

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

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6066

BILL NUMBER: HB 1171

NOTE PREPARED: Nov 19, 2012

BILL AMENDED:

SUBJECT: Research and Development Property.

FIRST AUTHOR: Rep. Heuer

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
 DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill expands the Sales Tax exemption for research and development equipment to include any tangible personal property used for research and development.

Effective Date: July 1, 2013.

Explanation of State Expenditures: This bill will increase administrative costs of the Department of State Revenue (DOR), as the DOR will need to amend Sales Tax forms and instructions to expand the proposed exemption. The DOR's existing level of resources should be sufficient.

Explanation of State Revenues: *Summary:* The bill could decrease Sales Tax revenue by approximately \$4.7 M annually. The table below shows estimated Sales Tax revenue losses due to expanding the exemption to include any tangible personal property used for research and development. The figures shown below are based on underlying research and development equipment spending projected through 2015 based on historic spending totals. Spending that is currently exempt from the Sales Tax is not included in the totals.

FY	Estimated Spending on Research and Development Equipment	Estimated Sales Tax Revenue Loss
2014	\$66,871,602	\$4,681,012
2015	67,161,051	4,701,274

These estimates are derived from recent U.S. investment in equipment, apportioned for equipment used for research and development. A share of annual investments was allocated to Indiana based on Indiana’s GDP relative to total U.S. GDP.

Background: This bill expands the current Sales Tax exemption for certain tangible personal property purchased for research and development activities. Under current statute, the following items purchased for research and development activities are exempt from the Sales Tax: laboratory equipment, computers, computer software, telecommunications equipment, and testing equipment. Tangible personal property is defined as any “personal property that: (1) can be seen, weighed, measured, felt, or touched; or (2) is in any other manner perceptible to the senses. The term also includes electricity, water, gas, steam, and prewritten computer software.” (IC 6-2.5-1-27) The bill expands the exemption to cover any other tangible personal property that is acquired by the purchaser for the purpose of research and development activities devoted directly to experimental laboratory research and development.

Sales Tax revenue is deposited in the state General Fund (99.848%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues would decrease to the extent that a local unit receives funds from the Commuter Rail Service Fund or the Industrial Rail Service Fund.

State Agencies Affected: DOR.

Local Agencies Affected:

Information Sources: U.S. Bureau of Economic Analysis; National Science Foundation.

Fiscal Analyst: Lauren Sewell, 232-9586.