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FISCAL IMPACT STATEMENT

LS 7303

BILL NUMBER: HB 1005

NOTE PREPARED: Apr 29, 2011

BILL AMENDED: Apr 29, 2011

SUBJECT: Industrial Recovery Tax Credit.

FIRST AUTHOR: Rep. Clere

FIRST SPONSOR: Sen. Charbonneau

BILL STATUS: Enrolled

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill makes certain changes to the Industrial Recovery Income Tax Credit (IRITC). It reduces, for purposes of qualifying for the credit: (1) the number of years, from 20 to 15, in which a vacant industrial facility must have been in service; and (2) from two years to one year the time that a facility must be vacant. The bill also reduces the minimum amount of floor space that a vacant industrial facility may have to qualify for the credit from 250,000 square feet to: (1) 50,000 square feet, for taxable years beginning after December 31, 2010, and beginning before January 1, 2015; or (2) 100,000 square feet, for taxable years beginning after December 31, 2014.

Effective Date: January 1, 2011 (retroactive).

Explanation of State Expenditures: *Indiana Economic Development Corporation (IEDC):* This bill could potentially expand the pool of entities that are able to qualify for the Industrial Recovery Income Tax Credit. If the changes to the bill increase IRITC applications, the IEDC could potentially incur additional administrative expenses.

Department of State Revenue (DOR): This bill makes several changes to the IRITC. The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes. The DOR's existing level of resources should be sufficient.

Explanation of State Revenues: *Summary* - The bill could potentially increase the pool of industrial facilities eligible for the IRITC beginning in tax year 2011. Depending upon designation of industrial recovery sites by the IEDC Board, the bill could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, and Financial Institutions Tax beginning in FY 2012. However, the

extent of this fiscal impact is indeterminable.

Background Information - This bill makes the following changes to the IRITC which will affect eligibility: (1) reduces the number of years, from 20 to 15, in which a vacant industrial facility must have been in service; (2) reduces the time that a facility must be vacant, from two years to one year; and (3) changes the amount of floor space a vacant industrial facility must have from 250,000 square feet to 50,000 square feet for tax years 2011 through 2014, and to 100,000 square feet for taxable years beginning in 2015.

According to the IEDC website, there are about 500 buildings that would meet this bill's 50,000 square feet requirement for tax years 2011 through 2014, and about 300 buildings that would meet the bill's 100,000 square feet requirement for tax year 2015 and after. There are about 100 buildings meeting the current 250,000 square feet requirement. The buildings must also meet the age and vacancy requirements outlined above, and tax credit applications would still be subject to approval by the IEDC. Thus, the number of buildings meeting this bill's requirements that do not currently qualify for the tax credit under current statute would likely be less than 400 for tax years 2011 through 2014, and be reduced to less than 200 for tax year 2015 and after.

Under current statute, the IRITC is based on a taxpayer's qualified investment in a vacant industrial facility located in a designated industrial recovery site. The IEDC must approve applications and plans for rehabilitation in order to receive this tax credit. The amount of the credit is equal to the qualified investment made during the taxable year, multiplied by one of the applicable percentages below:

- (1) 15% for a plant located on an industrial recovery site that was placed in service between 20 and 30 years ago;
- (2) 20% for a plant located on an industrial recovery site that was placed in service between 30 and 40 years ago; or
- (3) 25% for a plant located on an industrial recovery site that was placed in service at least 40 years ago.

For tax year 2008, 6 individual taxpayers claimed \$40,877 in tax credits, and corporate taxpayers did not claim any tax credits. The IRITC is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. The tax credit may be applied against individual or corporate AGI Tax, Financial Institutions Tax, and Insurance Premiums Tax liabilities.

Revenue from the AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR; IEDC.

Local Agencies Affected:

Information Sources: OFMA Income Tax Databases; State of Indiana Sites and Buildings Locator, www.in.gov/iedc.

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