



State of Indiana

Tax Expenditure Study

Fiscal Years 2016-2019



Indiana State Budget Agency

Tax and Revenue Division

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PREFACE

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

Specifically IC 4-12-1-9(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 Section 9(c)(6). The SBA's expenditure estimates, in many cases, ran parallel to estimates prepared by the Legislative Services Agency as required under IC 2-5-3.22. In cases where the SBA's estimates were very close to those of the Legislative Services Agency's, this report adopted the estimates performed by the Legislative Services Agency. SBA created estimates for all 2016 tax expenditures and tax expenditures denoted with an asterisk on the following pages as LSA did not provide estimates for 2016 and certain tax expenditures in their report.

We thank the Department of Revenue and Legislative Services Agency for providing data used in the preparation of this report.

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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. Tax credits provide direct reductions in tax liabilities and are available for economic and other purposes.

Unlike direct expenditures, tax expenditures are generally not subject to budgeting and appropriation processes. The SBA used the financial data listed under each tax expenditure category itemized on the Department of Revenue returns. To estimate reductions in state income tax liabilities resulting from deductions, exemptions, and credits for tax years 2016, 2017, 2018, and 2019, the SBA utilized the Department of Revenue tax return data available from previous year actual numbers. 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 standalone values.

Summary of Individual Income Tax Exemptions and Deductions

Exemptions	Year Enacted	Citation	Fiscal Year Impact (\$ millions)			
			2016	2017	2018	2019
Federal Exemption*	1963	IC 6-3-1-3.5	209.446	208.146	202.459	201.186
Dependent Child Exemption*	1997	IC 6-3-1-3.5	82.109	81.164	78.517	77.592
Elderly/Blind Exemption*	1963	IC 6-3-1-3.5	26.34	26.561	26.184	26.348
Additional Elderly Exemption*	1999	IC 6-3-1-3.5	7.115	7.031	6.800	6.718

Deductions	Year Enacted	Citation	Fiscal Year Impact (\$ millions)			
			2016*	2017	2018	2019
Social Security Retirement Benefits	1978	IC 6-3-1-3.5	190.158	202.174	214.101	231.645
Rent on Principal Residence	1979	IC 6-3-2-6	68.109	68.851	68.598	69.826
Homeowner Property Taxes	1979	IC 6-3-1-3.5	55.482	55.698	54.839	55.164
Net Operating Losses	1987	IC 6-3-2-2.5; IC 6-3-2-2.6	24.347	25.225	24.641	24.624
Property Taxes Paid on Homesteads*	2013	6-1.1-12-37	8.868	8.873	8.877	8.881
State Tax Refund*	1978	IC 6-3-1-3.5	8.585	8.546	8.327	8.290
Military Service Income	1977	IC 6-3-2-4	7.167	7.206	7.053	7.053
Railroad Retirement Benefits	1978	IC 6-3-1-3.5	4.246	4.313	4.326	4.433
Private School/Homeschool Expenses	2011	IC 6-3-2-22	3.437	3.532	3.596	3.741
Interest on U.S. Government Obligations*	1971	IC 6-3-1-3.5	2.835	2.594	2.334	2.154
Unemployment Compensation	1987	IC 6-3-2-10	2.153	1.580	1.397	1.262
Partnership Long-Term Care Insurance Premiums	1999	IC 6-3-1-3.5	1.578	1.646	1.712	1.819
National Guard and Reserve Component Members	2007	IC 6-3-1-34	1.421	1.296	1.217	1.168
Human Services Recipients	1989	IC 6-3-1-3.5	0.989	1.078	1.172	1.302
Enterprise Zone Employee	1983	IC 6-3-2-8	0.818	0.826	0.810	0.811
Civil Service Annuity Income	1977	IC 6-3-2-3.7	0.264	0.258	0.252	0.251
Disability Retirement Income	1985	IC 6-3-2-9	0.250	0.246	0.237	0.233
Recovery of Deductions*	1977	IC 6-3-1-3.5	0.216	0.233	0.244	0.260
Non-Resident Military Spouse Earned Income	1997	IC 6-3-1-11	0.203	0.213	0.235	0.266
Railroad Unemployment and Sickness Benefits	1971	IC 6-3-1-3.5 (a) (1)	0.058	0.049	0.045	0.042
Patent-Derived Income	2007	IC 6-3-2-21.7	0.037	0.040	0.040	0.039

* State Budget Agency Analysis

Summary of Individual Income Tax Credits

Credits	Year Enacted	Citation	Fiscal Year Impact (\$ millions)			
			2016	2017	2018	2019
Income Taxes Paid to Other States [*]	1963	IC 6-3-3-3	191.610	197.098	202.586	208.075
Local Taxes Paid Outside of Indiana [*]	2015	IC 6-3.6-8-6	23.645	23.968	24.251	24.504
Local Community Revitalization Enhancement District [*]	1998	6-3.1-19-3	0.237	0.300	0.380	0.482
Employer Health Benefit Plan [*]	2007	IC 6-3.1-31	0.128	0.240	0.390	0.578
County Credit for the Elderly or Permanently Disabled [*]	2015	IC 6-3.6-8-8	0.032	0.033	0.033	0.034
Small Employer Qualified Wellness Program [*]	2007	IC 6-3.1-31.2	0.033	0.125	0.275	0.484
21st Century Scholar Program [*]	1990	IC 6-3-3-5.1	0.030	0.032	0.034	0.036
Alternative Fuel Vehicle Manufacturing Investment [*]	2007	IC 6-3.1-31.9	0.003	0.003	0.004	0.004
Coal Gasification Technology Investment Credit [*]	2005	IC 6-3.1-29	0.000	0.000	0.000	0.000

^{*} State Budget Agency Analysis

Summary of Individual Income Tax Credits (Cont..)

Credits	Year Enacted	Citation	Fiscal Year Impact (\$ millions)			
			2016*	2017	2018	2019
Earned Income Tax Credit	1999	IC 6-3.1-21	108.705	111.708	115.353	119.117
College Savings (529 Plan)	2006	IC 6-3-3-12	60.681	64.818	67.589	70.479
Research Expense	1984	IC 6-3.1-4	18.652	18.652	18.652	18.652
Unified Tax Credit for Elderly	1982	IC- 6-3-3-9	11.095	10.940	10.839	10.738
Lake County Residential Income Tax Credit	2001	IC-6-3.1-20	4.600	4.600	4.600	4.600
Indiana Colleges and Universities	1963	IC 6-3-3-5	8.333	8.249	8.230	8.211
School Scholarship Contributions	2009	IC 6-3.1-30.5	7.475	7.475	7.475	7.475
Teacher Classroom Supplies Credit	2015	IC 6-3-3-14.5	6.500	6.500	6.500	6.500
Economic Development for Growing Economy (EDGE/EDGE-R)	1994	IC 6-3.1-13	5.500	5.500	5.500	5.500
Venture Capital Investment	2002	IC 6-3.1-24	4.961	4.856	5.164	5.491
Neighborhood Assistance Program	1987	IC 6-3.1-11	2.168	2.168	2.168	2.168
Hoosier Business Investment	2004	IC 6-3.1-26	0.874	0.874	0.874	0.874
Enterprise Zone (Employment)	1983	IC 6-3-3-10	0.807	0.845	0.890	0.937
Community Revitalization Enhancement District (CRED)	1998	IC 6-3.1-19	0.308	0.368	0.168	0.182
Residential Historic Rehabilitation	2001	IC 6-3.1-22	0.237	0.237	0.237	0.237
Historic Rehabilitation	1994	IC 6-3.1-16	0.168	0.168	0.168	0.168
Industrial Recovery	1987	IC 6-3.1-11	0.602	1.435	0.863	0.923
Adoption Tax Credit	2014	IC 6-3-3-13	0.477	0.477	0.477	0.477
Individual Development Account	1997	IC 6-3.1-18	0.073	0.075	0.077	0.079
Enterprise Zone Investment Cost	1983	IC 6-3.1-10	0.038	0.031	0.025	0.021
Enterprise Zone Loan Interest	1983	IC 6-3.1-7	0.042	0.035	0.032	0.029
Natural Gas Powered Vehicle Tax Credit	2013	IC 6-3.1-34.6	0.083	0.322	0.000	0.000
Headquarters Relocation	2005	IC 6-3.1-30	0.000	0.000	0.000	0.000

* State Budget Agency Analysis

Summary of Corporate Tax Deductions and Credits

Deductions	Year Enacted	Citation	Fiscal Year Impact (\$ millions)			
			2016*	2017	2018	2019
Net Operating Loss Deduction	1987	IC 6-3-2-2.5; IC 6-3-2-2.6	641.718	598.782	566.765	544.563
% of Domestic Corporation's Foreign Source Dividends	1987	IC 6-3-1-3.5; IC 6-3-2-12	123.117	129.692	124.504	119.317
Patent-Derived Income	2007	IC 6-3-2-21.7	0.007	0.006	0.004	0.003

Credits	Year Enacted	Citation	Fiscal Year Impact (\$ millions)			
			2016*	2017	2018	2019
Research Expense	1984	IC 6-3.1-4	47.800	48.030	50.314	52.701
Economic Development for a Growing Economy (EDGE/EDGE-R)	1994	IC 6-3.1-13	55.198	62.750	71.450	80.450
Hoosier Business Investment	2004	IC 6-3.1-26	8.786	12.113	12.113	6.998
Community Revitalization Enhancement District (CRED)	1999	IC 6-3.1-19	2.108	4.885	2.235	2.421
Enterprise Zone Loan Interest	1983	IC 6-3.1-7	1.509	1.241	1.230	1.220
Property Taxes paid by Certain Hospitals	2015	IC 6-3-3-14.6	0.460	0.460	0.460	0.460
Enterprise Zone Employment Expense	1983	IC 6-3-3-10	0.441	0.441	0.441	0.441
Venture Capital Investment	2002	IC 6-3.1-24	0.566	0.539	0.574	0.610
Indiana Comprehensive Health Insurance Association (ICHIA)	1983	IC 27-8-10-2.4	0.100	0.100	0.100	0.100
Indiana Colleges and Universities	1963	IC 6-3-3-5	0.060	0.055	0.053	0.050
School Scholarship Contributions	2009	IC 6-3.1-30.5	0.125	0.125	0.125	0.125
Individual Development Account	1997	IC 6-3.1-18	0.000	0.000	0.000	0.000
Neighborhood Assistance	1987	IC 6-3.1-11	0.009	0.009	0.009	0.009
Alternative Fuel Vehicle Manufacturer Investment	2007	IC 6-3.1-31.9	0.006	0.006	0.006	0.006
Coal Gasification Technology Investment	2006	IC 6-3.1-29	15.000	15.000	15.000	15.000
Historic Rehabilitation	1994	IC 6-3.1-16	0.000	0.000	0.000	0.000
Industrial Recovery	1987	IC 6-3.1-11	1.752	3.879	2.335	2.498
Headquarters Relocation	2005	IC 6-3.1-30	0.550	0.550	0.550	0.550

* State Budget Agency Analysis