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FISCAL IMPACT STATEMENT

LS 6350
BILL NUMBER: HB 1154

NOTE PREPARED: Dec 22, 2014
BILL AMENDED:

SUBJECT: Economic Development and Wind Turbines.

FIRST AUTHOR: Rep. Moseley
FIRST SPONSOR:

BILL STATUS: As Introduced

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

IMPACT: State

Summary of Legislation: The bill establishes the Hoosier Heritage Innovative Industry Loan Fund. It transfers \$1.0 M from the Indiana 21st Century Research and Technology Fund (21 Fund) to the Hoosier Heritage Innovative Industry Loan Fund.

The bill authorizes interest-free loans, reduced adjusted gross income (AGI) tax rates, and Enhanced Economic Development for a Growing Economy (EDGE) tax credits to encourage the manufacturing of wind turbine components in Indiana using steel produced in the United States.

Effective Date: July 1, 2015.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and software programs to implement the modifications within the bill. Their current level of resources should be sufficient to implement the changes.

Indiana Economic Development Corporation (IEDC): The IEDC will incur additional expenses to administer the programs established by the bill. The IEDC should be able to implement the changes with their current level of resources.

Hoosier Heritage Innovative Industry Loan Fund: The Hoosier Heritage Innovative Industry Loan Fund may provide interest-free loans for a term not to exceed 20 years. The maximum loan amount is \$1 M. A loan may be provided only to an entity that manufactures or fabricates wind turbines or wind turbine components using steel made in the United States. All wind turbine facility loans are subject to approval by the IEDC board. This bill transfers \$1 M from the 21 Fund to the new Hoosier Heritage Innovative Industry Loan Fund.

Money remaining in the fund at the end of the fiscal year will not revert to the General Fund.

The 21 Fund was created in 1999 to provide grants or loans to companies engaged in the commercialization of new technology and creating high-wage jobs in Indiana. The 21 Fund had a balance of $71.4 M as of December 4, 2014.

Explanation of State Revenues: *Summary* - The bill establishes two tax incentives for certain wind turbine manufacturing facilities. It provides reduced income tax rates for new qualifying facilities and an enhanced EDGE credit for certain qualified projects. Both programs will reduce revenue that would have been deposited in the state General Fund beginning in FY 2016. There are insufficient data to provide specific revenue loss estimates.

Additional Information - Reduced AGI Tax Rate: State AGI Tax collections would be reduced by the difference between the qualified wind turbine facility's tax liability computed at the current tax rate and their tax liability derived from the proposed reduced tax rate. The reduced rate may only be applied to the taxable year the facility begins operations and the following taxable year. Revenue collected from the Individual AGI Tax and Corporate AGI Tax is deposited in the state General Fund. The reduced rates may be used for taxable years beginning in 2016. The revenue loss could begin in FY 2016 if corporations with liability periods ending in the first half of CY 2016 file their returns. Otherwise, the full revenue impact will begin in FY 2017.

An individual taxpayer may be granted a reduced tax rate of 2.4% instead of the rate in effect beginning in 2016. Under current statute, the individual tax rate will be 3.3% in 2016 and 3.23% each taxable year thereafter. The exact revenue loss from the reduced rate is indeterminable since there are other factors that may affect a taxpayer's tax liability. However, all other things being equal, the 2.4% tax rate would reduce collections by about $0.90 for every $100 of taxpayer AGI in 2016 and $0.83 for every $100 of taxpayer AGI thereafter.

A corporate taxpayer may be granted a reduced tax rate of 5% instead of the rate in effect beginning in 2016. Under current statute, the corporate tax rate will incrementally decrease each year from 6.5% in FY 2016 to 4.9% in FY2022. The exact revenue loss of the reduced rate is indeterminable since there are other factors that may affect a taxpayer's tax liability. However, all things being equal, the 5% tax rate would reduce collections between $1.50 and $0.25 for every $100 of taxpayer AGI depending on which tax year the reduced rate is offered. The reduced tax rate provides no benefit to corporate taxpayers beginning in FY 2022.

Enhanced EDGE Tax Credits: Under current law, a taxpayer may be granted an EDGE credit for up to 100% of the incremental income tax withholdings attributable to the jobs created or retained by a project. The exact credit amount is determined by the IEDC. This bill allows the IEDC to award an additional enhanced EDGE credit equal to 1.6% of the incremental amount of taxable wages that are attributable to certain wind turbine manufacturing projects. The taxpayer must meet the following conditions to receive an enhanced EDGE credit:

1. The facility manufactures or fabricates wind turbines or wind turbine components using steel made in the United States.
2. The average wages paid to a new employee must exceed the average wage in the county the applicant proposes to establish the qualified wind turbine facility by at least 10%.

3. The applicant meets all the other requirements to be awarded a standard EDGE credit.

The revenue loss associated with the enhanced EDGE credit is indeterminable. The total forgone revenue beginning in FY 2016 depends on the amount of qualified wind turbine facilities and the amount of credits authorized by the IEDC. To establish a benchmark, if a credit derived from 100% of the incremental withholding equaled $1.0 M. The estimated enhanced EDGE credit would increase the base credit by $0.46 M.

The enhanced EDGE credit may only be awarded for two years. The credit is refundable, and it may be applied to tax liabilities for Individual AGI, Corporate AGI, Financial Institutions, and Insurance Premiums Taxes. Revenue collected from those taxes is deposited in the state General Fund. The revenue to the state General Fund would be reduced by the amount of the credits.

Explanation of Local Expenditures:

Explanation of Local Revenues:

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

Local Agencies Affected:

Information Sources: LSA Income Tax Database; State Auditor's Database.

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