# Indiana Department of Revenue

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| Income Tax Information Bulletin | #66 |
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Replaces Bulletin #66, dated September 2019



## Summary of Changes

Aside from nonsubstantive, technical changes, this bulletin has been updated to discuss statute of limitation provisions applying to refunds, to correct the contact information applicable to various matters discussed in this bulletin, and to remove outdated information.

## Introduction

An enterprise zone is an area within a city where there is a significant amount of unemployment and several business facilities that are not being used to their maximum. An enterprise zone created is in effect for 10 years with the potential for two 5-year renewals. For a list of current areas that have been designated as enterprise zones, refer to the Association of Indiana Enterprise Zones webpage at aiez.org.

There are four state tax incentives to encourage businesses to locate in an enterprise zone. The state income tax incentives that are available include:

- An employee tax deduction;
- An employment expense credit;
- A loan interest credit; and
- An investment cost credit.

There is also a local property tax incentive, which is not discussed in this bulletin.

# Employee Income Tax Deduction (IC 6-3-2-8)

An income tax deduction is available for qualified employees of an enterprise zone business. The qualified employee is an individual who is employed by a taxpayer or a pass-through entity and whose principal place of residence is in the enterprise zone where the employee is employed. Qualified employees include employees of a financial institution, an insurance company, and an international banking facility. Also included are employees of a nonprofit entity, the state, a political subdivision, or the United States government. The employee must perform services for the employer, at least 90% of which are directly related to the conduct of the taxpayer's business that is located in the enterprise zone. The employee must perform at least 50% of his service for the taxpayer during the taxable year in the enterprise zone.

The qualified employee is entitled to a deduction from their adjusted gross income equal to the lesser of:

1. 50% of their adjusted gross income for the taxable year that the employee earns as a qualified employee; or
2. $7,500.

# Employment Expense Credit (IC 6-3-3-10)

An income tax credit is available for employers that hire qualified employees. A qualified employee is one who lives in the enterprise zone; works 50% of the employee's time in the enterprise zone; and performs services for the taxpayer, 90% of which are directly related to the conduct of the taxpayer's trade or business that is located in the enterprise zone.

The credit is 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.

The tax credit can be carried forward for 10 years or carried back for 3 years. Pass-through entities' partners or shareholders are eligible for the credit in the same proportion as the distributive income to which the shareholder or partner is entitled.

**NOTE:** Be aware that under IC 6-8.1-9-1, if a person has paid more tax than the person determines is legally due for a particular taxable period, the person must file a claim for refund with the department within three years after the later of either the due date of the return or the date of payment. If a taxpayer determines after filing their income tax returns that they qualify for unclaimed credits that could be or could have been carried back to prior tax years, the amended returns still must be filed within the three-year statute of limitations under IC 6-8.1-9-1 in order to claim any refund of overpaid taxes.

# Loan Interest Credit (IC 6-3.1-7)

A qualified loan is a loan to an entity that uses the loan proceeds for:

(1) A purpose that is directly related to a business located in an enterprise zone;
(2) An improvement that increases the assessed value of real property located in an enterprise zone; or
(3) Rehabilitation, repair, or improvement of a residence.

A taxpayer is entitled to a credit against the adjusted gross income tax, the financial institution tax, or the insurance premium tax for a taxable year if taxpayer receives interest on a qualified loan in that taxable year. The amount of the credit to which the taxpayer is entitled is 5% multiplied by the amount of interest received by the taxpayer during the taxable year from the qualified loans. The credit can be carried forward for 10 years.

The department is required to report annually to the Indiana Economic Development Corporation (IEDC) the number of tax credits claimed for returns processed during the preceding fiscal year, the total dollar amount of claims, and for each enterprise zone the number and dollar amount of claims attributable to loans made to businesses located in the enterprise zone.

Notwithstanding any other law, a taxpayer is not entitled to receive an Enterprise Zone Loan Credit for interest received on a qualified loan made after December 31, 2017. However, a taxpayer may continue to claim a credit for interest on a qualified loan made before January 1, 2018. In addition, a taxpayer may carry an unused tax credit attributable to a qualified loan made before January 1, 2018, forward to a taxable year beginning after December 31, 2017, and before January 1, 2028.

# Enterprise Zone Investment Cost Credit (IC 6-3.1-10)

A taxpayer is entitled to receive a credit for a qualified investment made after December 31, 2017, and before January 1, 2028, only if the qualified investment is approved by the IEDC before January 1, 2018. A taxpayer may carry an unused tax credit attributable to a qualified investment made before January 1, 2018, or approved by the IEDC before January 1, 2018, forward to a taxable year beginning after December 31, 2017, and before January 1, 2028, in the manner provided by IC 6-3.1-10-7.

The amount of the credit to which a taxpayer is entitled for a qualified investment made or approved by the IEDC before January 1, 2018, is the percentage determined by the IEDC multiplied by the price of the qualified investment made by the taxpayer in the taxable year.

If the IEDC finds that a purchase is a qualified investment, the department shall certify the percentage credit based upon the following:

(1) A percentage credit of 10% may be allowed based upon the need of the business for equity financing, as demonstrated by the inability of the business to obtain debt financing.
(2) A percentage credit of 2% may be allowed for business operations in the retail, professional, or warehouse/distribution codes of the NAICS Manual.
(3) A percentage credit of 5% may be allowed for business operations in the manufacturing codes of the NAICS Manual.
(4) A percentage credit of 5% may be allowed for high technology business operations.

(5) A percentage credit may be allowed for jobs created during the 12-month period following the purchase of an ownership interest in the zone business, as determined in the following table:

| Jobs Created | Percentage |
|---|---|
| Less than 11 jobs | 1% |
| 11 to 25 jobs | 2% |
| 26 to 40 jobs | 3% |
| 41 to 75 jobs | 4% |
| More than 75 jobs | 5% |

(6) A percentage credit of 5% may be allowed if 50% or more of the jobs created in the 12-month period following the purchase of an ownership interest in the zone business will be reserved for zone residents.

(7) A percentage credit may be allowed for investments made in real or depreciable personal property, as determined in the following table:

| Amount Of Investment | Percentage |
|---|---|
| Less than $25,001 | 1% |
| $25,001 to $50,000 | 2% |
| $50,001 to $100,000 | 3% |
| $100,001 to $200,000 | 4% |
| More than $200,000 | 5% |

The total percentage credit may not exceed 30%. The credit can be carried forward from one taxable year to the next; however, there is no carryback or refund of any unused credit.

If you have any income tax questions concerning any of the matters discussed in this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov. Questions regarding whether a business is within an enterprise zone or about a particular enterprise zone should be directed to the local Urban Enterprise Association (UEA). Contact information for the UEAs can be found at aiez.org. Questions regarding any other matters pertaining to enterprise zones should be directed to the IEDC at (800) 463-8081 or iedc@iedc.in.gov.

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*Commissioner*
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