO RICO:
INSIGHTS INTO ECONOMIC DEVELOPMENT POLICY
Volume IV
Action from Washington

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ABSTRACT

Hon. Carlos A. Romero Barceló, a former mayor, governor, and senator of Puerto Rico believes that to fix the Puerto Rican economy, the island's undemocratic territorial status must be put to rest and that those who would put off the status issue until the economy is repaired are delaying and making the recovery more difficult. Furthermore, Arthur MacEwan and J. Tomas Hexner in three articles namely; "Including Puerto Rico in the Earned Income Tax Credit and Full Child Tax Credit", "Fighting Poverty and Promoting Economic Growth by Creating Investment Zones: A Strong Incentive for Private Business to Invest where Investment is Most Needed" and "Puerto Rico: Quantifying Federal Expenditures", emphasized the need for Puerto Rican island residents to receive the Earned Income Tax Credit (EITC) and full participation in the Child Tax Credit (CTC). Extending these programs fully to Puerto Ricans would provide an important stimulus to the expansion of the island's economy, both by a direct injection of funds and by their positive impact on labor force participation. Actions should be taken to fight poverty. 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.

Key Words: Puerto Rico, Status Change, PROMESA,

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Puerto Rico: Insights into Economic Development
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A. Changing Status Cannot Wait

By:
Hon. Carlos A. Romero Barceló

To fix the Puerto Rican economy, the island's undemocratic territorial status must be put to rest. Those who would put off the status issue until the economy is repaired are delaying and making our recovery more difficult. Status lies at the root of the current economic crisis. To fix the economy, it is essential to put an end to Puerto Rico's colonial status and achieve political equality and equal economic opportunities with our fellow citizens in the 50 states.

Yes, the debt crisis must be dealt with immediately, and PROMESA provides an avenue to its solution. However, only the resolution of the status issue allows for an economic revival. The economy is in virtual free fall. As the recession has stretched beyond a decade, the island's population dropped by over 9% from its peak in 2009 to 2015. In addition to some 300 thousand people who have voted for statehood by moving to the mainland, Puerto Ricans rejected the current status at the ballot box in a non-binding referendum carried out with the 2012 election, in which voters rejected the current status as a U.S. Commonwealth by a 54% to 46% margin. In a separate question, 61% chose statehood as the alternative, compared with 33% for the semi-autonomous "sovereign free association" and 6% for outright independence.

Untenable Status, Rigid Policies, Unacceptable Performance

The weakness of the Puerto Rican economy is not new, it was becoming weaker and weaker before the current long-lasting recession begin. For more than thirty years, the Puerto Rican economy has been falling further and further behind the U.S. economy. Between 1985 and 2000, while Gross Domestic Product GDP grew by 58% in Puerto

Rico, the U S economy expanded by 90%. Even with some growth at the beginning of the new millennium, the Puerto Rican economy was 2.2% smaller in 2015 man in 2000, while the economy had grown by 30%. (These figures are all inflation adjusted.)

The post-World War II policies of using tax breaks to attract U.S firms to lower-wage Puerto Rico and taking advantage of special access to the U.S. market stopped working long ago. Not only is the world different in the 21st century, but, also, those were status driven policies, defined by special treatment for a backward, subordinate economy.

As a territory of the United States, and thus under the control of the U.S. government, economic policies have been directed towards obtaining grants and special favors from Washington, as well as investment from U.S. based, tax exempt firms. Those “favors” have come in large part in the form of federal tax breaks (Section 936 in particular), as well as Puerto Rican tax breaks, for U.S. firms. Those breaks, however, did much more for the profits of the firms than for employment or output expansion of the island economy. In fact, they distorted the economy and obstructed the formulation of an economic strategy focused on Puerto Rico’s strengths.

These policies, first, undercut the emergence of strong Puerto Rican foundations for growth, retarding the expansion of Puerto Rican based business and the development of a skilled labor force. (Note, for example, the weakness of the Puerto Rican educational system.) While Congress has been generous with tax credits and tax exemptions for mainland U.S. firms investing in Puerto Rico, it has consistently denied our people equal treatment in Education grants such as Title 2.

Second, these policies generated a bloated manufacturing sector in Puerto Rico, with pharmaceuticals in the lead. Yet, Puerto Rico's economy has had no particular benefit from manufacturing. 90% of their profits were not and are not being reinvested in Puerto Rico. The build-up of this sector diminished realms of activity in which Puerto Rico could have real advantages—for example, tourism and business services linking the United States to Central and Latin America.

And Inequitable Treatment

Beyond these poor policies directly applied to Puerto Rico, federal policies in several other areas have treated Puerto Rico poorly. The lower income U.S citizens in Puerto Rico are not on a level playing field with citizens in the states. On the island, they are excluded from the Earned Income Tax Credit (EITC) and only partially covered by the Child Tax Credit (CTC). With regard to Medicare, Medicaid, SSI, and SNAP, they are treated less well than people in the states. We are also denied equal participation in basic education grants such as Title 2.

Indeed, in broad categories of federal spending, on a per capita basis Puerto Rico receives only about one half of the average amount going to the states, and ranks 52nd, behind all the states and D.C. (The one exception is the “grants” category, where Puerto Rico ranks 49th, though we are 28th in population.)

It might be argued that Puerto Rico receives and deserves a small share of federal spending because we do not pay federal income tax for income earned in Puerto Rico and we pay a very small share of our revenue to the federal government. But such a position is belied by the facts. In years since 2000, for which data are available, seventeen states and D.C. received more in net federal spending per capita than did Puerto Rico—that is, federal spending received, minus federal taxes paid.

It is not hard to understand the poor treatment of Puerto Rico by the federal government, including both its inequitable treatment in numerous programs and the policies that benefit U.S. firms and not the residents or firms on the island. Each state has two senators, congressional representatives, and they also vote to elect the President, not Puerto Rico. Without a voice in Washington, Puerto Rico is not heard in Washington. The squeaky wheel gets the oil, and Puerto Rico is not able to squeak.

Beyond government policies, formulated in Washington and San Juan, the current status negatively impacts the economy because our status is necessarily an uncertain status. With the liability of the existing status continually open to change, private investors face an uncertainty that does not exist with the states. This uncertainly not only inhibits investment, but also leads to a relatively short-run outlook on the part of investors. They have little incentive to support changes in Puerto Rico that would be a foundation for the long-run well-being of the economy, such as investments in education, training, and physical infrastructure, for example.

The Potential of Statehood

Statehood for Puerto Rico would immediately remove this economy-limiting uncertainty. Statehood would generate more and longer term investment because it is the only status that is immune to change. Also, it would bring many aspects of Puerto Rican government activity under greater discipline, effectiveness, and efficiency. Tax collection, in particular, would be tied more closely to the IRS. And in realms from data collection to regulatory oversight, statehood would bring advances that would strengthen the foundations for private investment, employment, and economic growth.

Especially important, Puerto Rico would have a strong voice in Washington, with its full share of congressional representatives, two senators and the right to vote for President. With regard to federal programs—EITC, Medicaid SNAP and others—it would quickly move onto a level playing field with the other states. Policies would not be placed onto Puerto Rico by Washington, but would be created along with Puerto Rico.

Equitable treatment in federal programs would have direct positive impacts on the economic well-being of Puerto Rican families. In addition, the injection of funds from these programs and the improved operation of government administration would provide continuing support for economic growth.

The payment of federal income taxes by those of us, who earn sufficient income to pay, will provide us with the moral authority to demand equal benefits.

The economic value of statehood for a low-income state, which Puerto Rico would be upon becoming a state, is evident in the general process of income convergence among the states over the last several decades. For example, in 1940 Mississippi, the state with the lowest per capita income was 22% that of Delaware, what was then the state with the highest per capita income. However, in 2010, per capita income in Mississippi, still the state with the lowest per capita income, was 50% of that in Connecticut, which had become the state with the highest per capita income. Many other examples would tell the same story. Several factors account for this convergence, including: representation in Washington; the degree of integration of capital, labor, and product markets; and the common set of laws and regulations. Some of these factors also operate for Puerto Rico, but the connections between Puerto Rico and the states are not as effective as the connections among the states. And the political leverage which the right to vote for the President and our elected Members of Congress and Senators would provide us in Washington, is missing.

Status Change Now

It will do little good to improve the government's debt situation without also putting in place the changes that can only come with statehood. Yes, the current debt crisis needs to be resolved. However, once this debt crisis has passed, the best Puerto Rico could hope for under the existing status arrangements would be to limp along, falling further and further behind the states, as in the 1980s and 1990s. Limping along would only set the stage for another debt crisis in the not too distant future.

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For decades, the economic weakness of Puerto Rico and the consequent poor living conditions of many Puerto Ricans were largely ignored in Washington and in the U.S.

media—-and of course, among virtually all other citizens in the states, The situation is now receiving attention because of the financial and economic debacle of recent years, in which municipal funds' investments are threatened tens of thousands of Puerto Ricans are moving to the states each year, and the living conditions on the island and the lack of voting rights and the lack of representation in the Congress of the World's leading democracy, are becoming an international embarrassment for the US. government. If actions to ease the debt crisis and stabilize the economy are successful, Puerto Rico will once again recede from the headlines and popular consciousness. Status change will be swept from the agenda, and opportunities for an effective economic development program will be gone.

Status change cannot be put off. It must be dealt with now! Without immediate attention to status change, the economic costs to Puerto Rico will continue unabated, and the human costs will be high.

On March 2, 2017, the American citizens in Puerto Rico will have been disenfranchised for one hundred years, and for one-hundred years, we have also been denied rights, privileges, benefits and obligations, equal to those of our fellow American citizens in the 50 states.

We are tired of waiting for equality! We have suffered the consequences of inequality for too long. We must be admitted as a state of the union now!

B. Including Puerto Rico in the Earned Income Tax Credit and Full Child Tax Credit

By:
Arthur MacEwan and J. Tomas Hexner[1]

Puerto Rican island residents should receive the Earned Income Tax Credit (EITC) and full participation in the Child Tax Credit (CTC). Extending these programs fully to Puerto Ricans would provide an important stimulus to the expansion of the island's economy, both by a direct injection of funds and by their positive impact on labor force participation. Immediately and in their impact on participation and economic growth, these two programs would significantly alleviate poverty on the island. Also, making Puerto Rican residents eligible for these programs is essential so that U.S. citizens on the island are treated fairly with respect to U.S. citizens in the states. There is no good policy reason to maintain the status quo of exclusion of Puerto Rican residents from these programs.

The Earned Income Tax Credit (EITC) is not available to Puerto Ricans on the island, and the Child Tax Credit (CTC) is available to families in Puerto Ricans only if they have three or more children (whereas families in the states with any number of children are eligible for the CTC).

If Puerto Rican residents were made fully eligible for these programs, the results would include a substantial stimulus to economic growth and a significant reduction of poverty, both from the direct receipt of the credits by as many as 60% of families and from the expansion output and employment.[2] Economic growth and poverty reduction are prime goals of PROMESA. Moreover, with these programs available in Puerto Rico, a severe lack of fairness between the federal treatment of U.S citizens in the states and U.S. citizens in

[1] Arthur MacEwan is Professor Emeritus of Economics at the University of Massachusetts Boston. J. Tomas Hexner is an independent consultant based in Cambridge, Massachusetts.
[2] The figure here for the percent of families affected and the figure provided below on the annual inflow of funds and the total costs of extending the EITC and CTC to Puerto Rico are based on an unofficial scoring of the effect of these programs.

Puerto Rico would be eliminated. All this could be accomplished with minimal cost to the U.S. Treasury.

The Credits, Their Purposes, and Taxes

Residents of the states receive the EITC and CTC through filing their federal income tax returns. Puerto Rican residents, however, are not liable for federal income taxes and, thus, do not file federal income tax returns (unless they have income from sources in the states). The fact that Puerto Ricans island residents do not pay federal income tax has sometimes been cited to justify their exclusion from the EITC and the CTC. In fact, many (perhaps most) current recipients of EITC and CTC do not pay any federal income taxes simply because their incomes are too low. Also, the EITC was established in part to offset the regressive payroll taxes—the Social Security and Medicare taxes—for low-income families. Puerto Rican residents pay these federal payroll taxes at the same rates as do residents of the states.

Moreover, both the EITC and CTC were put in place and then expanded in order to alleviate poverty by supplementing earned income and thus providing an incentive for people to draw a paycheck. The poverty rate in Puerto Rico is substantially higher than on the mainland, with about fifty percent of Puerto Ricans living below the poverty line.

There is, furthermore, no technical need to tie these credits to federal income tax filing and payment. Puerto Ricans who have three or more children can claim the CTC by filing a federal income tax form but paying no federal income taxes. A similar procedure could be adopted for the EITC and for the CTC for families with one or two children. Existing EITC and CTC legislation could be readily amended to accomplish the change.

Stimulus to the Economy

Beyond its impact on individual families – the improvement of their living standards and moving them from welfare rolls to paid employment – extending the EITC and CTC would provide a significant stimulus to the Puerto Rican economy. The stimulus would be both direct, by increasing consumer demand, and indirect, by encouraging a higher labor force participation rate. When all eligible Puerto Ricans are applying for and receiving these credits (which could take a number of years), the direct stimulus could be as much as $1.8 billion per year. When multiplier effects are taken into account, the overall impact of the infusion of these funds would raise income by close to 4%. Together, the infusion of funds and the greater engagement in productive work would make a major contribution towards transforming the island's economy out of relative stagnation onto a healthy growth path.

Labor Force Participation

It is especially important that the EITC has been designed to encourage people to participate in the paid labor force. The labor force participation rate has been below 50% since the 1950s, and has dropped precipitously during the current recession, standing just below 40% in 2015. (By way of comparison, the U.S. labor force participation rate, though it has dropped in recent years from its peak at the end of 2006, was 62.6% in 2015.) In its 2006 report on the Puerto Rican economy, the General Accountability Office took note of "the fact that government programs that are in place [in Puerto Rico], such as the Nutrition Assistance Program (NAP, the Puerto Rican food stamp program) and disability insurance, can discourage work; while the U.S. program that encourages labor force participation – the Earned Income Tax Credit – is not a part of the tax system in Puerto Rico."

Beyond the impact of labor force participation on individuals and their families, raising the participation rate is a necessary part of raising the level of economic activity on the island. That is, stimulating labor force participation is a stimulus to economic growth.

Furthermore, Puerto Rico has a very large "informal" economy, where workers and firms pay local taxes only to a very limited extent, regulations are not in force, and activity is poorly tracked. With the EITC and CTC in effect for Puerto Rican residents, these programs would provide a strong incentive for workers to come out of informal activity because they could only receive the credits by reporting earned income. As a result, the informal economy would shrink, the tax base would be enlarged, and local tax payments would increase. Moreover, in moving from informal to formal activity, workers would tend to move to more productive activity.

Fairness

Because residents of Puerto Rico are not eligible for the EITC and CTC, while residents of the states are eligible, there is a substantial difference—a lack of fairness—in the income they end up with as a result of their interaction with the federal government. Consider two families whose members are all citizens of the United States. One family is in the states and one in Puerto Rico. Each consists of two parents and two young children. Both families have earned income of $28,000 in 2015. Each family pays $1,736 in Social Security taxes and $406 in Medicare taxes. Neither family has any federal income tax liability, the Puerto Rican family because it is not covered by federal income tax requirements and the family in the states because its income is so low.

The family in the states, however, receives an EITC of $4,622 and a CTC of $2000. Thus, after federal taxes and credits, this family has income of $32,480.

The family in Puerto Rico, not eligible for the EITC and CTC, after federal taxes and federal credits (i.e., none) has an income of $25,858.

The family in Puerto Rico, earning the same as the family in the states, and the same as the family in the states in terms of family members and earned income, has an income $6,622 less than the family in the states after both families' tax and credit interaction with the federal government. (In percentage terms, the family in the states has a 26% greater income than the Puerto Rican family after federal taxes and credits.)

A Caveat

While the current situation is unfair, as just pointed out, there is an additional and different issue of fairness that could arise were the EITC and CTC extended to Puerto Rican island residents with no adjustment to take account of the fact that Puerto Rican residents are not liable for the federal income tax. In the states, when the income level of a family is high enough so that the family would be paying some income tax, the family's refund from these programs amounts to the credits minus the income tax owed. Applied to Puerto Rico, where a family with the same earned income would not be liable for any federal income tax, the refund would be larger. In the example above of the two families, each with earnings of $28,000, this issue was irrelevant because at that level there would be no income tax liability for the family in the states.

However, if the level of earned income of these two families in 2015 had been $30,000, the family in the states would have had a federal income tax liability of $141. If the EITC and CTC had been extended to Puerto Rico in 2015, both families would have received a credit of $6,201, but the family in the states would have had to pay a federal income tax of $141. Thus after federal taxes and credits, the Puerto Rican family would have had a net income $141 greater than the family in the states.

It would seem appropriate, therefore, in extending the EITC and CTC to Puerto Rico that that total of these credits be "capped" at an amount equal to the credits less the federal tax that the equivalent family (in terms of income and structure) in the states would have received. (This would not involve any great complexity, but could be readily computed from the information the Puerto Rican family would have to provide simply to obtain the credits.)

Costs

Estimates of the impact of extending the EITC and CTC to Puerto Ricans on the island indicate that over ten years the costs would be approximately between $11 billion and $12 billion—or a somewhat over $1 billion annually on average. This estimate is based on the assumption that in the early years of implementation, many eligible Puerto Ricans would not take advantage of the credits but would "learn" to do so as time progressed. This estimate of costs is relatively conservative (i.e., on the high side) because it does not take into account the degree to which extending these programs to Puerto Rico would raise the rate of economic growth on the island, as noted above, through both direct stimulus and greater labor force participation. More rapid economic growth would raise incomes and move many Puerto Ricans to positions where they would no longer receive these credits.

Thus, in a sense, the extension of the EITC and CTC to Puerto Rico would in effect be partially self-reducing.

The costs of extending these credits to Puerto Rico would be small compared, for example, to the costs that have been incurred by the U.S. Treasury (in terms of lost tax revenue) as U.S. firms operating in Puerto Rico took advantage of Section 936 of the U.S. tax code in the 1976 to 2006 period. In the late 1980s and early 1990s, when the program was at the center of economic policy in Puerto Rico, annual costs were running between $3.7 billion and $4.5 billion (in terms of 2016 dollars) [3]—that is, about four times as much as would be the costs associated with the EITC and CTC. And in terms of job growth, output expansion, and poverty reduction, the 936 program had very weak results.

As well as being a relatively inexpensive boost to the Puerto Rican economy, these credit programs would have a virtually immediate impact. The injection of funds would go directly to low-income families, who would tend to spend the money quickly.

And, finally, extending the credits to Puerto Rico would be relatively simple, requiring n new legislation but only an amendment of existing legislation.

Since 2006, Puerto Rico has been suffering a severe recession. Moreover, for many years leading up to this recession, economic growth was slow. The high rates of poverty and unemployment have long been accompanied by low rates of investment, all indicating that without substantial changes the economic prospects for Puerto Rico are dismal. The policy advanced here, which focuses on a direct work-stimulating set of incentives that also provides a macroeconomic stimulus, offers the promise of making a major contribution to

[3] Estimates of the costs of 936 to the U.S. Treasury are from Angel L. Ruíz and Edwin Meléndez, "The Economic Impact of Repealing Section 936 on Puerto Rico's Economy," in *Economic Impacts of the Political Options for Puerto Rico*, edited by Edwin Meléndez and Angel L. Ruíz, Universidad Interamericana de Puerto Rico, San Germán, Puerto Rico, 1998, p. 126. ; P. Morrison, "Testimony before the Committee on Finance, United States Senate," April 26, 1990, p. 2, as cited by J. Tomas Hexner and Glenn P. Jenkins, "Puerto Rico and Section 936: A Costly Dependence," *Tax Notes International*, January 16, 1995, p. 236; and United States Department of the Treasury, "U.S. Possessions Corporations Returns, 1987," Tables 1 and 2, as cited by J. Tomas Hexner et al., "Puerto Rican Statehood: A Precondition to Sound Economic Growth," Hex, Inc., Cambridge, MA, 1993, pp. 25-26. Also, for a full discussion of the costliness of 936, see the 1995 *Tax Notes International* article by Hexner and Jenkins.

moving the Puerto Rican economy out of recession and onto a path of the real progress. What's more, fairness alone would argue for extending the EITC and full CTC to Puerto Rican residents.

C. Fighting Poverty and Promoting Economic Growth by Creating Investment Zones: A Strong Incentive for Private Business to Invest where Investment is Most Needed[4]

By:
J. Tomas Hexner and Arthur MacEwan[5]

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.

[4] 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.

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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 Republicans[6] 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 forfirms to establish new operations and expand existing operations in those economically depressed areas of the country, areas most in need of new investment. [7] 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

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

[7] 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.

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 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 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. [8]

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). [9]

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,

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8 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.

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

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

Attachment #1

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. 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.

`(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

<u>Attachment #2</u>

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**

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 proposedInvestment 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 under taken 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.

D. Puerto Rico: Quantifying Federal Expenditures

By:
Arthur MacEwan and J. Tomas Hexner [10]

In 2004 and 2010, seventeen states and the District of Columbia received more in "net federal expenditures per capita" than did Puerto Rico. That is, in more than one-third of all the states, in these two years, the net amount per capita received from the federal government—federal expenditures minus federal taxes—was greater than the net amount per capita received from the federal government in Puerto Rico. There is no reason to think that 2004 and 2010 were unusual with respect to federal expenditures and taxes.

How much financial support does Puerto Rico receive from the federal government? The conventional wisdom, expressed in Washington and in the media, is that Puerto Rico is a "welfare island" and receives a large amount from the federal government. This flow of funds is often referred to as "generous" support for Puerto Rico.

Yet, to determine whether or not something is a "large amount," it is necessary to have a basis for comparison. When a relevant comparison is made, it turns out, as is often the case, the conventional wisdom is incorrect.

First of all, to determine the amount of financial support that Puerto Rico receives from the federal government, it would be misleading to look only at the amount of federal spending that goes to Puerto Rico. It is necessary to look also at how much goes from Puerto Rico to the federal government—i.e., taxes. So it is necessary to look at the net federal expenditures—expenditures minus taxes—from Washington to Puerto Rico.
Second, the total amount of this net flow has to be adjusted for the size of the population. So the relevant figure is the net federal expenditures per capita.

Third, as a basis of comparison, the net federal expenditures per capita from the federal government to Puerto Rico should be examined alongside of the net federal expenditures per capita to each of the states and the District of Columbia.

Data to calculate net federal expenditures per capita for the states, Puerto Rico, and D.C. have been available in the annual Consolidated Federal Funds Report from the U.S. Department of

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

Commerce and Internal Revenue Service Data Book from the Department of the Treasury. However, and unfortunately, the former of these sources has not been published since 2010, and the data it contained are not available for later years.

Nonetheless, the two tables below, present the "net" figures for 2004 and 2010. The tables show that in 2004 and 2010, seventeen states and the District of Columbia received more in net federal expenditures per capita than did Puerto Rico. That is, in ore than one-third of all the states, in these two years, the net amount per capita received from the federal government—federal expenditures minus federal taxes—was greater than the net amount per capita received in Puerto Rico from the federal government. The reality demonstrated in the tables, then, belies the conventional wisdom and indicates that, by a reasonable comparative standard, Puerto Rico is not treated "generously" by the federal government. [11]

It would be desirable to have data for years since 2010. The data for these two years, however, suggest a high degree of stability in the financial relation between Puerto Rico and the federal government as compared to the states and D.C. There is no apparent reason to believe that this relation of how Puerto Rico compares to the states and D.C. has changed significantly since 2010.

Puerto Rico's position in the two tables might seem odd. After all, Puerto Ricans do not pay federal income taxes, and U.S. firms operating in Puerto Rico do not pay federal corporate taxes. Puerto Ricans, however, do pay Social Security and Medicare taxes at the same rates as do people in the states. Also, Puerto Rico is excluded from some major federal expenditure programs (e.g., the Earned Income Tax Credit) and is treated less favorably than states in some others (e.g. Medicare). Further, Puerto Rico is virtually excluded from federal procurement and employment expenditures. These various exclusions from federal expenditures appear to more than balance the privilege of not paying personal and corporate taxes.

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11 A reader might wonder how so many more states can receive net positive federal expenditures while relatively few are net negative recipients. However, because in both 2004 and 2010 the federal government ran deficits, the total net positive flows of funds to the states will outweigh the negative flows (though there are some funds that do not go to the states—e.g., foreign expenditures). Furthermore, the tables show per capita figures. If the table figures were weighted by states' populations, the balance would be different—though the existence of the federal deficit would still be evident in the mix of positive and negative figures in the tables.

There is, of course, no good reason that states and Puerto Rico should receive the same net federal expenditure per capita as one another. Federal spending is determined by many factors, but one of these is ostensibly to aid low-income parts of the country. By that criterion Puerto Rico would be right at the top. However, another factor is the political power of a state's representatives in Washington, and Puerto Rico has no such power. If Puerto Rico were to have political power as a state, the sobriquet of "welfare island" would soon be forgotten.

Table 1: Net Federal Expenditures Per Capita (Expenditures Minus Taxes) by State, the District of Columbia and Puerto Rico, FY2004

	Net Federal Expenditures	Rank		Net Federal Expenditures	Rank
District of Columbia	37,457	1	Missouri	1,381	27
Alaska	8,005	2	Kansas	1,282	28
New Mexico	7,348	3	Indiana	1,019	29
Virginia	5,940	4	Oregon	916	30
West Virginia	5,562	5	New Hampshire	689	31
North Dakota	5,157	6	Pennsylvania	658	32
Montana	4,792	7	Washington	525	33
Mississippi	4,700	8	North Carolina	236	34
Alabama	4,629	9	California	-62	35
South Dakota	4,389	10	Nevada	-129	36
Maryland	4,383	11	Rhode Island	-188	37
Maine	4,175	12	Michigan	-225	38
South Carolina	3,586	13	Arkansas	-310	39
Kentucky	3,514	14	Georgia	-350	40
Hawaii	3,093	15	Texas	-380	41
Arizona	2,984	16	Wisconsin	-473	42
Wyoming	2,980	17	Massachusetts	-837	43
Louisiana	2,887	18	Colorado	-906	44
Puerto Rico	**2,823**	**19**	Ohio	-1,181	45
Vermont	2,596	20	New York	-1,370	46
Idaho	1,887	21	Nebraska	-1,385	46
Oklahoma	1,858	22	Illinois	-2,393	48
Utah	1,826	23	Connecticut	-3,223	49
Iowa	1,768	24	New Jersey	-4,025	50
Florida	1,677	25	Minnesota	-5,639	51
Tennessee	1,557	26	Delaware	-7,010	52

Source: See text.

Table 2: Net Federal Expenditures Per Capita (Expenditures Minus Taxes), States, the District of Columbia, and Puerto Rico, FY2010

	Net Federal Expenditures	Rank		Net Federal Expenditures	Rank
District of Columbia	72,292.40	1	Utah	3,618.10	27
Alaska	11,123.10	2	Kansas	3,575.04	28
Hawaii	10,732.90	3	Iowa	3,545.22	29
New Mexico	9,906.86	4	North Carolina	3,481.73	30
Virginia	9,761.25	5	Pennsylvania	3,463.92	31
Maryland	8,417.70	6	Oregon	3,367.20	32
West Virginia	8,364.84	7	Connecticut	3,357.49	33
Kentucky	7,812.20	8	Georgia	3,292.85	34
Alabama	7,657.33	9	Washington	3,271.60	35
Mississippi	7,515.26	10	Wisconsin	2,936.53	36
Montana	6,872.75	11	Nevada	2,555.03	37
Vermont	6,712.04	12	Indiana	2,359.73	38
Maine	6,549.42	13	New Hampshire	2,202.86	39
North Dakota	6,541.87	14	Colorado	2,067.92	40
South Dakota	6,386.79	15	Massachusetts	1,695.27	41
South Carolina	6,313.02	16	California	1,621.30	42
Idaho	5,167.19	17	Texas	1,455.53	43
Arizona	5,115.76	18	Rhode Island	1,235.08	44
Puerto Rico	4,696.73	19	Arkansas	240.06	45
Wyoming	4,258.14	20	New York	108.37	46
Louisiana	4,102.91	21	Ohio	-8.67	47
Missouri	4,057.49	22	Illinois	-77.94	48
Oklahoma	4,025.22	23	Nebraska	-602.30	49
Florida	4,005.04	24	New Jersey	-4,310.79	50
Tennessee	3,829.12	25	Minnesota	-4,449.54	51
Michigan	3,753.68	26	Delaware	-8,018.41	52

Source: See text.