LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6237 **DATE PREPARED:** Dec 6, 1999
BILL NUMBER: SB 177 **BILL AMENDED:**

SUBJECT: Income tax credits for research and development.

FISCAL ANALYST: Diane Powers
PHONE NUMBER: 232-9853

FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL

IMPACT: State

Summary of Legislation: This bill makes the Research Expense Tax Credit permanent by eliminating its expiration date. The bill also modifies the Research Expense Tax Credit by repealing the apportionment limit. (For a taxpayer with income apportioned to Indiana, this provision currently limits the credit to the lesser of the taxpayer's Indiana qualified research expenses or its apportioned research expenses for the year. This bill would provide that a taxpayer's credit is based solely on the taxpayer's Indiana qualified research expenses.) (The introduced version of this bill was prepared by the Interim Study Committee on Economic Development Issues.)

Effective Date: January 1, 2000 (retroactive).

Explanation of State Expenditures: There will be some minimal expenses for the Department of State Revenue to change tax forms, instructions and computer programs which can be absorbed in its current budget.

Explanation of State Revenues: *Expiration Date:* This bill eliminates the expiration date of the Research Expense Credit which is set to expire December 31, 2002. Over the past five years, this tax credit has ranged from $7 M to $15 M. In FY 96 and FY 97 approximately $9.2 M and $15.3 M of tax credits were claimed respectively. It is difficult to estimate the exact impact of continuing this tax credit since it is dependent on the amount of research expenses individual taxpayers make during the year. However, the revenue loss is expected to be within the range of $10 M to $15 M annually. This provision will affect revenue collections for FY 2003 and years after.

Apportionment Factor: The proposal to eliminate the apportionment factor could increase the research expense credits taken by an additional $5.2 M annually beginning in FY 2001. The bill changes the credit to be based on the taxpayer's Indiana qualified research expenses rather than the lesser of its Indiana qualified research expenses or its apportioned research expenses for the tax year beginning January 1, 2000. Currently only businesses that do not have income apportioned to the state for a taxable year may calculate their credit based on Indiana research expenses.

It is unknown how many Indiana businesses would be affected by this change. This change would not reduce the amount of credit that is currently taken by any particular taxpayer. This change would benefit any Indiana domiciled company that conducts a significant amount of research in Indiana, but has an apportionment factor for income earned in Indiana that is less than the percentage of their overall research expenses in the state. Elimination of the apportionment factor will allow all companies to compute their tax credit based on the amount of research conducted in the state.

With additional incentives created for research and development activity based in the state of Indiana, the revenue loss from this credit could increase by an indeterminable amount. The credit provides $50,000 for each $1 M in new research expenses.

Increase expenditures on research activities could also generate additional individual income and sales tax revenue if these expenses are used to hire additional employees or purchase related equipment.

The research expense tax credit affects revenue collections deposited in the General Fund and Property Tax Relief Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: The Department of State Revenue.

Local Agencies Affected:

Information Sources: The Department of State Revenue.