LEGISLATIVE SERVICES AGENCY

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FISCAL IMPACT STATEMENT

LS 6604 **NOTE PREPARED:** Jan 2, 2013
BILL NUMBER: SB 244 **BILL AMENDED:**

SUBJECT: Hoosier Business Investment Income Tax Credit.

FIRST AUTHOR: Sen. Wyss **BILL STATUS:** As Introduced
FIRST SPONSOR:

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

Summary of Legislation: This bill revises the Hoosier Business Investment Tax Credit (HBI). This bill provides a separate qualified investment criteria for an infrastructure addition or improvement. Investments for improvements to the logistics industry are not required to new create jobs or increase wages to qualify for the HBI credit. All other capital investments shall only receive a HBI credit to the extent they enhance the workforce of Indiana. The bill adds specificity to certain qualified investments for non-infrastructure and infrastructure investments related to distribution, transportation, or logistical distribution by air, rail, water, or highway. It specifies that the credit may be used to provide an incentive to invest in privately-held airports, rail, waterways, and roads if the investment will expand the overall capacity to transport freight.

The bill establishes two credit computation methods. For non-capital investments, the credit equals up to10 % of the investments made during the taxable year. The credit for capital investments equals up to 25% of the new qualifying investments made by the taxpayer. The amount of new qualified investments is derived by taking the difference of the investments made in the current year and 105% of the average annual expenditures from the prior two years. The bill states that only $20 M in HBI credits per fiscal year may be granted specifically for the construction of new infrastructure or an infrastructure addition or improvement.

The bill extends the sunset date for granting credit awards from December, 31, 2016, to December 31, 2020.

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 modifications to the HBI 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 upgrade evaluation procedures. The IEDC's current level of resources should be sufficient to implement the modifications within the bill.

Explanation of State Revenues: This bill makes changes to HBI tax credit. It specifies that the current credit award applies to noncapital investment, adds a new credit award tier for capital investments, and specifies new award criteria for logistics investment. The bill also extends the sunset date on the HBI tax credit by four years, from December 31, 2016, to December 31, 2020. The changes are effective for taxable years beginning January 1, 2014. The revenue loss from these changes will likely begin in FY 2015, but could begin in FY 2014 if taxpayers change their quarterly estimated payments in the first half of CY 2014. The estimated revenue loss to the state General Fund is reported in the table below. The analysis focused primarily on the manufacturing, transportation and warehousing industrial sectors, so the actual revenue loss could be greater to the extent that businesses from other industrial sectors are provided HBI credits. Conversely, the revenue loss may be lower depending on the number of qualifying investments that are counted towards the $20 M annual cap for new infrastructure or infrastructure improvements and additions.

	FY 2015-FY 2016	**FY 2017-FY 2020**
HBI Credits for Logistics Capital Investments at 25% credit rate under the bill	($12.7 M)	($12.7 M
HBI Credits for Non-logistic Capital Investments at 25% credit rate under the bill	($33.4 M)	($33.4 M)
Estimated base HBI Credits at 10% credit rate under current statute now eligible for 25% (above)	$8.4 M	$0.0
Estimated Net Revenue Loss	**($37.7 M)**	**($46.1 M)**

Additional Information - Under current statute, the HBI credit percentage is determined by the IEDC up to a maximum of 10% of the qualified investments made during the taxable year. Under the bill, the HBI credit percentage is different for noncapital and capital investments. The credit percentage for noncapital investments would be determined by the IEDC up to a maximum of 10% of the qualifying investments made during the taxable year . For capital investments, the credit percentage would also be determined by the IEDC up to a maximum of 25% of the qualified investments made during the taxable year. The amount of qualified investments that are capital investment used to determine the credit is derived by taking the difference of the investments made in the current year and 105% of the average annual qualifying investments made in the prior two years. The total amount of HBI credits granted specifically for the construction of new infrastructure or for infrastructure additions or improvements is limited to $20 M per fiscal year.

In addition, the bill provides that investments relating to logistics projects would be evaluated the IEDC differently than any other type of project when determining whether the HBI credit should be awarded. Under the bill, a logistics project does not have to directly result in job creation, job retention, or increased wages in order for the IEDC to enter into a tax credit agreement with the applicant proposing the project.

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 nine years. Unused credits may not be carried back.

The base cost estimate for future HBI credits is based on the historical amounts offered by the IEDC. It is the mean of HBI offers after dropping the extreme observations, years 2005 and 2009 and adjusted for only manufacturing, transportation and warehousing industrial sector investments . Ultimately, the cost of this bill will be determined by the application process established by the IEDC.

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 analysis focused primarily on the manufacturing, transportation and warehousing industrial sectors. Earlier research conducted by LSA found that 78.6% of the HBI credits were awarded to businesses in those sectors.

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
Manufacturing: Indiana Private Nonresidential Fixed Investment in Structures*	522	562	758	994	1,080	776	799

***U.S. Bureau of Economic Analysis**

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 nine years of decline in the aggregate data, individual firms could have increased levels of investments and qualified for an HBI tax credit for logistic improvements. The tax credit for investments in structures alone could potentially be $12.7 M a year. Any investments in infrastructure may be counted towards the $20 M per fiscal year credit limit.

The same method was applied to private fixed investments in structures from Indiana manufacturers because such investment could be classified as a capital investment. The BEA reports an average investment of $681 M a year by manufacturers between 2000 and 2011. After applying the requirements within the bill, the tax credit for new qualifying investments in manufacturing structures alone could potentially be $33.4 M a year. Any infrastructure investments made by this sector may also be counted towards the $20 M per fiscal year credit limit.

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 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. This bill establishes two sets of criteria to appraise the HBI applications. The credit awarded is based on the investment amount directly related to the creation of new jobs and increased wages except in the case of logistic investments. Logistic investments do not have to create jobs or increase wages. The IEDC will also determine which investments are categorized as infrastructure investments. The IEDC can only issue a total of $20 M in HBI credits per fiscal year towards qualifying infrastructure investments.

The national investment data for nonresidential equipment is not detailed enough to separate creditable expenditures from total equipment investments.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation;

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; LSA, *Indiana Income Tax Credit Study: Hoosier Business Investment Tax Credit,* September 2012.

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