LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6135 | **NOTE PREPARED:** Dec 3, 2014
BILL NUMBER: HB 1251 | **BILL AMENDED:**

SUBJECT: Tax Credit for Hiring New Employees.

FIRST AUTHOR: Rep. Moed | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: This bill provides a credit against state tax liability to a small business for hiring a sufficient number of new employees after December 31, 2014, and before January 1, 2018: (1) who are receiving unemployment benefits or have exhausted their unemployment benefits; or (2) who are former members of the armed services of the United States or the National Guard.

Effective Date: January 1, 2015 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise forms, update instructions, and modify the existing tax processing system to implement this bill. The DOR's current level of funding and resources should be sufficient to administer this tax credit.

Indiana Department of Workforce Development (DWD): The bill requires the DWD to provide the essential employer payroll information to the DOR to administer the credit. The DWD's current level of resources should be sufficient to comply with the provisions of the bill.

Explanation of State Revenues: *Summary* - The bill establishes the Hoosier Job Creation Tax Credit. The credit is designed to encourage small businesses to hire and retain qualified new employees in tax years 2015, 2016, and 2017. The fiscal impact of the credit will likely occur in FY 2016, FY 2017, and FY 2018, but it could begin in FY 2015 if taxpayers that hire qualified new employees in the first half of 2015 change their quarterly estimated payments. The credit could potentially reduce state General Fund revenue by an estimated $69.9 M to $84.4 M per year from FY 2016 to FY 2018. This estimate is based on a simulation using 2012, 2013, and 2014 firm-level employment and wage data. The potential revenue loss from small businesses that began operations sometime during the last three quarters of 2013 is indeterminable, but could be significant.

Additional Information- The credit equals $3,000 per qualified new employee employed during the tax year. The maximum credit per taxpayer is $100,000 a year. The credit is limited to taxpayers that:

- Began operations with full-time employees in Indiana before January 1, 2015.
- Employ no more than 150 employees on at least 50% of the business's working days in the preceding year.
- Have a majority of their employees working in Indiana.

A qualified new employee must meet the following criteria:

- Employed for at least 35 hours per week.
- Paid an income of at least 200% of the federal hourly minimum wage.
- Initially hired as a full-time employee for the first time after December 31, 2014.
- Is receiving or has exhausted state or federal unemployment benefits at the time of the initial hire or is a former member of the U.S. military who served on active duty and received an honorable discharge.

It is possible that a taxpayer could claim a credit in tax years 2015 through 2017 for an employee hired in 2015.

The credit can be used to offset tax liabilities from the Individual Adjusted Gross Income Tax, Corporate Adjusted Gross Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. Revenue collected from those taxes is deposited in the state General Fund. The credit is nonrefundable, but unused credits may be carried forward for up to three years. Unused credits may not be carried back. The bill also contains a clawback provision under which the taxpayer would forfeit 50% of the credit if the qualified new employee is not retained for at least 18 months after initial employment.

The revenue estimate is based on a simulation performed using an extract of the Quarterly Census of Employment and Wages reports filed for purposes of unemployment compensation taxes. The extract is comprised of firms that had employees in January 2014 and each firm's reported wages and number of employees from 2012, 2013, and the first quarter of 2014. The model evaluated each firm to determine whether it could qualify for the credit. Each firm's base number of employees was adjusted by the probability that a new employee was full-time and the new employee received unemployment benefits or was a veteran. Applying those statistics and adjusting for interactions, the total revenue loss for qualifying employees who would otherwise be hired due to normal employment growth is estimated to be approximately $68.4 M.

The lower and upper ranges of the revenue loss estimate are based on the estimated additional hiring of qualifying employees induced by the tax credit. The response rate was derived from research conducted on the percentage change in employment given a 1% change in wages. The tax credit reduces a firm's average labor cost. The response rates are assumed to range from a 1% to 5% increase in employment for a 10% reduction in wage cost.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR; DWD.

Local Agencies Affected:

Information Sources: LSA Unemployment Payroll Reporting Database; BLS, *Total Private Hires 2004-2014*, Job Openings and Labor Turnover Survey, Retrieved on October 21, 2014; Bureau of Labor Statistics (BLS), *Total Private Layoffs and Discharges 2004-2014*, Job Openings and Labor Turnover Survey, Retrieved on October 21, 2014; BLS, *A-12. Unemployed persons by duration of unemployment*, Current Population Survey, October 3, 2014; BLS, *Table 48. Employment status of persons 18 years and over by veteran status, age, and sex*, Current Population Survey, February 26, 2014; Sasser, Alicia, New England Public Policy Center: *The Potential Economic Impact of Increasing the Minimum Wage in Massachusetts*, January 2006.

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