

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7115
BILL NUMBER: SB 1

NOTE PREPARED: Jan 10, 2014
BILL AMENDED:

SUBJECT: State and local taxation.

FIRST AUTHOR: Sen. Hershman
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: *Personal Property Tax:* This bill provides that if the assessed value of a taxpayer's business personal property in a county that would otherwise be subject to taxation is less than \$25,000 for a particular assessment date: (1) the taxpayer is not required to file a personal property return for the taxpayer's business personal property in the county for that assessment date; and (2) the taxpayer's business personal property in the county is exempt from taxation for that assessment date. It requires the taxpayer to file an informational return with the county assessor.

The bill provides that the tax rate for certain tax increment financing areas shall be calculated as if this exemption were not in effect.

Corporate Income Tax: This bill phases down the corporate income tax rate from 6.5% in 2015 to 4.9% in 2019.

Research and Development Expense Tax Credit: The bill reduces the research and development tax credit percentage by half for qualified research expense incurred after 2014.

Tax Credits Not Awarded Beginning After 2014: The bill provides that a taxpayer is not entitled to: (1) a College Contribution Tax Credit for contributions made in a taxable year beginning after 2014; (2) a Riverboat Building Tax Credit for qualified investments made in a taxable year beginning after 2014; (3) a Biodiesel Tax Credit for the production or distribution of biodiesel or blended biodiesel in a taxable year beginning after 2014; (4) an Ethanol Production Tax Credit for the production of ethanol in a taxable year beginning after 2014; and (5) a New Employer Tax Credit for wages paid in a taxable year beginning after 2014.

Tax Credits Repealed: This bill repeals the Voluntary Remediation Tax Credit statute. (Under current law, tax credits may not be awarded for taxable years after 2007, and the carryforward period has expired.) It also repeals the Energy Savings Tax Credit. (Under current law, the tax credit may not be awarded for costs incurred after December 31, 2011, and may not be carried forward.)

Business Taxation Commission: The bill establishes the Commission on Business Personal Property and Business Taxation to study certain issues during the 2014 legislative interim.

Study Topic: The bill also requires the Commission on State Tax and Financing Policy to study income tax deductions and exemptions during the 2014 and 2015 legislative interims.

Effective Date: Upon passage; July 1, 2014; January 1, 2015.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes made by the bill. The DOR's current level of resources should be sufficient to implement these changes.

Business Taxation Commission: This bill establishes the Commission on Business Personal Property and Business Taxation, an eleven-member commission consisting of six legislators, four lay members, and the governor or his designee. The commission is to operate under the policies governing study committees adopted by the Legislative Council. Legislative Council resolutions in the past have established budgets for interim study committees in the amount of \$9,500 per interim for committees with fewer than 16 members.

The commission would study the following:

- 1) Issues concerning the taxation of business personal property and business taxation in general;
- 2) Issues related to the share of the overall tax burden borne by businesses in Indiana;
- 3) The competitive advantages and disadvantages for businesses in Indiana that result from the structure of state and local taxation;
- 4) Any special elements of the taxation of business personal property; and
- 5) Other topics as assigned.

The commission would be staffed by the Legislative Services Agency and would submit its final report to the Legislative Council before November 1, 2014.

Study Topic: The bill requires the Commission on State Tax and Financing Policy (CSTFP) to study all income tax deductions and exemptions during the 2014 and 2015 interims. The study is to be conducted with half of the deductions and exemptions studied during each year. The bill requires the CSTFP to prepare a report that covers each deduction and exemption, and the bill specifies the scope of the analysis. If the committee were to hold additional meetings to address this topic, there would be additional expenditures for legislator per diem and travel reimbursement for the committee members. Any additional expenditures must be within the committee's budget, which is established by the Legislative Council.

Explanation of State Revenues: *Summary-* This bill phases in a reduction in the corporate adjusted gross income (AGI) tax rate from 6.5% to 4.9% over four years, modifies the Research and Development (R&D) Expense Tax Credit, and sunsets five state income tax credits. The table below shows the estimated impact of the tax rate reduction, tax credit modification, and tax credit elimination.

Provision	Change in Revenue (Million \$)				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Corporate AGI Tax Rate Reduction		(\$37.8)	(\$78.3)	(\$121.6)	(\$131.8)
R&D Expense Tax Credit Modification	\$15.1	\$15.1	\$15.1	\$15.1	\$15.1
Tax Credits Not Awarded Beginning After 2014	\$9.6	\$9.6	\$9.6	\$9.6	\$9.6
Total	\$24.7	(\$13.1)	(\$53.6)	(\$96.9)	(\$107.1)

In addition, the following changes will likely have no fiscal impact: (1) the repeal of the Voluntary Remediation Tax Credit; and (2) the repeal of the Energy Savings Tax Credit.

Additional Information -

Corporate AGI Tax Rate Reduction - The corporate AGI tax rate reduction would be phased in as specified in the table below.

Fiscal Year	Current Rate	Proposed Rate	Percentage Point Change from Current Rate	Percent Change from Current Rate
2017	6.5%	6.0%	-0.5%	-7.7%
2018	6.5%	5.5%	-1.0%	-15.4%
2019	6.5%	5.0%	-1.5%	-23.1%
2020 and thereafter	6.5%	4.9%	-1.6%	-24.6%

The revenue loss from the corporate AGI tax rate reduction is estimated to begin in FY 2017. The rate cut will result in a revenue loss to the state General Fund. The annual fiscal impact is outlined in the table below.

Fiscal Year	State General Fund Impact (in Millions)	Percent Reduction in Tax Revenues
2017	- \$ 37.8	-5.9%
2018	- \$ 78.3	-12.1%
2019	- \$ 121.6	-18.6%
2020	- \$131.8	-20.0%

The Revenue Technical Committee forecast (December 20, 2013) for the corporate AGI tax totals \$660.5 M in FY 2015. Corporate AGI tax revenue for FY 2016 to FY 2020 is estimated using the FY 2015 forecast level as the base year and applying the historical compound average annual growth rate of the tax. Results from empirical literature on taxable income elasticity along with the proposed decrement in the tax rate were used to calculate the impact of the rate reductions on taxable corporate income for each fiscal year.

Research and Development Expense Tax Credit: The bill reduces the R&D Expense Tax Credit percentage by half for qualified research expenses incurred after 2014. Depending on the computation method, the credit percentages are reduced from 15% to 7.5% and from 10% to 5% for qualified research expenses incurred

after December 31, 2014. Reducing the credit percentages will likely increase state General Fund revenue \$15.1 M annually beginning in FY 2016.

Tax Credits Not Awarded Beginning After 2014: The bill states that new credits will not be awarded, authorized, or granted beginning after December 31, 2014, for the following income tax credits.

Credit	Estimated Impact
Biodiesel Production Tax Credit	\$0
Ethanol Production Tax Credit	\$564,000
Indiana College and Universities Contribution Credit	\$8,743,000
Riverboat Building Tax Credit	\$256,000
New Employer Tax Credit	\$0
Total	\$9,563,000

The cessation of granting new credits will likely increase state General Fund revenue \$9.6 M annually beginning in FY 2016. The revenue estimate is based on the average credits claimed between 2006 and 2011 and current credit eligibility. It is assumed that some taxpayers will continue to carry forward unused credits. [The bill does not prevent taxpayers from carrying forward unused credits if it was authorized by the specific credit statute.]

Explanation of Local Expenditures:

Explanation of Local Revenues: Summary - Personal Property Tax - Beginning with property taxes payable in 2016, this bill would provide a property tax exemption for taxpayers who have less than \$25,000 of assessed value in the county. Gross personal property AV would decline by \$1.22 B for taxes payable in 2016. The net AV reduction is estimated at \$1.15 B.

The assessed value reduction would result in an estimated net personal property tax reduction of about \$24.1 M. Tax shifts to other property would amount to about \$10.7 M, and circuit breaker losses would rise by about \$11.1 M. Additionally, the loss of personal property AV would cause a \$4.2 M levy reduction in rate-controlled funds.

The following table contains the estimated net property tax changes by property type for 2016.

Estimated Net Property Tax Change - 2016 (Millions)	
Property Type	Change
Personal Property	(\$24.1)
Homesteads	4.1
Other Residential	1.0
Apartments	0.2
Agricultural Real	1.9
Other Real Property	3.5
Total Net Tax Change	(\$13.4)

The 2016 circuit breaker impact and gross levy losses in rate-controlled funds are summarized in the table below.

Estimated 2016 Impact by Unit Type		
Unit Type	Circuit Breaker Losses (Millions)	Rate-Controlled Gross Levy Loss (Thousands)
Counties	\$1.5	\$510
Townships	0.3	51
Cities and Towns	3.7	204
Schools	3.2	3,314
Libraries	0.5	6
Special Units	0.8	79
Non-TIF Total	\$10.0	\$4,165
TIF Districts	1.2	
Total Including TIF	\$11.2	
Notes:		
1. The gross levy loss for rate-controlled funds is stated before reductions for circuit breaker losses. The final revenue loss in these funds would be less than the gross levy loss.		
2. Columns may not total due to rounding.		

Under the bill, the allocation of TIF revenues would be based on a calculated tax rate that includes the personal property assessed value that is exempted under this bill. Without this recalculation, real property TIF revenues would have grown by an estimated \$830,000 in 2016. Personal property TIF revenues would have fallen by an estimated \$230,000 in 2016. However, under the bill, TIF revenues should remain mostly unchanged while local taxing units and school corporations receive extra revenue from real property TIFs and lose revenue to personal property TIFs.

Additional Information - Personal Property Tax - Multiple personal property tax returns filed by the same company in a county are not easily identified in the available data. The estimated AV loss for taxpayers that

have less than \$25,000 AV was based on individual personal property tax returns. Therefore, the AV loss might be overstated if it includes taxpayers who, in the aggregate, have more than \$25,000 in AV in the county.

For property taxes payable in 2013, there were 209,572 out of 292,533 personal property tax billing records that had more than zero but less than \$25,000 AV. The average AV of these records was \$5,775. The remaining 82,961 records had an average AV of \$426,000.

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

Local Agencies Affected: Local civil taxing units and school corporations;

Information Sources: LSA Income Tax Database; Indiana Economic Development Corporation, *Transparency Portal-Tax Credits Grants & Loan Contracts*, Retrieved on November 27, 2013 from <https://transparency.iedc.in.gov/Pages/ContractSearch.aspx>; LSA property tax database; State Revenue Forecast, December 20, 2013; Gruber, Jonthan, and Joshua Rauh. (2005) "How Elastic is the Corporate Income Tax Base. Bruce, Donald, John Deskins, and William Fox. (2005) On the Extent, Growth, and Efficiency Consequences of State Business Tax Planning." Donald Bruce, John Deskins, and William Fox. (2006). "On The Relative Distortions of State Sales, Corporate Income and Personal Income Taxes."

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Appendix - Tax Credit Explanations

Biodiesel Production Credit (IC 6-3.1-27-8; IC 6-3.1-27-9) - The credits are equal to \$1.00 per gallon of biodiesel and \$0.02 per gallon of blended biodiesel (petroleum diesel blended with at least 2% biodiesel), produced at an Indiana facility. The total per taxpayer may not exceed \$3 M, but may be increased by the IEDC Board to \$5M for biodiesel production. Total biodiesel production tax credits and ethanol production tax credits may not exceed \$50 M for all taxpayers and all taxable years. The credit is nonrefundable. The credit may be carried forward for up to six taxable years. Unused credits may not be carried back. The credit may be applied against the individual or corporate AGI tax, Financial Institutions Tax, Insurance Premiums Tax, or Sales Tax liabilities.

Energy Savings Credit (IC 6-3.1-31.5) - The credit is equal to 20% of annual expenditures by individuals or small businesses on certain "energy star" products up to \$100 per taxpayer. The annual statewide credit maximum equals \$1 M. The credit was available in 2009 and 2010 and could be taken against individual or corporate AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. The credit is nonrefundable, and unused credits may not be carried forward or carried back. This tax credit expired on December 31, 2010.

Ethanol Production Credit (IC 6-3.1-28) - The credit is for the production of grain or cellulosic ethanol. The credit is equal to \$0.125 per gallon of ethanol produced at qualified Indiana facilities. The total allowable credit per taxpayer: (1) may not exceed \$2 M if annual production of grain ethanol is between 40 M and 60 M gallons; (2) may not exceed \$3 M if annual production of grain ethanol is at least 60 M gallons; or (3) is not limited for production of cellulosic ethanol. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. The credit may be applied against Sales Tax,

individual or corporate AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities. Total biodiesel production and grain ethanol production tax credits may not exceed \$50 M for all taxpayers and all taxable years. Total cellulosic ethanol production credits may not exceed \$20 M for all taxpayers and all taxable years.

Indiana Colleges and Universities Contribution Credit (IC 6-3-3-5) - The credit is for contributions by individual and corporate AGI taxpayers to Indiana colleges and universities. The amount of an individual taxpayer's credit is 50% of the total amount contributed by the taxpayer during a taxable year up to a maximum credit of \$100 for a single return or \$200 for a joint return. The amount of a corporate taxpayer's credit is equal to 50% of the total amount contributed during a taxable year. However, the credit may not exceed the lesser of 10% of the corporation's AGI Tax liability or \$1,000. The credit is nonrefundable, and unused credits may not be carried forward or carried back.

New Employer Credit (IC 6-3.1-33) - The credit is for new Indiana employers that employ at least 10 qualified employees in each month of the taxable year beginning in tax year 2010. Credits are approved by the IEDC. The amount of the credit is equal to 10% of the wages paid by the new Indiana business to qualified employees during the calendar months of the period that are included in the taxable year. The credit is nonrefundable, but unused credits may be carried forward for up to nine years. Unused credits may not be carried back. The credit may be applied against AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities. The IEDC may not approve new credits after December 31, 2016.

Research & Development Expense Credit (IC 6-3.1-4) - The credit is available for taxpayers that have increased research activities conducted in Indiana. The credit is calculated based on the increased expenses a taxpayer incurred over their base-year expenditures. The base-year expenditures are measured for taxable years beginning after December 31, 1989, and are equal to the federal base amount as defined in the Internal Revenue Code (2001). The base-year expenses may not be less than 50% of the current tax year's qualified research expenses. The credit is nonrefundable, but unused credits may be carried forward for up to 10 years. Unused credits may not be carried back.

A taxpayer may elect an alternative method to calculate the Research Expense Tax Credit for Indiana qualified research expenses incurred after December 31, 2009. The alternative calculation of the credit is equal to 10% of the difference between: (1) the taxpayer's current-year Indiana qualified research expenses; and (2) 50% of the taxpayer's average Indiana qualified research expenses for the three preceding taxable years. If the taxpayer did not have Indiana qualified research expenses in any one of the three preceding taxable years, then the amount of the credit is equal to 5% of the taxpayer's Indiana qualified research expenses for the taxable year. The alternative calculation method is similar to an alternative calculation method allowed for the federal income tax credit for increasing research activities.

Riverboat Building Credit (IC 6-3.1-17) - The credit is for individuals or corporations that build or refurbish a riverboat licensed to conduct legal gambling in Indiana. This credit is equal to 15% of the qualified investment. The credit is subject to approval by the IEDC. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. Total tax credits allowed may not exceed \$1 M for all taxpayers in a state fiscal year. This tax credit may be applied to individual or corporate AGI Tax, Financial Institutions Tax, Insurance Premiums Tax, or Sales Tax liabilities.

Voluntary Remediation Credit (IC 6-3.1-23) - The credit is for qualified investments involving redevelopment of a brownfield and environmental remediation incurred before January 1, 2008. The Indiana Department of Environmental Management and the Indiana Development Finance Authority must determine

and certify that the costs incurred are qualified investments. The credit is equal to the lesser of either \$200,000 or the sum of 100% of the first \$100,000 and 50% of the amount that exceeds \$100,000. Total tax credits may not exceed \$2 M in a fiscal year, and may be applied to the listed taxes in IC 6-8.1-1-1. The credit is nonrefundable, but unused credits may be either carried forward to offset tax liability for the immediately following 5 years, or carried back to the immediately preceding taxable year. New credits may not be awarded after December 31, 2007.

**Estimated Impact of Exemption for Business Personal Property Tax
Returns with AV < \$25,000, 2016 Taxes**

County	Net Tax Change After Circuit Breakers			Circuit Breaker Change	Rate-Cntrl Fund Gross Levy Loss
	Personal Property	Real Property	Net Total All Property		
01 Adams	-168,520	102,650	-65,870	27,810	43,040
02 Allen	-1,657,780	405,320	-1,252,460	1,030,940	215,580
03 Bartholomew	-254,260	141,380	-112,880	64,950	44,600
04 Benton	-41,760	22,340	-19,420	15,080	7,290
05 Blackford	-57,490	29,870	-27,620	21,090	8,620
06 Boone	-233,830	124,480	-109,350	73,230	34,640
07 Brown	-35,820	25,270	-10,550	0	7,290
08 Carroll	-75,120	44,500	-30,620	17,880	14,380
09 Cass	-156,860	58,580	-98,280	73,060	28,140
10 Clark	-395,650	124,730	-270,920	315,860	64,000
11 Clay	-89,760	71,670	-18,090	340	18,250
12 Clinton	-133,070	66,190	-66,880	41,310	24,130
13 Crawford	-58,100	13,550	-44,550	36,320	9,130
14 Daviess	-182,220	104,960	-77,260	42,330	45,200
15 Dearborn	-162,030	99,360	-62,670	34,290	29,220
16 Decatur	-86,450	69,050	-17,400	16,380	25,540
17 DeKalb	-200,960	118,130	-82,830	49,560	41,470
18 Delaware	-376,910	82,910	-294,000	270,830	63,670
19 Dubois	-259,510	141,410	-118,100	53,060	66,640
20 Elkhart	-961,680	264,360	-697,320	601,740	185,430
21 Fayette	-134,390	50,030	-84,360	57,080	28,170
22 Floyd	-210,750	129,970	-80,780	57,850	36,390
23 Fountain	-56,070	38,860	-17,210	7,520	12,720
24 Franklin	-105,130	70,050	-35,080	6,370	26,840
25 Fulton	-87,070	68,020	-19,050	2,450	16,960
26 Gibson	-132,030	77,980	-54,050	49,070	36,560
27 Grant	-249,380	125,480	-123,900	130,680	46,730
28 Greene	-146,340	63,620	-82,720	55,910	28,330
29 Hamilton	-927,260	401,090	-526,170	418,960	129,550
30 Hancock	-189,470	89,480	-99,990	71,760	37,110
31 Harrison	-100,590	80,040	-20,550	240	21,670
32 Hendricks	-541,750	201,010	-340,740	297,640	92,660
33 Henry	-203,980	77,160	-126,820	97,320	34,720
34 Howard	-380,060	73,520	-306,540	250,850	58,740
35 Huntington	-172,800	76,180	-96,620	78,010	31,500
36 Jackson	-163,920	96,630	-67,290	26,510	42,650
37 Jasper	-68,480	44,970	-23,510	10	23,360
38 Jay	-157,770	75,420	-82,350	50,680	34,840
39 Jefferson	-112,530	66,250	-46,280	26,650	26,930
40 Jennings	-106,730	77,660	-29,070	11,990	27,080
41 Johnson	-429,730	193,120	-236,610	183,290	79,720
42 Knox	-158,020	50,730	-107,290	96,280	20,410
43 Kosciusko	-314,660	216,810	-97,850	48,400	73,670
44 LaGrange	-247,500	180,830	-66,670	15,980	65,510
45 Lake	-1,784,050	1,086,890	-697,160	672,740	201,230
46 LaPorte	-368,300	218,080	-150,220	163,150	33,230

**Estimated Impact of Exemption for Business Personal Property Tax
Returns with AV < \$25,000, 2016 Taxes**

County	Net Tax Change After Circuit Breakers			Circuit Breaker Change	Rate-Cntrl Fund Gross Levy Loss
	Personal Property	Real Property	Net Total All Property		
47 Lawrence	-220,110	89,550	-130,560	97,280	43,460
48 Madison	-509,040	108,040	-401,000	400,350	71,810
49 Marion	-2,814,010	675,870	-2,138,140	2,038,680	411,660
50 Marshall	-224,600	142,170	-82,430	43,250	44,550
51 Martin	-48,150	29,250	-18,900	7,180	11,710
52 Miami	-150,390	74,660	-75,730	48,910	31,500
53 Monroe	-372,900	268,040	-104,860	25,450	66,830
54 Montgomery	-168,710	89,150	-79,560	45,890	32,850
55 Morgan	-102,560	72,340	-30,220	0	36,690
56 Newton	-58,250	42,460	-15,790	6,370	10,770
57 Noble	-223,390	170,780	-52,610	26,310	47,290
58 Ohio	-18,360	12,600	-5,760	0	5,890
59 Orange	-78,920	66,550	-12,370	4,710	20,590
60 Owen	-75,270	46,840	-28,430	13,260	14,510
61 Parke	-53,380	37,560	-15,820	10	17,520
62 Perry	-94,210	41,350	-52,860	42,870	20,330
63 Pike	-37,580	18,420	-19,160	8,640	9,320
64 Porter	-495,900	262,970	-232,930	207,370	69,060
65 Posey	-87,350	35,410	-51,940	21,660	28,980
66 Pulaski	-44,340	31,300	-13,040	0	14,590
67 Putnam	-95,840	85,590	-10,250	14,550	32,950
68 Randolph	-122,120	55,910	-66,210	47,020	23,900
69 Ripley	-121,980	89,270	-32,710	10	32,580
70 Rush	-86,540	43,180	-43,360	29,680	16,490
71 St. Joseph	-1,087,510	455,320	-632,190	824,500	153,920
72 Scott	-82,590	51,680	-30,910	24,370	15,210
73 Shelby	-119,380	84,430	-34,950	27,080	22,510
74 Spencer	-52,270	48,790	-3,480	3,130	17,020
75 Starke	-82,470	58,520	-23,950	11,190	11,050
76 Steuben	-137,940	93,270	-44,670	12,500	27,600
77 Sullivan	-76,440	41,860	-34,580	18,350	16,770
78 Switzerland	-26,330	18,570	-7,760	140	8,630
79 Tippecanoe	-543,990	310,100	-233,890	177,730	106,820
80 Tipton	-80,820	42,990	-37,830	25,750	13,350
81 Union	-35,450	20,090	-15,360	7,050	8,510
82 Vanderburgh	-845,220	177,570	-667,650	629,620	110,440
83 Vermillion	-55,340	20,150	-35,190	22,710	13,160
84 Vigo	-339,140	77,980	-261,160	219,510	61,480
85 Wabash	-126,320	91,190	-35,130	12,670	30,430
86 Warren	-22,200	17,480	-4,720	40	6,310
87 Warrick	-134,580	95,180	-39,400	21,780	32,290
88 Washington	-109,120	71,270	-37,850	12,070	24,910
89 Wayne	-346,020	86,500	-259,520	226,320	49,460
90 Wells	-102,550	74,250	-28,300	660	20,530
91 White	-97,240	64,130	-33,110	17,840	19,900
92 Whitley	-145,170	99,130	-46,040	19,110	35,150
	-24,088,530	10,730,300	-13,358,230	11,107,020	4,164,820