LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7014 **DATE PREPARED:** Dec 30, 1999
BILL NUMBER: SB 337 **BILL AMENDED:**

SUBJECT: Tax credit for new machinery.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill authorizes the Economic Development for a Growing Economy Board to award an income tax credit for the purchase of new manufacturing machinery and equipment that fosters job retention in Indiana. It authorizes the Board to determine the amount of the credit, which may be expressed as a percentage of the purchase price of the new machinery and provides that the duration of the credit may not exceed ten years. It also authorizes the Board to increase the amount of the credit for machinery installed in a city having a population over 50,000, certain economically distressed counties, or a city, county, or town experiencing the closing or downsizing of a major employer. The bill further requires a taxpayer awarded a tax credit to agree to maintain operations at the project location for at least two times the number of years as the term of the tax credit.

Effective Date: January 1, 2001.

Explanation of State Expenditures: This bill establishes a new tax credit, the New Manufacturing and Equipment Tax Credit, and requires the Economic Development for a Growing Economy (EDGE) Board to administer it. This additional responsibility could create increased administrative demands on the Board and the Indiana Department of Commerce (IDOC) which provides administrative support to the EDGE Board. However, the Board and the Department should be able to meet these demands given their current budgets and resources. The bill also allows the IDOC to assess recipients of this credit fees to cover the administrative costs of this program.

Explanation of State Revenues: This proposal establishes the New Manufacturing and Equipment Tax Credit which is to be administered by the EDGE Board. A taxpayer purchasing new manufacturing machinery and equipment to retain jobs may apply to the EDGE board for the credit. The EDGE Board would consider the economic and fiscal impacts of awarding the credit and decide the amount and its duration. However, the bill limits the duration of the credit to ten tax years. The credit would be equal to a percentage of the new equipment’s purchase price or a fixed amount, but cannot exceed the taxpayer’s liability for the taxable year. This proposal also allows credits to be taken by partners or shareholders of pass-through entities.

The bill also allows the EDGE Board to increase the credit awarded to a taxpayer if the new machinery or equipment is installed in one of the following areas:

(a) A city of more than 50,000 people or a county meeting certain standards for economic distress;
(b) a labor surplus area (as designated by the US Department of Labor);
(c) or a "situational distress area". A county, city, or town in which a major employer is downsizing or closing may apply to the EDGE Board to be considered a situational distress area for 36 months. The unit must demonstrate the extent of the harm the downsizing or closing would have on the local economy.

The New Manufacturing and Equipment Tax Credit may be taken against a taxpayer's Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Financial Institutions Tax, and Insurance Premium Tax liability. Revenue from these taxes is distributed to the General Fund and a percentage of corporate Adjusted Gross Income Tax revenue is also distributed to the Property Tax Replacement Fund. This bill may reduce state revenue collections by an indeterminable amount beginning in FY 2002.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: EDGE Board, Indiana Department of Commerce.

Local Agencies Affected:

Information Sources: