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FISCAL IMPACT STATEMENT

LS 7226

BILL NUMBER: HB 1335

NOTE PREPARED: Jan 13, 2013

BILL AMENDED:

SUBJECT: Hoosier Business Investment Tax Credit.

FIRST AUTHOR: Rep. Thompson

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill provides that an additional class of investments known as Hoosier Overdrive investments is eligible for the Hoosier Business Investment (HBI) Tax Credit. It provides that the credit percentage awarded by the Indiana Economic Development Corporation (IEDC) for Hoosier Overdrive investments may not exceed 25%. It limits the total amount of credits that the IEDC may award for Hoosier Overdrive investments each state fiscal year to \$20 M.

Effective Date: January 1, 2014.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The 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 this change.

Indiana Economic Development Corporation (IEDC): The IEDC will incur additional expenses to revise applications and review procedures. The IEDC's current level of resources should be sufficient to implement the modifications within the bill.

Indiana Department of Homeland Security (IDHS): The 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. The source of funds and resources necessary depend upon the specific administrative actions the IDHS will be called to perform.

Explanation of State Revenues: *Summary* - The bill establishes a distinct class of HBI investments known

as Overdrive investments. Overdrive investments are investments in logistics, transportation, and infrastructure improvements. These special investments have a separate tax credit computation, and the recipients will be excluded from some of the reporting requirements of the standard HBI credit. The estimated reduction to state General Fund revenue from this tax credit depends on the amount of credits approved by the IEDC. The IEDC may grant a maximum of \$20 M in HBI Overdrive tax credits per fiscal year. Given the historical levels of investments in fixed structures made by Indiana transportation and warehouse sector businesses, an estimated \$12.7 M in HBI Overdrive tax credits could be awarded beginning in FY 2014.

Additional Information - The bill defines Overdrive investments as expenditures for:

- The new construction or upgrading of an existing transportation or logistical distribution facility.
- Improving the transportation of goods on Indiana highways.
- Improving the transportation of goods by rail.
- Improving the transportation of goods by water.
- Improving the transportation of goods by air.
- Improving warehousing and logistical capabilities.
- Implementing a homeland security measure to comply with federal homeland security requirements.

The bill states that expenditures for maintenance expenses are excluded.

The HBI credit for Overdrive investments equals up to 25% of the new qualified investments made in the taxable year after December 31, 2013. The amount of new qualified investments are derived by taking the difference of the investments made in the current year and 105% of the average annual Overdrive expenditures from the prior two years. The IEDC determines the percentage value to apply when computing the credit. The standard HBI credit equals up to 10% of the qualifying investment directly related to expanding the workforce in Indiana.

The credit can be used to offset tax liabilities from the Individual Adjusted Gross Income Tax, Corporate Adjusted Gross Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. Revenue collected from those taxes are deposited in the General Fund. The credit is nonrefundable, but unused credits may be carried forward for up to 9 years. Unused credits may not be carried back.

HBI Overdrive credit recipients are excluded from certain requirements that regular HBI recipients must adhere. HBI Overdrive recipients are exempt from reporting to the IEDC Compliance Officer the number of new employees, average wage of the new employees, and the average wage of all employees at the location the investment was made. It waives the requirement that the HBI Overdrive recipient pay its employees wages at least 150% of the hourly minimum wage and maintain a total payroll level for the term the credit that is at least what it was before the investment was made.

The U.S. Bureau of Economic Analysis (BEA) provides national data on the amount of fixed private investments by industry type. This information can be used to establish the potential level of investments for which the credit could be claimed. The national data was apportioned to Indiana using the ratio of Indiana GDP to the U.S. GDP.

The annual average level of private fixed investment in structures by Indiana businesses in the transportation and warehousing sector is estimated at \$459 M per year between 2000 and 2011. Using the formula from the bill, the average growth during the three positive years was approximately \$50.8 M per year. While there were

9 years of decline in the aggregate data, individual firms could have increased levels of investments and qualified for an HBI Overdrive tax credit. The tax credit for investments in structures alone could potentially be \$12.7 M a year. Credits awarded for these investments would be counted towards the \$20 M per year limit.

Measure (in millions)	Calendar Year						
	2005	2006	2007	2008	2009	2010	2011
HBI Credits Offered	\$75.8	\$26.4	\$10.6	\$3.6	\$2.5	\$7.1	\$5.8
Total Indiana Private Nonresidential Fixed Investment in Structures*	6,900	8,150	10,130	11,020	8,390	7,150	7,730
Transportation and Warehouse: Indiana Private Nonresidential Fixed Investment in Structures*	454	534	585	585	407	343	354

*U.S. Bureau of Economic Analysis

The national data investment data for a equipment is not detailed enough to separate creditable expenditures from total equipment investments. In addition, the specific expenditures linked to the construction or improvement of multi-modal transportation facilities is unknown.

The actual cost of this tax credit is contingent the IEDC. They will be awarding the credit to taxpayers based the criteria established in statute. The IEDC offered more HBI credits for projects in 2005 and 2006 than in the following years. While HBI was created to provide incentives for capital investments, it does not follow the trend for private nonresidential fixed structural investments in Indiana. The differing trends could be attributed to the HBI award process. HBI credits are provided after a taxpayer submits an application to the IEDC. The IEDC evaluates the application to determine whether the taxpayer is eligible for the credit and offers an amount of HBI credit based on their evaluation of investments that expand the Hoosier workforce. The HBI Overdrive tax credit does not have the same evaluation criteria, so it is likely that more HBI Overdrive credits may be granted.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR; IEDC; IDHS.

Local Agencies Affected:

Information Sources: U.S. Bureau of Economic Statistics, *Table 5.4.5. Private Fixed Investment in Structures by Type, Table 5.5.5. Private Fixed Investment in Equipment and Software by Type, GDP by State: Indiana*, accessed on December 20, 2012, LSA Income Tax Database.

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