



State of Indiana
Tax Expenditure Study
Fiscal Years 2018-2021



Indiana State Budget Agency
Tax and Revenue Division
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INTRODUCTION

Income tax deductions and exemptions exclude specified amounts of income from taxation. Exemptions are generally broad-based, such as an exemption from taxation of the first \$1,000 of every taxpayer's income. Deductions are more narrowly applied to various financial classifications. Finally, credits provide direct reductions in tax liabilities and are available for economic and other purposes.

Deductions, exemptions, and credits reduce tax receipts from what they otherwise would be, thereby reducing funding available for other government programs and services or foregoing an opportunity for a more broad-based tax decrease. Within that context, providing a deduction, exemption, or credit is analogous to direct spending by a governmental entity and for that reason is often described as a tax expenditure.

Unlike direct expenditures, tax expenditures are generally not subject to budgeting and appropriation processes. Nor are tax expenditures generally subject to regular reviews for efficiency and efficacy. Working under a confidentiality agreement with the Indiana Department of Revenue, the Indiana State Budget Agency has access to tax return data. This data however, contains no information regarding the identity of individual taxpayers. The agency is only concerned with the financial data listed under each tax expenditure category itemized on the returns. The agency utilizes the tax return data to estimate reductions in state income tax liabilities resulting from the deductions, exemptions, and credits available in tax years 2018, 2019, 2020, and 2021. Estimates take into account the fiscal impacts of the legislative session changes which occurred in FY 2017 and FY 2018. The estimates for each of the expenditures are calculated independent of one another. The cross impacts of the provisions are not considered in the calculations. For this reason the tax expenditure estimates are not additive and must be evaluated as stand-alone values.

PREFACE

IC 4-12-1-9 directs the State Budget Agency to assist the budget committee in the preparation of the budget report and budget bill, using the recommendations and estimates prepared by the Budget Agency and the information obtained through investigation and presented at hearings.

Specifically IC 4-12-1-9 Sec.9 (c) (6) requires that the budget report contain a list of tax expenditures for individual income tax and corporate income tax under IC 6-3.1 for the previous fiscal year, the current fiscal year, and the ensuing budget period.

Herein is the list of expenditures as required by Sec.9 (c) (6). The Budget Agency's expenditure calculations, in many cases, ran parallel to similar calculations performed by the Legislative Services Agency as required under IC 2-5-3.2-2. In cases where the Budget Agency's calculations were very close to that of the Legislative Services Agency's calculations, this report adopted the calculations performed by the Legislative Services Agency. The following list of expenditures designates which agency's estimates were used.

We thank the Department of Revenue for providing data used in the preparation of this report.

Tax Expenditure Review

Individual Income Tax Deductions			Forecast (\$millions)			
	Year Enacted	Citation	FY 2018	FY 2019	FY 2020	FY 2021
Civil service annuity income	1977	IC 6-3-2-3.7	4.945	6.072	7.199	8.326
Disability retirement income	1985	IC 6-3-2-9	0.263	0.265	0.267	0.268
Foreign source dividends	1987	IC 6-3-1-3.5; IC 6-3-2-12	115.900	298.500	302.600	208.500
Homeowner's property taxes	1979	IC 6-3-1-3.5	57.737	57.995	58.219	58.416
Human services recipients	1989	IC 6-3-1-3.5	0.784	0.782	0.780	0.778
Income earned by enterprise zone employees	1983	IC 6-3-2-8	0.813	0.814	0.814	0.814
Indiana lottery winnings annuity deduction	2003	IC 6-3-2-14.1	0.450	0.375	0.413	0.394
Indiana partnership long-term care insurance premiums	1999	IC 6-3-1-3.5)	1.694	1.760	1.825	1.890
Military service income	1977	IC 6-3-2-4	6.914	6.859	6.812	6.770
National Guard/reserve active pay	2007	IC 6-3-1-3.5; IC 6-3-1-34	1.707	1.726	1.745	1.764
Net operating loss	1987	IC 6-3-2-2.5; IC 6-3-2-2.6	19.247	18.733	18.287	17.893
Nonresident military spouse deduction	1997	IC 6-3-1-11	0.207	0.213	0.218	0.222
Olympic/Paralympic medal winners	2014	IC 6-3-2-24	0.000	0.000	0.000	0.000
Patent-derived income	2007	IC 6-3-2-21.7	0.096	0.103	0.109	0.114
Private school/homeschool expenses	2011	IC 6-3-2-22	3.332	3.347	3.361	3.372
Railroad retirement income	1978	IC 6-3-1-3.5	4.352	4.409	4.466	4.523
Railroad unemployment and sickness benefits	1971	IC 6-3-1-3.5	0.067	0.066	0.066	0.066
Regional development authority infrastructure fund contribution	2017	-	N/A	N/A	N/A	N/A
Rent on principal residence	1979	IC 6-3-2-6	65.464	65.354	65.260	65.176
Social Security benefits	1978	IC 6-3-1-3.5	192.599	196.682	200.289	203.526
Unemployment compensation	1987	IC 6-3-2-10	0.722	0.560	0.449	0.370

Tax Expenditure Review

Individual Income Tax Exemptions			Forecast (\$millions)			
	Year Enacted	Citation	FY 2018	FY 2019	FY 2020	FY 2021
Dependent child exemption	1963	IC 6-3-1-3.5	82.057	81.705	81.401	81.132
Dependent exemption	1963	IC 6-3-1-3.5	65.478	65.077	64.729	64.422
Elderly or blind exemption	1963	IC 6-3-1-3.5	27.248	27.405	27.542	27.662
Low income and elderly exemption	1999	IC 6-3-1-3.5	7.275	7.247	7.223	7.201
Personal exemption	1963	IC 6-3-1-3.5	139.272	138.651	138.115	137.644

Tax Expenditure Review

Individual Income Tax Credits			Forecast (\$millions)			
	Year Enacted	Citation	FY 2018	FY 2019	FY 2020	FY 2021
Adoption tax credit	2014	IC 6-3-3-13	0.600	0.600	0.600	0.600
Coal gasification technology investment credit	2006	IC 6-3.1-29	0.000	0.000	0.000	0.000
Community revitalization enhancement district credit	1999	IC 6-3.1-19	0.970	1.118	1.267	1.415
Earned income tax credit	1999	IC 6-3.1-21	104.057	104.398	104.692	104.953
Economic Development for a Growing Economy (EDGE) credit	1994	IC 6-3.1-13	6.457	6.745	7.005	7.243
Enterprise zone employment expense credit	1983	IC 6-3-3-10	0.743	0.749	0.754	0.759
Enterprise zone investment cost credit	1983	IC 6-3.1-10	0.019	0.016	0.014	0.012
Enterprise zone loan interest credit	1983	IC 6-3.1-7	0.019	0.016	0.014	0.012
Headquarters relocation credit	2005	IC 6-3.1-30	0.010	0.010	0.010	0.010
Hoosier Business Investment (HBI) credit	2004	IC 6-3.1-26	1.303	1.359	1.409	1.454
Hospital property tax credit	2015	IC 6-3-3-14.6	0.500	0.500	0.500	0.500
Indiana 529 College Savings Account contribution credit	2006	IC 6-3-3-12	69.502	94.421	110.221	115.343
Indiana colleges and universities contribution credit	1963	IC 6-3-3-5	7.909	7.848	7.794	7.748
Indiana Comprehensive Health Insurance Association assessment credit	1983	IC 27-8-10-2.4	0.500	0.500	0.500	0.500
Indiana Insurance Guaranty Association assessment credit	1971	IC 27-6-8-15	0.100	0.100	0.100	0.100
Individual development account credit	1997	IC 6-3.1-18	0.101	0.105	0.109	0.112
Industrial recovery (dinosaur) credit	1987	IC 6-3.1-11	0.094	0.092	0.091	0.090
Lake County homeowner's property tax credit	2001	IC 6-3.1-20	5.286	4.995	4.757	4.555
Neighborhood assistance credit	1984	IC 6-3.1-9	2.065	2.046	2.028	2.010
Research expense credit	1984	IC 6-3.1-4	23.918	25.784	27.650	29.515
Residential historic rehabilitation credit	2001	IC 6-3.1-22	0.274	0.276	0.277	0.279
School scholarship contribution credit	2009	IC 6-3.1-30.5	8.559	9.065	9.503	9.890
Teacher classroom supplies credit	2015	IC 6-3-3-14.5	3.800	3.800	3.800	3.800
Unified tax credit for elderly	1982	IC 6-3-3-9	10.423	10.197	9.971	9.746
Venture capital investment credit	2002	IC 6-3.1-24	5.954	6.089	6.207	6.311

Tax Expenditure Review

Corporate Tax Deductions			Forecast (\$millions)			
	Year Enacted	Citation	FY 2018	FY 2019	FY 2020	FY 2021
Net operating loss	1987	IC 6-3-2-2.5; IC 6-3-2-2.6	513.450	488.900	467.600	448.900
Patent-derived income	2007	IC 6-3-2-21.7	0.000	0.000	0.000	0.000

Tax Expenditure Review

Corporate Tax Credits			Forecast (\$millions)			
	Year Enacted	Citation	FY 2018	FY 2019	FY 2020	FY 2021
Community revitalization enhancement district credit	1999	IC 6-3.1-19	5.050	5.400	5.200	5.300
Economic Development for a Growing Economy (EDGE) credit	1994	IC 6-3.1-13	71.500	80.500	89.000	98.500
Enterprise zone employment expense credit	1983	IC 6-3-3-10	0.600	0.600	0.600	0.600
Enterprise zone loan interest credit	1983	IC 6-3.1-7	1.000	0.800	0.700	0.600
Hoosier Business Investment (HBI) credit	2004	IC 6-3.1-26	5.468	5.646	5.800	5.936
Indiana colleges and universities contribution credit	1963	IC 6-3-3-5	0.050	0.040	0.040	0.030
Industrial recovery (dinosaur) credit	1987	IC 6-3.1-11	2.200	22.452	52.637	62.800
Neighborhood assistance credit	1984	IC 6-3.1-9	0.000	0.000	0.000	0.000
Research expense credit	1984	IC 6-3.1-4	63.140	63.140	63.140	63.140
School scholarship contribution credit	2009	IC 6-3.1-30.5	0.100	0.100	0.100	0.100
Venture capital investment credit	2002	IC 6-3.1-24	0.080	0.100	0.100	0.100