

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

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**FISCAL IMPACT STATEMENT**

**LS 6418**

**BILL NUMBER: SB 348**

**NOTE PREPARED: Jan 6, 2006**

**BILL AMENDED:**

**SUBJECT:** Tax Credits for High Growth Small Businesses.

**FIRST AUTHOR:** Sen. Waltz

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

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

**IMPACT:** State

**Summary of Legislation:** The bill provides a state tax credit for a business that has been actively engaged in business in Indiana for at least two years, has annual revenue between \$1 million and \$10 million per year for at least two years, has revenue growth of at least 25% for at least two consecutive years, and employs or contracts with at least ten individuals. The bill provides that the credit equals 20% of the taxpayer's state tax liability in the taxable year.

**Effective Date:** January 1, 2007.

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

**Explanation of State Revenues:** *Summary:* The bill establishes a tax credit for certain businesses that have experienced at least 25% annual growth in revenue during the current taxable year and the preceding taxable year. The credit is equal to 20% of a qualified business's tax liability under the Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax. The amount of credits that businesses could potentially claim beginning in tax year 2007 is indeterminable. The net revenue impact depends on the extent that tax collections on new employees or additional taxable activities attributable to the businesses receiving credits deviates from the credit amounts they claim. However, if the employment and wage growth and business expansion would have occurred in the absence of the credit, the net impact would be the total credits claimed by these businesses. Any resultant fiscal impact due to the bill could commence in FY 2007.

*Background:* The tax credit is equal to 20% of the business's tax liability after application of other credits the business takes for the taxable year. To qualify for the tax credit a taxpayer must: (1) have been engaged in business in Indiana for at least 2 years; (2) have revenue between \$1 M and \$10 M during the taxable year and preceding taxable year; (3) have had at least 25% growth in revenue during the taxable year and the preceding taxable year; and (4) employ at least 10 people. Calculated credits for a business with just over \$1 M in annual revenue and a business with just under \$10 M in annual revenue are presented below. The examples assume the businesses show a 3% profit margin and pay the AGI Tax on their net income.

<b>Example 1</b>		
Sales	\$1,000,001	
Net Income	\$30,000	
Filer Status	Individual	Corporate
AGI Tax	\$1,020	\$2,550
Credit	\$204	\$510
<b>Example 2</b>		
Sales	\$9,999,999	
Net Income	\$300,000	
Filer Status	Individual	Corporate
AGI Tax	\$10,200	\$25,500
Credit	\$2,040	\$5,100

The tax credit may be claimed by individuals, corporations, and pass through entities. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity.

Since the bill is effective beginning in tax year 2007, the fiscal impact could potentially begin in FY 2007 if qualifying taxpayers adjust their quarterly estimated tax payments. Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums 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:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:**

**Fiscal Analyst:** Jim Landers, 317-232-9869.