

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6152

BILL NUMBER: HB 1213

NOTE PREPARED: Nov 23, 2012

BILL AMENDED:

SUBJECT: Sales Tax Exemption for Data Warehouse Equipment.

FIRST AUTHOR: Rep. Messmer

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a state Sales Tax exemption for the sale or lease of certain enterprise information technology equipment. It requires that the investment in the equipment must be at least \$100 M. It also specifies that the investment must be in a high-technology district area established by a municipality or county fiscal body. The bill requires that the exemption must be preapproved by the Indiana Economic Development Corporation (IEDC). It requires the equipment purchase to be made after June 30, 2013, and before July 1, 2017.

Effective Date: July 1, 2013.

Explanation of State Expenditures: This bill could increase administrative costs of the Department of State Revenue (DOR). The DOR may need to make adjustments to Sales Tax forms to incorporate the exemption.

This bill would increase administrative costs of the IEDC. The IEDC will need to process and review applications for the exemption. The IEDC will also notify applicants and the Department of State Revenue (DOR) of its determinations regarding applications for the exemption.

Explanation of State Revenues: *Summary:* The total exemptions that may be claimed under the bill is indeterminable and depends on the number of qualified businesses that locate in high-technology district areas as well as the size and scope of their investments in enterprise information technology (IT). The exemption is effective for transactions occurring from FY 2014 to FY 2017. A \$100 M sale of enterprise IT equipment in a high-technology district area would result in a Sales Tax exemption of \$7 M.

The net revenue impact of exempting sales of certain enterprise IT equipment depends on the extent to which revenue from other taxes attributable to the investment in enterprise IT equipment is impacted. However, if the investment would have occurred in the absence of the exemption, the state incurs a revenue loss equal to the Sales Tax collections foregone due to the exemption.

Background: In CY 2011, U.S. investment in equipment and software in the information and data processing services sector was \$38.7 B, an increase of 5.4% from CY 2010. Based on Indiana's share of U.S. Gross Domestic Product (GDP) in that industry sector, it is estimated that \$175 M of that investment occurred in Indiana. The information and data processing services industry in Indiana has declined at an average rate of 1.4% since CY 2004.

Enterprise IT equipment includes “(1) hardware supporting computing, networking, or data storage functions, including servers and routers; (2) networking systems having an industry designation as equipment within the ‘enterprise’ or ‘data center’ class of networking systems that support the computing, networking, or data storage functions; and (3) generators and other equipment used to ensure an uninterrupted power supply to equipment described in subdivision (1) or (2).”

In FY 2011, total state Sales and Use Tax revenue was about \$6.3 B. Sales and Use 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 commuter transportation districts receive funds from the Commuter Rail Service Fund.

State Agencies Affected: DOR, IEDC.

Local Agencies Affected:

Information Sources: U.S. Bureau of Economic Analysis; *Indiana Handbook of Taxes, Revenues, and Appropriations*.

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