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FISCAL IMPACT STATEMENT

LS 7049 **NOTE PREPARED:** Feb 20, 2013
BILL NUMBER: HB 1545 **BILL AMENDED:** Feb 18, 2013

SUBJECT: Tax Credits.

FIRST AUTHOR: Rep. Turner **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

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

Summary of Legislation: (Amended) The bill modifies the attributes of the following tax credits:

- Headquarters Relocation Tax Credit.
- Hoosier Business Investment Tax Credit .
- Industrial Recovery Tax Credit.
- Venture Capital Investment Tax Credit.

The bill repeals these tax credits:

- Capital Investment Tax Credit.
- Coal Combustion Product Tax Credit.
- Military Base Investment Cost Tax Credit.
- Military Base Recovery Tax Credit.

The bill also repeals these tax credits and deduction concerning Airport Development Zones (ADZ) :

- Employment Expense Tax Credit.
- Investment Cost Tax Credit.
- Loan Interest Tax Credit.
- Neighborhood Assistance Credit.
- Qualified Employee Tax Deduction.

Effective Date: July 1, 2013; January 1, 2014.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The bill's requirements are within the DOR's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Indiana Economic Development Corporation (IEDC): This bill changes the eligibility criteria for the Hoosier Business Investment Tax Credit (HBI), Headquarters Relocation Tax Credit (HQR), Industrial Recovery Tax Credit (IR), and Venture Capital Investment Tax Credit (VCI). The IEDC will be required to modify their evaluation process. The IEDC's current level of staff and resources should be sufficient to implement the provisions in the bill.

Explanation of State Revenues: (Revised) *Summary* - This bill changes four state income tax credits and repeals nine other tax credits. The majority of the credits may be used to offset tax liabilities from the Individual Adjusted Gross Income Tax, Corporate Adjusted Gross Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. Revenue collected from those taxes is deposited in the state General Fund. The table below shows the estimated revenue impacts of the provisions within the bill.

	FY 2014 ($ in millions)	**FY 2015 ($ in millions)**
Headquarters Relocation Tax Credit	Indeterminable	Indeterminable
Hoosier Business Investment Tax Credit	($5.65 - $22.42)	($5.65 - $22.42)
Industrial Recovery Tax Credit	(1.57)	(1.57)
Venture Capital Investment Tax Credit	0	0
Repealing Various Tax Credits*	0.034	0.034
Total	**($7.186 - $23.936)**	**($7.186 - $23.936)**
***Capital Investment Tax Credit, Coal Combustion Product Tax Credit, Military Based Investment Cost Tax Credit, Military Base Recovery Tax Credit, Airport Development Zone (ADZ) Employment Expense Tax Credit, ADZ Investment Cost Credit, ADZ Loan Interest Tax Credit, ADZ Neighborhood Assistance Credit, ADZ Qualified Employee Tax Deduction.**		

Additional Information -

Headquarters Relocation Tax Credit (HQR): The bill makes the following changes to the HQR credit:

- Allows the IEDC to offer the credit at a rate of up to 50% of the taxpayer's relocation costs instead of only at a rate of 50% as under current statute.
- Lowers the worldwide revenue requirement from $100 M in the prior year to $50 M in the prior year.
- Expands the definition of a qualifying relocation to include the relocation of a division or subdivision principal office or a research and development center.

The rest of the qualifying conditions of the tax credit would remain the same.

As of September 2012, the IEDC had not approved or authorized any HQR credits. However, these changes expand the number of potential qualifying firms. With the new parameters, an estimated 34,690 additional worldwide firms may qualify for the credit. A study conducted on corporate headquarters migration found that 8% to 10% of the corporate headquarters moved over a 10 year period. Assuming 1% of the potential firms move every year, there may be about 7,320 firms that may qualify for the HQR in any given year. The estimated revenue loss associated from these changes is indeterminable. The actual amount of credit a qualifying business may claim depends on the IEDC. They will make the final determination on the amount of credit awarded.

Hoosier Business Investment Tax Credit (HBI): Under the bill, the costs associated with the improvement of a taxpayer's air, rail, or motor transport logistical capabilities would be eligible for the HBI credit. Also, the bill removes the requirement that the qualifying investment create new jobs but retains the criteria that the projects result in higher wages to employees. These changes increase the likelihood that an investment will qualify for the HBI credit. The revenue loss associated with the modifications to the HBI credit could range from an estimated $6.4 M to $22.4 M a year beginning in FY 2014. The actual revenue loss from the modifications to the HBI credit is contingent on how many credits IEDC authorizes and the amount of tax liability the recipients have to offset with the credits.

Measure (in millions)	Calendar Year						
	2005	2006	2007	2008	2009	2010	2011
HBI Credits Offered	$75.8	$26.4	$10.6	$3.6	$2.5	$7.1	$5.8
Total Indiana Private Nonresidential Fixed Investment in Structures*	6,900	8,150	10,130	11,020	8,390	7,150	7,730
Transportation and Warehouse: Indiana Private Nonresidential Fixed Investment in Structures*	454	534	585	585	407	343	354
Manufacturing: Indiana Private Nonresidential Fixed Investment in Structures*	522	562	758	994	1,080	776	799

***U.S. Bureau of Economic Analysis**

The IEDC offered more HBI credits for projects in 2005 and 2006 than in the following years. While HBI credit was created to provide incentives for capital investments, it does not follow the trend for private nonresidential fixed investments in Indiana. The differing trends could be attributed to the HBI award process. HBI credits are provided after a taxpayer submits an application to the IEDC. The IEDC evaluates the application to determine whether the taxpayer is eligible for the credit and offers an amount of HBI credit based on the evaluation. Including logistics investments and removing the job creation requirement increases the likelihood that the IEDC can approve more HBI credits.

The revenue estimates are based on fixed investment data reported by the Bureau of Economic Analysis. If the changes to the credit allow the IEDC to approve HBI credits for an additional 5% of the total annual private nonresidential fixed structural investments from Indiana manufacturers and logistics businesses, it would decrease revenue by an estimated $5.65 M beginning in FY 2014. If the IEDC approves HBI credits for 50% of the average annual fixed structural investments made by Indiana transportation and warehouse sector businesses, it would reduce revenue by an estimated $22.42 M a year beginning in FY 2014.

The national investment data for nonresidential equipment is not detailed enough to separate creditable expenditures for total equipment investments.

Industrial Recovery Tax Credit (IR): The bill removes the vacancy duration requirement from the IR credit. Under current statue, 75% of the floor space must be be vacant for at least 1 year to qualify for the credit. Consequently, the bill would expand the potential number of industrial recovery sites across state. In addition, the bill streamlines the application process for the IR credit. Currently, the local governing body must apply to the IEDC before a facility can be eligible for the credit. This bill would allow the IEDC to make that determination on their own. The IEDC estimated that there were 237 potentially available industrial sites across the state. This bill increases the likelihood that more of those sites could qualify for the IR credit.

Between 1988 and 2011, the qualified investments for the IR credit represented only 0.3% of the total structural investment by Indiana manufacturers for the same period. If the changes allow it to be used for 1% of the average annual fixed structural manufacturing investments, it may reduce revenue by an estimated $1.57 M a year beginning in FY 2014. The estimated revenue loss from the expansion of this credit will largely depend on the IEDC's approval process.

(Revised) *Venture Capital Investment Tax Credit*: Under current law, the total amount of VCI credits allowed may not exceed $12.5 M in a particular calendar year. This bill permits the total VCI credits claimed by taxpayers to exceed $12.5 M per year as long as the amount of credits approved by the IEDC does not exceed $12.5 M per calendar year. This change will likely have no fiscal impact because historically both the credits certified by the IEDC and the total credits claimed by taxpayers have been well below the $12.5 M annual cap.

Venture Capital Investment Tax Credit Authorization and Use Profile ($ in millions)				
Calendar Year	**Proposed Capital Investment**	**VCI Credits Awarded by IEDC**	**VCI Credits Certified by IEDC**	**VCI Credits Claimed on Tax Returns**
2008	$112.60	$7.80	$6.67	$3.39
2009	71.52	4.98	3.86	2.56
2010	77.47	6.77	4.51	3.38
2011	83.20	2.64	4.17	1.80*
* The 2011 credit amounts are not full-year totals because of filing extensions and suspensions of returns for audit.				

(Revised) *Repealing Tax Credits:* The bill repeals the following tax credits:

- Capital Investment Tax Credit.

- Coal Combustion Product Tax Credit.
- Military Base Investment Cost Credit.
- Military Base Recovery Tax Credit.

Repealing these credits will increase revenue by approximately $14,000 beginning in FY 2014. These tax credits either have extremely low usage compared to the economic activity occurring in Indiana, or there are other credits in place that could potentially be used to stimulate the targeted industry. The revenue estimate is based on average credits claimed between 2005 and 2010 and current credit eligibility and approvals.

Repealing Airport Development Zone (ADZ) Tax Credits: The ADZs will no longer be able to the offer the following credits to taxpayers within ADZ boundaries:

- Income Earned by ADZ Employees.
- Employment Expense Tax Credits.
- Loan Interest Tax Credits.
- Neighborhood Assistance Credits.
- Investment Cost Credits.

These credits are the same as the ones employed at the Enterprise Zones. Repealing these credits will increase revenue by about $20,500 beginning in year FY 2014. The revenue estimate is based on the historic credits claimed by both individuals and corporations.

(Revised) <u>*Background Information*</u> - Below are summaries of the tax credits mentioned in the bill.

ADZ Employee Deduction for Earned Income: Individual taxpayers who live and are employed within an ADZ may deduct half of the AGI earned as a qualified employee during the year up to a maximum deduction of $7,500.

ADZ Employment Expense Credit: This credit is for employers that hire qualified employees living in an ADZ and working at least half of the time in the ADZ. The credit is equal to the lesser of 10% multiplied by the qualified increased employment expenditures of the taxpayer for the taxable year; or $1,500 multiplied by the number of qualified employees employed by the taxpayer during the taxable year.

ADZ Investment Cost Credit: This credit is for taxpayers purchasing an ownership interest (an equity investment) in a business located in an ADZ. The credit is equal to a maximum of 30% of the equity investment depending on the type of investment, the type of business, and the number of jobs created.

ADZ Loan Interest Credit: This credit is equal to 5% of the interest a taxpayer receives during the taxable year on qualified loans to businesses or individuals for specified uses in an ADZ.

Capital Investment Credit: This credit is equal to 14% of the value of qualified investment in a project having an estimated total cost of at least $75 M and being located in Shelby County.

Coal Combustion Product Credit: This credit is equal to $2 per ton of increased annual acquisitions of coal combustion products (the byproduct resulting from the combustion of coal in an Indiana facility) obtained by a taxpayer for the manufacturing of recycled components with the byproducts.

Headquarters Relocation Credit: This credit is for a business with at least $100 M in worldwide revenues that relocates its headquarters to Indiana and employs at least 75 employees in Indiana. The credit is equal to 50% of the relocation costs.

Hoosier Business Investment Credit: The credit is for qualified investments that the IEDC determines will foster job creation and higher wages in Indiana. The credit is equal to a percentage determined by the IEDC, not to exceed 10% of the amount of the qualified investment made by the taxpayer.

Industrial Recovery (Dinosaur) Credit: This credit is based on a taxpayer's qualified investment in a vacant industrial facility located in a designated industrial recovery site. The IEDC must approve applications and plans for rehabilitation in order to receive this tax credit. The amount of the credit is equal to the qualified investment made during the taxable year, multiplied by a percentage ranging from 15% to 25% depending on the age of the facility.

Military Base Investment Cost Credit: This credit is for taxpayers purchasing an ownership interest (an equity investment) in a business located on a military base, a military base reuse area, an economic development area, a military base recovery site or a military base enhancement area. The credit is equal to a maximum of 30% of the equity investment depending on the type of investment, the type of business, and the number of jobs created.

Military Base Recovery Credit: This credit is for taxpayers who are owners or developers of military base recovery sites if they invest in the rehabilitation of real property located in a military base recovery site. The IEDC must approve applications and plans for rehabilitation in order to receive this tax credit. The amount of the credit is equal to the qualified investment made during the taxable year, multiplied by a percentage ranging from 15% to 25% depending on the age of the facility.

Venture Capital Investment Credit: This credit is equal to 20% of annual qualified venture capital investment made by a taxpayer up to a maximum credit of $500,000. The IEDC certifies businesses to receive creditable venture capital investment.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation.

Local Agencies Affected: Airport Development Zones.

Information Sources: LSA Income Tax Database; Bureau of Economic Analysis, *Table 5.4.5 Private Fixed Investment in Structures by Type,* August 2, 2012. LSA: *Income Tax Credit Study*, September 2012; Dun & Bradstreet: Million Dollar Database; Eric Shields, IEDC, 317-234-3997.

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