LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7100 **NOTE PREPARED:** Jan 25, 2006
BILL NUMBER: HB 1259 **BILL AMENDED:**

SUBJECT: Military Base Development.

FIRST AUTHOR: Rep. Koch **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: The bill adds additional members to the Military Base Planning Council. It provides that an Enterprise Zone located in a county in which the Crane Military Base is located is a Qualified Military Base Enhancement Area. It also requires the Economic Development Corporation to assume duties formerly imposed on the Department of Commerce with respect to Qualified Military Base Enhancement Areas.

Effective Date: July 1, 2006.

Explanation of State Expenditures: The bill adds the Commissioner of the Department of Workforce Development, the President of the Indiana Economic Development Corporation, the Director of the Office of Energy and Defense Development, and one member each of the county executive bodies appointed by the county executives of Daviess County, Monroe County, and Orange County to the membership of the Military Base Planning Council. (Note: The bill also changes the membership of the Director of the State Emergency Management Agency to the Executive Director of the Department of Homeland Security.) The fiscal impact of this change is dependent on the number of meetings held by the Council, the locations at which the meetings are held, and the attendance at meetings by these six new Council members. The new Council members would be entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. As of October 2005, the mileage reimbursement rate is $0.34 per mile.

Under current statute, the Council consists of members of the Senate and House of Representatives, the Lieutenant Governor, the Adjutant General, the Commissioners of the Department of Environmental Management and Department of Transportation, and the Director of the State Emergency Management Agency.

Explanation of State Revenues: *Summary:* The bill would extend three existing tax incentives applicable to businesses locating or expanding within "qualified military base enhancement areas" to businesses located in Enterprise Zones (EZs) in **Green, Lawrence, and Martin Counties**. This change could potentially reduce revenue from the Sales and Use Tax and Adjusted Gross Income (AGI) Tax if a qualified business locates or expands operations in an EZ in one of these counties. The net revenue impact depends on the extent that tax collections on employees or other taxable activities attributable to the newly located or expanded business operations deviate from the amount of tax incentives claimed by the business. However, if the business location or expansion would have occurred in the absence of these tax incentives, the net impact would be the total incentives claimed by the business. Any resultant fiscal impact due to the bill could commence in FY 2007 depending upon when business operations qualify for the tax incentives.

Background Information: Military Base Tax Incentives - Under current statute, the tax incentives described in (1)-(3) below are applicable to certain businesses that locate or expand in a "qualified military base enhancement area." Current statute provides that a military base enhancement area comprises only territory located in a certified technology park located within 5 miles of the Crane military base. There is one certified technology park located in Daviess County adjacent to the Crane military base that currently qualifies for this status. The bill extends this status and the tax incentives to EZs in Greene, Lawrence, and Martin Counties. The tax incentives are as follows:

(1) A Sales Tax exemption for utility services purchased by a business that relocates or expands all or part of its operations to a facility located in a qualifying EZ. The services are exempt for the first five years the business operates in the facility.

(2) A reduction from 8.5% to 5% in the Corporate Adjusted Gross Income Tax rate for a corporation that locates all or part of its operations (including expansions) to a qualifying EZ. The corporate rate reduction would apply only to income derived by the corporation from sources located in a qualifying EZ during the taxable year in which the corporation located to the qualifying EZ, and the next four succeeding taxable years.

(3) A nonrefundable AGI Tax credit for investment in a business that locates all or part of its operations (including expansions) to a qualifying EZ. Creditable investment includes both equity financing and debt financing. Credits are awarded for the cost of investment and for jobs created due to the investment. The percentage credits allowed vary depending upon the type of investment, the type of business, and the number of jobs created. The taxpayer may carry over any unused credit amount to subsequent taxable years. The taxpayer is not eligible to carry back any unused credit. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity.

To qualify for these tax incentives, current statute requires that the business also must: (1) be a participant in the technology transfer program conducted by the Crane military base; (2) be a U.S. Department of Defense contractor; or (3) have a mutually beneficial relationship with the Crane military base as evidenced by a memorandum of understanding with the U.S. Department of Defense.

Enterprise Zones - **EZs currently operate in Bedford (authorized until 2013) and Mitchell (authorized until 2021) in Lawrence County. It is estimated that 224 business establishments operate in the Bedford EZ and 45 business establishments operate in the Mitchell EZ.** It is not known whether any of these businesses meet at least one of the qualifiers specified in (1)-(3) above. In addition, current statute authorizes the Indiana Economic Development Corporation (IEDC) to designate two new EZs each year until December 31, 2015.

Under current statute the following tax incentives are authorized for qualifying businesses operating in EZs.

(1) The Inventory Tax Credit, which eliminates the property tax on wholesale or retail merchandise being held for resale as well as finished goods maintained by a business in an EZ. The credit will be inoperative beginning in 2007 once the Inventory Tax is eliminated statewide through the 100% inventory deduction.

(2) The Investment Cost Credit, which is a state tax credit for equity investment only in an EZ business. The credit is equal to a maximum of 30% of the price of the ownership interest purchased by the taxpayer. The allowable credit percentage up to 30% varies depending upon the type of investment, the type of business, and the number of jobs created by the investment. (Note: This credit is similar to the investment credit that would be extended to the EZs in Greene, Lawrence, and Martin Counties under the bill, except it does not apply to debt financing.)

(3) The Employment Expense Credit, which is a state tax credit for incremental wages paid by an EZ business to employees who are EZ residents. The credit is equal to 10% of the additional wages paid to a qualified employee during the year up to a maximum of $1,500.

(4) The Loan Interest Credit, which is a state tax credit for interest income earned by a taxpayer from a loan that directly benefits an EZ business, increases EZ property values, or is used to rehabilitate, repair, or improve an EZ residence. The credit is equal to 5% of the loan interest received during the year.

(5) The Property Tax Investment Deduction, which is a deduction for the increased value of an EZ business property due to qualified real and/or personal property investment by the business. The added valuation may be deducted for up to 10 years. Qualified investment at an EZ location includes: (a) purchase of a building, new manufacturing or production equipment, or new computers and related office equipment; (b) costs associated with the repair, rehabilitation, or modernization of an existing building and related improvements; (c) onsite infrastructure improvements; (d) construction of a new building; and (e) costs associated with retooling existing machinery.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Economic Development Corporation. Department of Workforce Development. Department of Homeland Security.

Local Agencies Affected: County executives in Daviess County, Monroe County, and Orange County.

Information Sources: OFMA Enterprise Zone database.

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