

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7414
BILL NUMBER: HB 1978

DATE PREPARED: Jan 24, 1999
BILL AMENDED:

SUBJECT: Tax credits for Enterprise Zone training and jobs.

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill establishes three tax credits:

- *Certified school to career program payroll credit:* This bill provides a credit against state tax liability for wages paid to a participant in a certified school to career program.
- *Enterprise Zone employment training credit:* This bill provides a credit against state tax liability for expenses incurred to train employees who reside in an Enterprise Zone (EZ).
- *Enterprise Zone job creation credit:* This bill also provides a credit against state tax liability for jobs created at locations within an EZ.

Effective Date: January 1, 2000.

Explanation of State Expenditures: *Certified school to career program payroll credit:* This bill creates a certified school to career program payroll tax credit. A program certified under this bill would place high school students in internships where business professionals would serve as mentors. To be eligible for the tax credit, a business must contribute money for a participant's college tuition (in addition to any regular salary). After completing the internship and the postsecondary educational requirements of the program, the participant would be required to work a minimum of two years for the sponsoring business. The Department of Workforce Development estimates that nearly 35,000 individuals in Indiana between the ages of 16 and 24 will participate in some kind of school-to-work program in 1999, although it is not known how many would qualify as certified programs under the provisions of this bill.

Under this proposal, the Indiana Department of Commerce (IDOC) and the state Department of Education (DOE) would both have to approve certified school to work programs and adopt rules to implement these programs. The costs associated with this requirement would depend on the number of programs that must

be certified.

All credits: The Department of Revenue (DOR) would also incur some additional costs as a result of these new credits. The DOR would have to develop forms for reporting, but would be able to absorb the related expenses of processing, printing, and computer programming within its current budget.

Explanation of State Revenues: Any credit against state tax liability granted under this proposal would decrease state revenues. However, the overall impact of this bill is difficult to estimate because only one credit (the certified school to career program payroll credit) is capped (\$500,000). The fiscal impact will vary with each credit:

Certified school to career program payroll credit: The credit allowed for each qualifying taxpayer would equal 20% of payroll expenditures for certified school to career program interns. The credit is limited to the first 400 hours of payroll expenditures in one year for each participant. A maximum of \$500,000 in total certified school to career program payroll credits may be allowed under this bill in one year.

Enterprise Zone employment training credit: This credit provides an incentive for job training programs for EZ residents. The amount of the credit awarded would equal the employer's job training expenses for employees residing in an EZ. There is no limit on the amount of Enterprise Zone employment training credits that may be awarded.

Enterprise Zones are established in economically distressed areas where 25% of the households have incomes below the poverty level and unemployment is 150% higher than the state average. This program is administered by the Department of Commerce. There are currently 21 zones which include approximately 1,701 businesses.

Enterprise Zone job creation credit: This credit could be granted to taxpayers who create new full-time jobs at a business site inside an EZ. The amount of credit awarded would be equal to \$1,500 for each new full-time position created by an employer in a taxable year. There is no limit on the amount of Enterprise Zone job creation credits that may be awarded.

All credits: The three credits established in this bill could be taken against a taxpayer's gross income tax, adjusted gross income tax, supplemental net income tax, bank tax, savings and loan tax, financial institutions tax, and insurance premiums tax liability. The bill also allows credit to be taken by partners or shareholders of pass-through entities. Unused credits would be refundable, and if the credit exceeds the taxpayer's total state liability in one year, the excess may be carried over. State revenues could be reduced by this bill beginning in FY 2001. Income tax revenue is deposited in the General Fund and the Property Tax Replacement Fund.

Secondary impact: If these incentives are successful in creating new employment opportunities and enhancing the earning potential of program participants, there could be future increases in personal income tax collections. Greater personal income may also result in increased revenue from other taxes, such as the sales tax, the motor vehicle excise tax, and others.

Explanation of Local Expenditures:

Explanation of Local Revenues: If these incentives are successful in enhancing the earning potential of program participants and creating new jobs, there could be positive secondary fiscal impacts for local units

(see above Explanation of State Revenues, Secondary impact).

State Agencies Affected: Indiana Department of Commerce, Department of Education, Department of Revenue.

Local Agencies Affected:

Information Sources: Pat Murphy, Deputy Commissioner, Department of Workforce Development, (317) 232-1463; Leslie Richardson, Director, Division of Research, IDOC, (317) 232-8962.