

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

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6326

BILL NUMBER: HB 1741

DATE PREPARED: Nov 21, 2000

BILL AMENDED:

SUBJECT: Enterprise Zone Employee Wage Deductions.

FISCAL ANALYST: Brian Tabor

PHONE NUMBER: 233-9456

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that a person who resides in an Enterprise Zone (EZ) and who performs services as an employee of a nonprofit entity in the Zone is eligible for the EZ Qualified Employee Wage Deduction under certain circumstances.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms and instructions to incorporate these changes. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: Under the current statute, only those individuals who are EZ residents and are employed by taxpayers or certain tax-exempt entities can deduct up to \$7,500 from their taxable income. This bill would allow EZ residents employed by nonprofit entities to deduct a similar portion of their income from Zone employment. *Expanding the EZ Qualified Employee Wage Deduction to include Zone residents employed by nonprofit entities would reduce individual income tax revenue by a minimal amount.*

It is unknown how many additional individuals might be eligible, but it is unlikely that there would be many employees of nonprofit entities located in EZs who are also Zone residents. There are currently 23 EZs in Indiana (three are former military bases), and two new Zones may be established by the end of 2000. For each eligible taxpayer who is able to deduct the maximum of \$7,500, there would be a reduction of \$255 in income tax liability (\$7,500 multiplied by the Individual Adjusted Gross Income (AGI) Tax rate of 3.4 %).

Data: According to DOR data, in 1997 there were 2,174 taxpayers who deducted a total of \$13.9 M in personal income, resulting in a tax liability reduction of \$473,000. In 1996, there were only 1,888 taxpayers who deducted \$11.8 M, reducing their total tax liability by \$400,000.

This deduction is applicable for tax years beginning January 1, 2002, and will affect revenue collections beginning in FY 2002. Individual AGI Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties imposing local option income taxes will experience a minimal reduction in revenue from these taxes as a result of expanding this deduction.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties imposing local option income taxes.

Information Sources: DOR income tax data; Leslie Richardson, Director, Division of Research, Indiana Department of Commerce, (317) 232-8962.