

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

301 State House
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FISCAL IMPACT STATEMENT

LS 6348
BILL NUMBER: SB 171

DATE PREPARED: Nov 15, 1999
BILL AMENDED:

SUBJECT: Enterprise Zones.

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

IMPACT: State & Local

Summary of Legislation: This bill provides that for purposes of the Enterprise Zone (EZ) statutes, the term "zone business" includes an entity that claims certain tax benefits available to businesses located in an enterprise zone. The bill also specifies that before a taxpayer may claim the Enterprise Zone Loan Interest Credit, the taxpayer must: (1) pay the enterprise zone registration fee; (2) provide the additional assistance to Urban Enterprise Associations (UEAs) that is required from zone businesses; and (3) comply with any reinvestment requirements adopted by the Enterprise Zone Board for taxpayers claiming the credit.

Effective Date: January 1, 2000 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues: Under current law, any taxpayer is entitled to the Enterprise Zone Loan Interest Credit if the taxpayer receives interest on a qualified loan. Qualified loans are defined as those made to an entity for zone business purposes or real property development in an EZ. As held by the Indiana Tax Court in its March 5, 1999 decision (CNB Bancshares, Inc. v. the Department of State Revenue), current law does not require that the entity be considered a zone business to receive the credit.

The Enterprise Zone Loan Interest Credit is a credit against the Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, or Financial Institutions Tax for interest earned on a qualified loan. These taxes are deposited in the General Fund and the Property Tax Replacement Fund. The amount of the credit is equal to 5% multiplied by the amount of interest received by the taxpayer. Based on registration forms filed with the Indiana Department of Commerce by current EZ businesses, total Loan Interest Credits awarded in FY 1998 were \$1,081,355.

This bill would require any entity claiming the Loan Interest Credit to meet the requirements of a zone business. Under this proposal, entities who were previously taking Loan Interest Credits and not fully

participating in the EZ program would be required to do the following:

- (1) Pay the State EZ Board a program registration fee equal to 1% of the total EZ-related tax incentives received (if the taxpayer has received more than \$1,000 in these incentives in a taxable year);
- (2) make the required business contribution to help fund the local Urban Enterprise Association (the contribution varies by EZ, but the range is between 20% and 35% of the total EZ-related tax incentives); and
- (3) reinvest an amount equal to the total incentives received (minus the EZ Board registration fee) back into the EZ where the initial money was loaned.

If the taxpayer does not comply with the requirements of the EZ program, then Loan Interest Credits could be denied. It is not expected, however, that many taxpayers will be affected by this proposal.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Enterprise Zone Board.

Local Agencies Affected:

Information Sources: Department of Commerce.