LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 8025 | **DATE PREPARED:** Jan 17, 1999
BILL NUMBER: SB 588 | **BILL AMENDED:**

SUBJECT: Enterprise Zones.

FISCAL ANALYST: Brian Tabor
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FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides for Enterprise Zones for municipalities that are unable to meet the minimum population requirements of the zone and have a population of less than 5,000. It requires that:

- At least 50% of the zone must be within the limits of the municipality;
- The total area of the zone must be less than either three square miles or 25% of the area of the municipality;
- Any zone containing an area that is outside the limits of the municipality must be approved through the adoption of a resolution by the legislative bodies of the municipality and the county;
- The proposed zone must be contiguous with the municipality by the greater of:
  (A) one-fourth of the aggregate external boundaries of the portion of the proposed zone located outside the corporate limits of the municipality; or
  (B) 150 feet; and
- The area of the proposed zone must be within the zoning jurisdiction of the municipality as determined by statute.

The bill also provides for a representative of the county legislative body to serve on the Urban Enterprise Association for the zone.

Effective Date: July 1, 1999.

Explanation of State Expenditures: This bill may increase the number of Enterprise Zones (EZs). There are currently 21 zones which include approximately 1,701 businesses. The Indiana Department of Commerce

(IDOC) was appropriated $181,125 to oversee the EZ program in FY 1998. In addition to 1.5 full-time equivalent positions dedicated for this program, additional staff support is currently required. New EZs would increase administrative expenses for the Department and possibly necessitate additional staff, although the exact cost depends on the number of zones established.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) Existing staff and resources not currently being used to capacity; (2) Existing staff and resources currently being used in another program; (3) Authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) Funds that, otherwise, would be reverted; or (5) New appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

Explanation of State Revenues: Under current law, the population of a proposed EZ must be between 2,000 and 8,000. This bill would allow municipalities with fewer than 5,000 residents that are unable to meet these population requirements to contain EZs, provided certain other conditions are met. These conditions concern the specific location of the EZ within the municipality and the geographic size of the zone.

EZs may be established in economically distressed areas where 25% of the households have incomes below the poverty level or where unemployment is 150% higher than the state average. Businesses located within EZs are eligible for the following economic benefits:

Gross income tax exemption: The increase in gross income received by an EZ business after the designation of the zone is exempt from the gross income tax. According to forms filed with IDOC, the total amount exempted in FY 1998 was $1,040,726.

Employment expense tax credit: A credit against the gross income tax, adjusted gross income (AGI) tax, insurance premiums tax, or financial institutions tax (FIT) liability may be taken by an employer that increases wages after inclusion in the zone. The amount of the credit is equal to 10% of the increase in employment expenditures (although the credit may not exceed $1,500 per employee). According to IDOC, employment expense tax credits taken in FY 1998 totaled $814,030.

Loan interest credit: Any person, corporation, limited liability company, partnership, or other entity making a loan for the purposes of repair or improvement of an EZ business or residence is eligible for credits. The credit may be used against the gross income tax, AGI tax, insurance premium tax, supplement net income tax (SNIT), bank tax, or savings and loan association tax liability. The total loan interest credits awarded in FY 1998 were $1,081,355.

Investment cost credit: A taxpayer that purchasing an ownership interest in an EZ business may be eligible for a tax credit. Up to 30% of the investment may be taken as a credit against AGI tax liability. The IDOC determines the actual amount using a formula based on the amount invested, financial need of the EZ entity, and the number of jobs created.

Neighborhood Assistance tax credits: Neighborhood Assistance tax credits are awarded via non-profit organizations to taxpayers contributing to various community projects in economically disadvantaged areas. Businesses investing in these projects can receive a credit against their state tax liability equal to 50% of their contribution, although a single taxpayer cannot receive more than $25,000 in credits each taxable year. The credit can be applied to the gross income tax, the AGI tax, or the SNIT. IDOC is directed by statute to give priority to applicants whose efforts benefit EZs. These credits are currently capped at $2,500,000 each fiscal year.

In addition to the incentives awarded to businesses, residents of EZs may benefit from the employee AGI tax deduction. Residents employed within the zone may deduct the lesser of half of their AGI or $7,500 from their state income tax liability. The resident must be employed by a regular corporation or a sole proprietorship to be eligible for this deduction.

This bill could decrease state revenues as more credits, deduction, and exemptions are granted. Revenue from the various taxes listed above is deposited in the state General Fund and the Property Tax Replacement Fund. However, if EZs create jobs and economic development that would not have otherwise occurred, the state should experience some indirect positive impacts. Additional jobs would increase income tax collections and revenues generated by employees' purchases. These incentives may also help relieve the state's unemployment and welfare burdens.

Explanation of Local Expenditures:

Explanation of Local Revenues: Inventory held within an EZ is exempt from property taxes. If a new EZ is established, there would be an increase in the share of the local tax burden borne by other taxpayers. The amount of this tax shift would vary in each zone, but $37,287,868 in total inventory tax credits were taken statewide in CY 1997. The creation of new EZs could also have positive secondary effects (see Explanation of State Revenues).

State Agencies Affected: EZ Board, IDOC, Department of Revenue, State Board of Tax Commissioners.

Local Agencies Affected: Urban Enterprise Associations.

Information Sources: Leslie Richardson, Director, Division of Research, IDOC, (317) 232-8962.