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FISCAL IMPACT STATEMENT

LS 6676 **NOTE PREPARED:** Feb 20, 2006
BILL NUMBER: HB 1327 **BILL AMENDED:** Feb 14, 2006

SUBJECT: Update of References to the Internal Revenue Code.

FIRST AUTHOR: Rep. Espich **BILL STATUS:** 2nd Reading - 2nd House
FIRST SPONSOR: Sen. Kenley

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Internal Revenue Code (IRC) Reference Update:* The bill provides that for taxable years beginning after December 31, 2005, references in Indiana law to the Internal Revenue Code and related regulations refer to the law and regulations in effect on January 1, 2006.

Dependent Child Deduction: The bill specifies that the category of children for which an additional $1,500 state Income Tax deduction may be claimed is to be determined under an Internal Revenue Code definition as it was in effect on January 1, 2004.

Effective Date: January 1, 2005 (retroactive); January 1, 2006 (retroactive).

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

Explanation of State Revenues: (Revised) The bill updates the reference to the Internal Revenue Code (IRC) to incorporate all the federal changes made up to January 1, 2006. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2005. The update would include changes affecting tax years 2005 and after as a result of the following federal acts:

(1) The Energy Tax Incentives Act of 2005 (P.L. 109-58);
(2) The Katrina Emergency Tax Relief Act of 2005 (P.L. 109-73);
(3) The Gulf Opportunity Zone Act of 2005 (P.L. 109-135).

The Energy Tax Incentives Act includes provisions relating to: (1) depreciation and expensing of natural gas distribution property, electricity transmission and distribution property, and certain refinery investments; (2) amortization of certain air pollution control facilities installed by electric generating companies; and (3) deduction for construction of energy-efficient commercial buildings.

The Katrina Emergency Tax Relief Act and the Gulf Opportunity Zone Act include provisions: (1) increasing corporate charitable contribution limits; (2) excluding from gross income charitable mileage reimbursements for volunteers; and (3) expanding the deduction for corporate contributions of food inventory to noncorporate entities, and extending the deduction to donations of books to public schools. A summary of the estimated revenue impact of these federal acts is outlined in the table below.

Provisions (Revenue Impact in $M)	**FY 2006**	**FY 2007**	**FY 2008**
Energy Tax Incentives Act			
(1) Depreciation and expensing provisions.	(0.13)	(0.44)	(1.17)
(2) Amortization provisions.	(0.05)	(0.14)	(0.29)
(3) Deduction for energy-efficient commercial buildings.	(0.17)	(0.36)	(0.20)
(4) Other provisions.	(0.44)	(0.32)	(0.21)
Subtotal	**(0.79)**	**(1.26)**	**(1.87)**
Katrina Emergency Tax Relief Act/Gulf Opportunity Zone Act			
Charitable contribution provisions.	(0.49)	(0.15)	0.0
Total Impact on State Revenue	**(1.28)**	**(1.41)**	**(1.87)**

Revenue from the corporate AGI Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) The IRC update could potentially affect taxable income of individual taxpayers. However, the impact on counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) is likely to be minimal.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Tom Conley, Department of State Revenue, (317) 232-2107; Bob Lain, State Budget Agency, (317) 232-3471.U.S. Congress, Joint Committee on Taxation, http://www.house.gov/jct/tableofcnts.html.

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