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FISCAL IMPACT STATEMENT

LS 6564 **NOTE PREPARED:** Jan 7, 2012
BILL NUMBER: HB 1297 **BILL AMENDED:**

SUBJECT: Transportation and Logistics Income Tax Credit.

FIRST AUTHOR: Rep. Thompson **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: This bill provides an income tax credit for new expenditures made before January 1, 2019, by a taxpayer for one or more of the following purposes:
(1) Implementing homeland security measures to comply with federal homeland security requirements, as certified by the Department of Homeland Security.
(2) Making improvements to real property located in Indiana that are related to constructing a new or modernizing an existing transportation or logistical distribution facility.
(3) Improving the transportation of goods by highway, rail, water, or air.
(4) Making warehouse upgrades or improving logistical distribution.

The bill requires the Department of Homeland Security, in consultation with the Department of State Revenue, to adopt rules to implement a certification process for homeland security expenditures.

The bill provides that the amount of the credit for a taxable year is equal to: (1) 25%; multiplied by (2) the amount of the qualified expenditures made by the taxpayer during the taxable year minus the average annual qualified expenditures made by the taxpayer during the immediately preceding two years. It limits the credit that may be claimed for a taxable year to the taxpayer's state tax liability for that taxable year. It allows the taxpayer to carry over any unused credit for nine years. It also provides that the credit may not be refunded, carried back, or transferred to another taxpayer.

The bill limits the credit to $25,000,000 for each state fiscal year, subject to the State Budget Committee reviewing an increase in the limit as proposed by the Director of the Office of Management and Budget. It also requires the Department of State Revenue to annually report to the State Budget Committee concerning the use of the credit, including summary information and the name and address of each taxpayer claiming the credit and the credit amount claimed by each taxpayer.

Effective Date: January 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR)*: The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the new tax credit. The DOR would also incur administrative expenses to report annually on the use of the credit. The DOR's current level of resources should be sufficient to implement the new tax credit.

Indiana Department of Homeland Security (IDHS): This bill requires the IDHS to certify certain expenditures for implementing homeland security measures as being qualified for the new tax credit. This provision will likely increase expenditures for the IDHS. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon administrative actions.

Explanation of State Revenues: *Summary* - The bill establishes an income tax credit for certain homeland security and logistics investment made in Indiana by individual and corporate taxpayers beginning in tax year 2013. The annual revenue loss from this credit is indeterminable but could be significant based on historical underlying growth in logistics investment. The bill limits the amount of credits that may be approved to $25 M per fiscal year. The revenue loss could begin in FY 2013 if taxpayers approved for tax credits in the first half of 2013 adjust their quarterly estimated payments.

Estimates using national investment data suggest that from 1999 to 2010 aggregate fixed investment on structures in the warehouse and transportation sectors in Indiana grew as defined by the bill in 7 of the 12 years. The average annual growth totaled $53 M to $62 M during the 7 growth years. If these expenditures were all creditable under the bill, the total credits each of those 7 years would have ranged from about $13 M to $15 M per year. In addition, the 5 years of decline still could have generated growth as defined by the bill on an individual firm level, but this growth is not discernible in the aggregate data. Estimates relating to fixed investment on equipment and software in Indiana are not estimated as the national data is not sufficiently detailed to exclude expenditures on vehicles and other equipment that would not be creditable under the bill.

Background Information: The tax credit would be equal to 25% of new qualified expenditures made during the tax year on: (1) certain homeland security measures to comply with federal homeland security requirements; (2) improvements to real property in Indiana related to constructing a new, or modernizing an existing transportation or logistical distribution facility; (3) infrastructure, facilities, or equipment to improve the transportation of goods on Indiana highways; (4) infrastructure, facilities, or equipment to improve the transportation of goods by rail; (5) infrastructure, facilities, or equipment to improve the transportation of goods by water; (6) infrastructure, facilities, or equipment to improve the transportation of goods by air; and (7) facilities or equipment to improve warehousing and logistical capabilities. Under the bill, new qualified expenditures would be the increase in qualified expenditures in the tax year over the average annual qualified expenditures during the two immediately preceding tax years.

Tax credits would be approved during the year by the DOR. The bill limits the total tax credits that may be approved during a fiscal year to $25 M. The $25 M limit includes both new credits and carryover credits approved for a prior fiscal year. However the Director of OMB is authorized to increase the fiscal year credit limit by a specific amount if it is reviewed by the State Budget Committee.

The credit could be claimed against the individual adjusted gross income (AGI) tax, the corporate AGI tax, the financial institutions tax, and the insurance premiums tax. Revenue from these taxes distributed to the state General Fund. Unused credits not claimed in the year of approval could be carried forward for an additional 9 years. The bill prohibits carry back of unused credits and prohibits selling, assigning, or transferring credits.

The estimates of Indiana fixed investment on structures in the warehouse and transportation sectors were derived from National Income Product Accounts data from the U. S. Bureau of Economic Analysis. The national fixed investment totals were allocated to Indiana based on the ratio of Indiana GDP to U.S. GDP in the warehouse and transportation sectors and the ratio of Indiana Employment to U.S. Employment in the warehouse and transportation sectors.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR, IDHS.

Local Agencies Affected:

Information Sources: GDP, Employment, and Fixed Investment Data from Bureau of Economic Analysis, http://www.bea.gov/.

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