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FISCAL IMPACT STATEMENT

LS 6379
BILL NUMBER: HB 1133

NOTE PREPARED: Dec 23, 2004
BILL AMENDED:

SUBJECT: Rural Community Job Creation Tax Credit.

FIRST AUTHOR: Rep. Heim
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides a credit against state tax liability for certain taxpayers that create at least ten new full-time jobs at a site located in a rural community. The bill also provides that the credit is equal to the greater of 20% of the total wages paid for the new jobs or 20% of the capital investment associated with the new jobs.

Effective Date: July 1, 2005.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this tax credit. The DOR also would have to make determinations about whether a taxpayer meets the average wage requirement for purposes of the credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *Summary:* The bill could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax (FIT), and the Insurance Premiums Tax beginning in FY 2007; or FY 2006 if taxpayers adjust their quarterly estimated payments. However, the potential fiscal impact of this credit is indeterminable.

Background: The bill establishes the Rural Community Job Creation Tax Credit as a nonrefundable tax credit equal to the greater of: (1) 20% of the total wages paid to new full-time employees employed by an eligible taxpayer in the taxable year: or (2) 20% of the capital investment associated with the employment of the new full-time employees in the taxable year.

An eligible taxpayer is a person, corporation, partnership, or other entity, including a pass through entity, that: (1) employs fewer than 300 employees; and (2) employs at least 10 new full-time employees at a site located in an area that is outside an urbanized area (as defined by the U. S. Census Bureau) or a place (as defined by the U. S. Census Bureau) that intersects an urbanized area. The credit can not be claimed for an employee who is relocated by the taxpayer from one site in Indiana to another site in Indiana. In addition, the credit can not be claimed unless the average wage paid by the taxpayer in the county in which the new employees are employed exceeds that average wage paid in that county. The credit is nonrefundable, but any unused credit may be carried forward for up to five subsequent years. The tax credit may not be carried back to previous years.

The net revenue impact of this credit depends on the extent that tax collections from new employees are less than or exceed the amount of credits claimed by the business. However, if the employees would have been hired in the absence of the tax credit, the net impact would be the total credits claimed by the business. The underlying growth in net new employees (growth that would occur independent of the credit) is about 1% to 2% annually. It is estimated that there are about 100,000 firms in Indiana that employ from 1 to 300 employees. However, th number of firms that would be eligible for the tax credit is substantially less as there are currently 16 urbanized areas in Indiana, containing or intersecting roughly 140 cities, towns, or census-defined places. Firms in these areas would not be eligible for the tax credit. Based on the current average annual wage in Indiana of about $35,000, the wage credit for a firm hiring 10 new full-time employees would be $70,000.

The credit is effective beginning in tax year 2006. Revenue from the AGI Tax on corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected:

Local Agencies Affected:

Information Sources: U. S. Census Bureau, *Statistics of U.S. Businesses: 2001: All industries, Indiana.* U.S. Bureau of Labor Statistics (BLS), www.bls.gov. BLS, *State and Area Employment, Hours, and Earnings*. BLS, Quarterly Census of Employment and Wages. BLS, Employer Costs for Employee Compensation.

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