Indiana
Income Tax Credit
Study

21st Century Scholars Program Tax Credit

IC 6-3-3-5.1

Legislative Services Agency
September 2013

Purpose.

The 21st Century Scholars Program Tax Credit (IC 6-3-3-5.1) was established to promote private contributions to the 21st Century Scholars Program Support Fund.

Tax Credit Use Profile.

Tax Year	Filers Claiming Credits^	Credits Claimed	Average Credit Amount	% of Max. Credit Claimed	Estimated Minimum Donations	% of All Returns Filed
2006	122	$13,123	$108	57%	$26,246	<0.01%
2007	136	14,048	103	57	28,096	<0.01%
2008	214	17,289	81	41	34,578	<0.01%
2009	180	16,767	93	43	33,534	<0.01%
2010	200	19,643	98	50	39,286	<0.01%
2011	208	23,269	112	64	46,538	<0.01%
2012*	188	20,755	110	60	41,510	<0.01%

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
^No credits were claimed on Indiana Corporate AGI returns.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equals 50% of the contributions made by a taxpayer during the taxable year.

The maximum credit varies depending on the type of taxpayer. Individual taxpayers may claim up to $100 if they are a single filer or $200 if they are a joint filer. For corporations, the maximum credit is the lesser of either $1,000 or 10% of the corporation's total Adjusted Gross Income (AGI) tax liability.

Program Background.

The 21st Century Scholars program is a need-based scholarship program that provides qualifying students with four years of undergraduate tuition at a participating Indiana institution of higher education (IHE). If the student chooses to attend a private Indiana IHE, they are provided a comparable award. In addition to tuition assistance, the program offers participants a variety of support services to insure their success.

In order to qualify for the scholarship, the student must meet an income requirement and must pledge to meet certain conditions. First, the student must qualify for the federal free-or-reduced lunch program in middle school. The student must graduate from high school with an Indiana high school diploma. The student also must complete the necessary financial aid applications on time in 12th grade and not use illegal drugs or alcohol or commit a crime or delinquent act.

21st Century Scholars Program Tax Credit

Enactment: *The credit was effective beginning in tax year 1990.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has no annual limit.*

Award Process: *The credit may be taken after contributions are provided to the 21st Century Scholars Program.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI) and Corporate AGI.*

Refund Provisions: *The credit is nonrefundable. Unused credits may not be carried forward or carried back.*

Claim Filing Requirements: *The taxpayer is required to provide the Department of State Revenue with proof of the contribution along with schedule TCSP-40 when filing their return.*

The program has a $109 M appropriation for FY 2014 and $120 M appropriation for FY 2015. According to the Indiana Commission for Higher Education (CHE), about 97,800 21st Century Scholars are currently enrolled in high school, and 71,950 21st Century Scholarship awards have been provided since 2008.

Analysis.

- The credit has a small number of claims relative to the total number of filers.
- The amount of donations compared to the amount of credit claimed indicates a misunderstanding of the credit's purpose.

The credit was created to encourage donations to the 21st Century Scholars Support Fund. While the appropriation is used to pay tuition expenses, the Support Fund is used to cover some of the unmet educational needs. For example, the Support Fund may provide money for books. As of June 19, 2013, the Support Fund had a balance of $93,732. It received donations of $8,300 in 2010, $3,200 in 2011, and $6,450 in 2012.[1]

The tax data contains more credit claims than donations received. This discrepancy could be attributed to a lack of understanding of the credit. A Department of State Revenue audit would be necessary to determine the validity of a taxpayer's credit claims.

Since the credit is designed to encourage donations, we can assume taxpayers will respond to the incentive in the same manner as other tax incentives for charitable donations. The impact of tax incentives on charitable giving has been widely studied with no clear consensus among researchers. A meta-analysis of 69 papers found price elasticities ranging from +0.12 to -7.07.[2] Based on those elasticities, a 10% decrease in the cost of making a donation would result in either a 1% decrease in donations or a 70% increase in donations. Because of the lack of consensus among the literature, our analysis used two levels of responsiveness. The low level of responsiveness assumed a price elasticity of -0.5, while the high level assumed an elasticity of -2.0. By applying those elasticities to the 2011 donation amount reported above, about $1,600 to $640 in donations could be attributed to the credit.

The low number of credit claims may be due to lack of awareness. The 21st Century Scholars website does not have a method to receive donations nor does it indicate that it accepts donations for the Support Fund. CHE indicated that they do solicit donations from program alumni. The program alumni would be likely candidates to make donations because of their awareness of the program and the benefits they received in the past. An estimated 56,700 students attended college with support of the 21st Century Scholarship Program.[3]

[1] Indiana State Auditor. Indiana State Auditor's Database. Retrieved on July 21, 2013.

[2] Peloza, John, and Pier Steel (2005). The Price Elasticities of Charitable Contributions: A Meta-Analysis. Journal of Public Policy & Marketing, 24 (2005), 260-272.

[3] Indiana Commission for Higher Education (2009). Indiana's 21st Century Scholars Program: Years of Impact. August 2009.

Indiana
Income Tax Credit
Study

Biodiesel Sales and Production Tax Credits

IC 6-3.1-27

Legislative Services Agency
September 2013

Purpose.

The Biodiesel Sales and Production Tax Credits (IC 6-3.1-27) were established to encourage the use and production of biodiesel and blended biodiesel in Indiana.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	0	N/R	N/R	$0	$16,089	$16,089
2007	N/R	0	N/R	82,964	0	82,964
2008	N/R	0	N/R	112,807	0	112,807
2009	8	N/R	8	85,582	341,692	427,274
2010	N/R	0	N/R	39,929	0	39,929
2011	N/R	N/R	N/R	259,573	137,078	396,651
2012*	0	0	0	0	0	0
Mean	**3**	**0**	**4**	**$82,979**	**$70,694**	**$153,673**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The Biodiesel Production Credit equals $1.00 per gallon of biodiesel and $0.02 per gallon of blended biodiesel (petroleum diesel blended with at least 2% biodiesel) produced at qualified Indiana facilities. The Biodiesel Sales Credit was equal to $0.01 per gallon of blended biodiesel distributed at retail by a taxpayer.

The total allowable Biodiesel Production Credit per taxpayer is limited to $3 M, but it may be increased by the Indiana Economic Development Corporation (IEDC) board to $5 M for biodiesel production.

The Biodiesel Production Credit and the ethanol grain component of the Ethanol Production Credit share the same $50 M lifetime credit limit for all taxpayers. The Biodiesel Sales Credit had a lifetime limit of $1 M for all taxpayers.

To qualify for the Biodiesel Production Credit, a taxpayer must be approved by the IEDC. To be approved, a taxpayer must submit an application for the credit to the IEDC and demonstrate that the level of production proposed is feasible and economically viable.

Program Background.

The Biodiesel Production Credit and the Biodiesel Sales Credit were enacted in 2003. The Biodiesel

Biodiesel Sales and Production Tax Credits

Enactment: *The credits were effective beginning in tax year 2003.*

Expiration: *The production credit has no expiration date. The sales credit expired on January 1, 2011.*

Credit Limits: *There is an aggregate limit of $50 M for grain ethanol and biodiesel production credits. There was an aggregate limit of $1 M for biodiesel sales credits. These limits apply to all taxpayers for all taxable years.*

Award Process: *Taxpayers must submit an application to the IEDC. The IEDC approves all credit awards.*

Eligible Taxes: *Sales Tax, Individual Adjusted Gross Income (AGI), Corporate AGI, Financial Institutions, and Insurance Premiums Tax.*

Refund Provisions: *The credit is nonrefundable, but unused credits may be carried forward for up to 6 years. Unused credits may not be carried back.*

Claim Filing Requirements: *The taxpayer is required to provide the Department of State Revenue with the certification by the IEDC and form BD-100 when filing their return.*

Sales Credit expired on January 1, 2011.

The statute was amended in 2005 to require review and approval of production facilities by the IEDC. A lifetime credit limit of $20 M for biodiesel and ethanol production credits was introduced, as well as a $3 M credit limit per biodiesel producer. In 2006, the maximum amount of credits for biodiesel production, biodiesel blending, and ethanol production was increased from $20 M to $50 M.

The $50 M biofuel credit award limit was reached in 2006, and no new awards have been granted since that time. By the end of 2006, IEDC had awarded $32 M in ethanol production credits and $18 M in biodiesel and blended biodiesel production credits. However, in 2011, the IEDC terminated a total of $15 M in awards for facilities that did not become operational.

Analysis.

- The Blended Biodiesel Production Credit and Ethanol Production Credit claims have reached approximately 10% of the $50 M lifetime credit limit.
- Annual biodiesel tax credit claims have paralleled the national biodiesel production trend, generally increasing since 2006.

Annual Biodiesel Production Capacity (million gallons per year)

Month/Year	Indiana	U.S. Total
Mar-09	115	1,904
Jun-09	120	2,143
Sep-09	120	2,086
Dec-09	120	2,045
Dec-11	134	2,090
Mar-12	104	2,110
Apr-12	104	2,122
May-12	104	2,123
Jun-12	104	2,120
Jul-12	104	2,090
Aug-12	104	2,106
Sep-12	104	2,106
Oct-12	104	2,121
Nov-12	104	2,130
Dec-12	104	2,127
Jan-13	104	2,086
Feb-13	104	2,090
Mar-13	104	2,160
Apr-13	104	2,162

Source: U.S. Energy Information Administration Biodiesel Production Report.

The average annual amount of Biodiesel Sales and Production Tax Credits claimed from 2006 to 2012 was $153,673, with the total claimed during that seven-year period equal to $1,075,714. Claims increased from 2006 to 2009, reaching over $427,000 in 2009. In 2010, the amount of credits claimed decreased to less than $40,000. Tax year 2010 was the last year taxpayers were authorized to claim the Biodiesel Sales Tax Credit. Tax year 2011 saw an increase in claims and was the last year taxpayers claimed the Biodiesel Production Tax Credit.

Annual biodiesel production data are not available at the state level. However, the U.S. Energy Information Administration (EIA) reports production capacity for the state. From March 2009 to December 2011, Indiana's biodiesel production capacity increased from 115 million gallons per year to 134 million gallons per year, as shown in the table to the left. Production capacity decreased to 104 million gallons in 2012. Similarly, the number of producers was highest in 2009 and started to decline after December 2009.

National biodiesel production capacity has increased since 2009 (the first year of available data). Production capacity has grown at an average annual rate of about 3% from March 2009 to March 2013.

Similar to Indiana's tax credit use data, U.S. total production increased overall from 2006 to 2009 and significantly decreased in 2010, as shown in the table to the right. This decrease was likely caused in part by the expiration of the federal biodiesel tax credit at the end of 2009. However, the credit was reinstated late in 2010.[1] In 2011 and 2012, national biodiesel production increased to 967.5 million gallons and 969.4 million gallons,

U.S. Total Biodiesel Production

Year	Actual Production (million gallons per year)	Actual Production as % of Production Capacity
2006	250.4	--
2007	489.8	--
2008	678.1	--
2009	515.8	25.2%
2010	343.4	16.6%
2011	967.5	46.3%
2012	969.4	45.8%

Source: EIA Monthly Energy Review

[1] U.S. Energy Information Administration, *Biofuels Issues and Trends*, October 2012.

respectively. Similarly, national production relative to production capacity has varied, decreasing from 25.2% in 2009 to 16.6% in 2010 and increasing to 46.3% in 2011.

In terms of production capacity, Indiana ranks ninth out of all biodiesel-producing states, with a capacity of 16.0 gallons per capita. Of the 39 states that produce biodiesel, 19 (including Indiana) have established some form of biodiesel production tax credit. Indiana's per capita production capacity is the fifth highest of these 19 states. In addition, 14 states currently offer a biodiesel sales credit. Although production capacity does not represent actual production, production capacity is indicative of the relative size of the biodiesel industry in each state. The table below reports per capita biodiesel production capacity of states that have a production tax credit and indicates whether each state also has a sales credit in place.

The top three states in per capita biodiesel production capacity have enacted biodiesel production tax credits, and the top two have also enacted credits for the sale of biodiesel.[2]

(1) North Dakota's biodiesel tax credits include:

- Biodiesel Blender Tax Credit – Fuel suppliers who blend biodiesel with diesel fuel may claim an income tax credit of $0.05 per gallon for fuel containing at least 5% biodiesel.
- Biodiesel Sales Equipment Tax Credit – Retailers may claim a corporate income tax credit of 10% of the direct costs incurred to adapt equipment in order to sell diesel fuel containing at least 2% biodiesel.
- Biodiesel Production and Blending Equipment Tax Credit – Biodiesel producers and blenders may claim a corporate income tax credit of 10% of the direct costs of adding equipment to retrofit an existing facility or constructing a new facility for the purpose of producing or blending diesel fuel containing at least 2% biodiesel.

(2) Iowa also has implemented the following incentives:

- Biodiesel Blend Retailer Tax Credit – A state income tax credit of $0.045 per gallon is available to retailers whose total diesel sales consist of at least 50% biodiesel blends containing a minimum of 5% biodiesel.
- Biofuels Infrastructure Grants – Financial assistance is available to qualified biodiesel retailers to upgrade or install new infrastructure.
- Biodiesel Producer Tax Refund – Biodiesel producers may apply for a refund of sales or use taxes in calendar years 2013 and 2014.

(3) Mississippi's Biofuels Production Incentive program provides incentive payments of $0.20 per gallon to qualified biodiesel producers located in the state.

Biodiesel Per Capita Production Capacity by State

State	Per Capita Production Capacity
North Dakota*	126.4
Iowa*	81.9
Mississippi	35.4
Washington*	16.2
Indiana	16.0
Kentucky	15.7
Illinois*	12.9
Alabama	10.3
Oregon	4.7
Oklahoma	4.0
South Dakota	2.5
Virginia	1.1
South Carolina*	1.1
New York	1.0
Maine*	0.5
Kansas*	0.4
Tennessee	0.3
Montana*	0.3
Florida	0.2
U.S. Total	**7.0**

*Indicates states that have a biodiesel sales credit in place in addition to a biodiesel production credit.
Source: EIA Monthly Biodiesel Production Report.

[2] State biofuel incentives are compiled in the Alternative Fuels Data Center by the U.S. Department of Energy. http://www.afdc.energy.gov/laws/state

Indiana Income Tax Credit Study

Coal Gasification Technology Investment Credit

IC 6-3.1-29

Legislative Services Agency
September 2013

Purpose.

The Coal Gasification Technology Investment Credit (IC 6-3.1-29) was established to encourage the use of Indiana coal to produce synthesis gas to generate electricity and for the production of synthesis gas to be used as a substitute for natural gas.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	0	0	0	$0	$0	$0
2007	0	0	0	0	0	0
2008	0	0	0	0	0	0
2009	0	0	0	0	0	0
2010	0	0	0	0	0	0
2011	0	0	0	0	0	0
2012*	0	0	0	0	0	0
Mean	**0**	**0**	**0**	**$0.00**	**$0.00**	**$0.00**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.

Description.

The credit equals 10% of the first $500 M in qualified investments in an integrated coal gasification power plant, and 5% of the qualified investment that exceeds $500 M.

The credit for fluidized bed combustion technology equals 7% of the first $500 M invested, and 3% of the investment that exceeds $500 M.

Program Background.

The legislation establishing the credit for integrated coal gasification facilities was passed by the 2005 Indiana General Assembly applicable to taxable years beginning after December 31, 2005. In 2006 the credit was expanded to include fluidized combustion technology.

The tax credit must be reviewed and approved in a written agreement with the Indiana Economic Development Corporation (IEDC). A taxpayer planning to make a qualified investment must apply to the IEDC and receive approval before they make the investment. If approved, then the credit could be claimed once the project is operational.

Starting with tax year 2006, the tax credit could be claimed for investment in the following (1) real and tangible personal property incorporated in and used as part of an integrated coal gasification power plant or a fluidized bed combustion technology; and (2) transmission

Coal Gasification Technology Investment Credit

Enactment: *The credit was effective beginning in tax year 2006.*

Expiration: *This credit has no expiration date.*

Credit Limits: *The credit has no annual limit.*

Award Process: *The taxpayer must annually apply to the Indiana Economic Development Corporation. The IEDC approves the credits.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI), Corporate AGI, Financial Institutions, Insurance Premiums, and Utility Receipts Tax.*

Refund Provisions: *The credit is refundable if the taxpayer making qualified the investment sells substitute natural gas to the Indiana Finance Authority; otherwise the credit is nonrefundable.*

Claim Filing Requirements: *The taxpayer must enclose the certificate of compliance from the IEDC along with their return.*

equipment and other real and personal property located at the site and that is employed specifically to serve an integrated coal gasification power plant or a fluidized bed combustion technology.

The credit must be taken in 10 annual installments. The annual amount of the credit equals the lesser of the total amount of credit awarded divided by 10 or the greater of the taxpayer's liability for the Utility Receipts Tax or 25% of the taxpayer's total state tax liability, multiplied by the percentage of Indiana coal used by the taxpayer in the power plant for the taxable year.

Taxpayers may assign part or all of the credit to one or more utilities that enter into a contract to purchase electricity or substitute natural gas from the taxpayer. The contract must be approved by the Indiana Utility Regulatory Commission. A tax credit assigned by the taxpayer must be taken in 20 annual installments. The total amount of the taxpayer's credit that may be assigned by the taxpayer in any taxable year may not exceed: (1) the total approved credit amount divided by 20; multiplied by (2) the percentage of Indiana coal used in the taxpayer's integrated coal gasification power plant or fluidized bed combustion technology in the taxable year for which the annual installment of the credit is allowed. The part of the amount that may be assigned to any one utility with respect to the taxable year may not exceed the greater of: (1) the utility's total state tax liability for the taxable year, multiplied by 25% or (2) the utility's total Utility Receipts Tax liability for the taxable year.

A taxpayer who makes a qualified investment in an integrated coal gasification power plant and enters into a contract to sell substitute natural gas to the Indiana Finance Authority may choose to claim the credit as a refundable tax credit for a period of 20 years. The amount of refundable credit for one taxable year is equal to: (1) the total approved credit amount divided by 20; multiplied by (2) the ratio of Indiana coal to total coal used in the taxpayer's integrated coal gasification power plant in the taxable year.

Analysis.

- Duke Energy Indiana received a tax credit of up to $150 M for the power project in Edwardsport, Indiana.
- The credit related to the Edwardsport power plant is estimated to impact the state General Fund by $15 M annually between FY 2014 and FY 2023.
- No other projects have been approved for the tax credit.

According to the 2010 Worldwide Gasification Database published by the U.S. Department of Energy, 36 gasification plants were active in the United States in 2010, and 18 of those 36 were operational. The remaining plants were in the planning and construction phase. Also, 23 out of the 36 projects used or will use coal or petcoke as the feedstock. The primary products from the coal or petcoke gasification projects are electricity, substitute natural gas, gasoline, and chemicals.

Currently, Indiana has two fully operational gasification plants. Wabash River Coal Gasification Repowering Project is a part of Wabash River Station owned by Wabash Valley Power Association and operated by Duke Energy. The project was started in 1995 in Vigo County. The project was one of the first demonstrations of coal gasification to produce electricity. Since this project predates the enactment of Coal Gasification Tax Credit, it did not receive the tax credit.

On June 7, 2013, Duke Energy Indiana, Incorporated, put into service the second fully operational gasification plant in Indiana. It is located at Edwardsport in Knox County. A tax credit agreement was entered into by Duke Energy Indiana, Inc., the Indiana Economic Development Corporation, and the State Budget Agency, with an effective date of March 31, 2010. The maximum approved credit amount is $142.5 M, but may increase to $150 M if the approved project cost is higher than $2.35 B. The credit will be claimed over 10 years, from tax years 2013 to tax year 2022. According to the taxpayer, the total real and personal property investment on the plant has been approximately $3 B. Duke Energy Indiana reports that the plant has created 140 full-time jobs in Knox County. They estimate that 170 Indiana coal mining jobs are supported by the plant's usage of Indiana coal. Duke Energy Indiana also reports that it has executed contracts in excess of $950 M with utility companies to sell them electricity. This would also mean that the taxpayer can choose to assign the tax credit to those utility companies.

Indiana Gasification LLC, a subsidiary of Leucadia National Corporation, had planned investment of $2.8 B in Rockport, Indiana, to build a coal gasification plant. This project is currently on hold due to various issues. The Rockport plant has not received any approval for the tax credit. It is not known whether the project developers have applied for the tax credit.

The U.S. Department of Energy (DOE) reports[1] that natural gas wellhead prices in Indiana have dropped from a high of $9.11 per thousand cubic feet in 2005 to $4.13 per thousand cubic feet in 2010. Advances in drilling techniques, extraction from shale rock formation, and warmer-than-normal winter weather during this period increased the supply and reduced the demand resulting in a drop in prices. Natural gas prices have further dropped since 2010. The drop in natural gas prices impacts the economic feasibility of coal gasification projects. The DOE reports that several coal gasification projects have been delayed or cancelled in the last five years. However, given the predominance of coal as a source of electrical energy (accounting for 45% of electricity generated in the U.S. in 2010) and the fact that coal-powered plants accounted for 76% of carbon emission by the electric power sector, it is possible that an increase in natural gas prices will renew interest in coal gasification plants. If that happens, there could be an increase in the use of coal gasification tax credits.

[1] National Energy Technology Laboratory (NETL) Gasification Database, U.S. Department of Energy, http://www.netl.doe.gov/technologies/coalpower/gasification/worlddatabase/

Indiana
Income Tax Credit
Study

Energy Savings Tax Credit

IC 6-3.1-31.5

Legislative Services Agency

September 2013

Purpose.

The Energy Savings Tax Credit (IC 6-3.1-31.5) was established to encourage the purchase of certain energy-efficient products.

Tax Credit Use Profile.

Tax Year	Number of Claims	Amount of Claims	Average Credit Amount	No. of Households Claiming Max. Credit	% of All Returns Filed
2009	30,158	$2,852,363	$94.14	26,624	0.99%
2010	10,540	1,000,456	94.60	9,314	0.34%

N/A = Not Applicable.

Description.

The Energy Savings Tax Credit provided individuals and small businesses with a nonrefundable income tax credit for the purchase of the following ENERGY STAR products:

- Furnace.
- Water Heater.
- Central Air Conditioning.
- Room Air Conditioner.
- Programmable Thermostat.

The credit was equal to the lesser of 20% of the amount spent on qualifying equipment during the taxable year or $100.

Analysis.

- Credit claims reached the fiscal year maximums.
- Increased market share of ENERGY STAR products more likely influenced the number of credit claims.

The credit was limited to a minimum of 10,000 taxpayers a year. According to the U.S. Environmental Protection Agency, Americans purchased 200 million ENERGY STAR certified products in 2010, 300 million in 2011, and 300 million in 2012. These purchases were across all 65 ENERGY STAR product types.[1] The table below contains the number of qualified units shipped from ENERGY STAR partners.

Energy Savings Tax Credit

Enactment: *The credit was effective beginning in tax year 2009.*

Expiration: *This credit expired on December 31, 2010.*

Credit Limits: *This credit had an annual aggregate limit of $1 M.*

Award Process: *None, the taxpayer claimed the credit when filing their return.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI), Corporate AGI, Financial Institutions, and Insurance Premiums Taxes.*

Refund Provisions: *The credit was nonrefundable and could not be carried forward or carried back.*

Claim Filing Requirements: *Taxpayers claimed the credit by submitting form IN-ESC along with their return.*

The credit is similar to the Nonbusiness Energy Credit under the federal *Energy Policy Act of 2005* (EPAct 2005). EPAct 2005 established several energy-efficiency tax incentives to increase the market share of ENERGY STAR products and to encourage home and business owners to undertake energy-efficiency improvements. The Nonbusiness Energy Credit provides a credit for residential homeowners when purchasing new energy-efficient

[1] United States Environmental Protection Agency. Unit Shipment and Sales Data Archives. Retrieved on April 25, 2013, from http://www.energystar.gov/index.cfm?c=partners.unit_shipment_data_archives.

heating systems for existing homes. The credit was set to expire in 2011, but it was extended as part of the *American Taxpayer Relief Act of 2012*.

Units shipped by ENERGY STAR Partners.

Products	2007	2008	2009	2010	2011
Furnace	1,040,000	994,000	1,108,000	1,360,000	1,335,000
Central AC Units	1,416,000	1,150,000	1,133,000	1,710,000	1,338,000
Room AC Units	N/A	N/A	N/A	2,101,000	4,724,000
Water Heaters	N/A	N/A	N/A	455,000	477,000
Total	**2,456,000**	**2,144,000**	**2,241,000**	**5,626,000**	**7,874,000**

N/A = Not available.
Source: United States Environmental Protection Agency.

Studies vary on the effectiveness of these types of credits. CenterPoint Energy, a utility company in Minnesota, offered a rebate towards the purchase of energy-efficient heating systems in conjunction with the federal tax credit between 2004 and 2010. Each year, participants in the rebate program purchased more furnaces with higher efficiencies than the previous year. CenterPoint Energy asked customers why they chose the high-efficiency models, and 37% of the respondents said the tax credit affected their decision.[2]

Other studies suggest that the residential energy credits have a positive but statistically insignificant impact on consumer purchases. The studies found that many people were going to buy a more-efficient furnace regardless of the credit. In addition, EPAct 2005 provided tax incentives to manufacturers to produce more energy-efficient products, so the market share of ENERGY STAR products has been steadily increasing since 2006. Consumers are purchasing more-efficient products because the manufacturers are producing a wider range of high-efficiency equipment at lower costs.

[2] Gold, Rachel, and Steven Nadel (2011). Energy Efficiency Tax Incentives, 2005-2011: How Have They Performed?. White Paper – American Council for an Energy-Efficient Economy. June 2011.

Indiana
Income Tax Credit
Study

Ethanol Production Tax Credit

IC 6-3.1-28

Legislative Services Agency

September 2013

Purpose.

The Ethanol Production Tax Credit (IC 6-3.1-28) was established to encourage the production of both grain and cellulosic ethanol at Indiana facilities.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	N/R	0	N/R	$1,754	$0	$1,754
2007	93	N/R	93	832,358	1,028,371	1,860,729
2008	69	N/R	69	544,134	230,041	774,175
2009	33	N/R	33	627,067	194,744	821,811
2010	23	N/R	23	171,605	331,254	502,859
2011	28	0	28	17,050	0	17,050
2012*	18	0	18	46,878	0	46,878
Mean	**44**	**0**	**44**	**$320,121**	**$254,916**	**$575,037**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equals $0.125 per gallon of ethanol produced at qualified Indiana facilities.

The total allowable credit per taxpayer for all taxable years is limited to:

- $2 M if the annual production of grain ethanol is between 40 million and 60 million gallons.
- $3 M if the annual production of grain ethanol is at least 60 million gallons.
- $20 M if the annual production of cellulosic ethanol is at least 20 million gallons.

The Blended Biodiesel Production Credit and the ethanol grain component of the Ethanol Production Credit share the same $50 M lifetime credit limit for all taxpayers.

To be eligible for the credit, an ethanol production facility must meet the following requirements:

- It must be located in Indiana.
- It must have the capacity to produce at least 40 million gallons of ethanol a year.
- It must have increased its ethanol production capacity by at least 40 million gallons a year after December 31, 2003.

Program Background.

The credit for grain ethanol was enacted in 2003 and was extended in 2006, at which time the credit

Ethanol Production Tax Credit

Enactment: *The credit was effective beginning in tax year 2003.*

Expiration: *This credit has no expiration date.*

Credit Limits: *There is a limit of $50 M for grain ethanol and biodiesel production. The limit for cellulosic ethanol is $20 M. These limits apply to all taxpayers for all taxable years.*

Award Process: *Taxpayers must submit an application to the Indiana Economic Development Corporation (IEDC). The IEDC approves all credit awards.*

Eligible Taxes: *Sales Tax, Individual Adjusted Gross Income (AGI), Corporate AGI, Financial Institutions, and Insurance Premiums Tax.*

Refund Provisions: *The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back.*

Claim Filing Requirements: *The taxpayer is required to provide the Department of State Revenue with proof of information for the credit calculation along with a Certificate of Qualified Facility issued by the Indiana Recycling and Energy Development when filing their return.*

limit for total biodiesel and grain ethanol production was increased from $20 M to $50 M. The credit was extended to cellulosic ethanol, effective beginning in tax year 2008.

The $50 M biofuel credit award limit was reached in 2006, and no new awards have been granted since that time. By the end of 2006, IEDC awarded $32 M in ethanol production credits and $18 M in biodiesel and blended biodiesel production credits. However, in 2011, the IEDC terminated a total of $15 M in awards for entities that did not become operational.

Analysis.

- The Blended Biodiesel Production Credit and Ethanol Production Credit claims have reached approximately 10% of the $50 M lifetime credit limit.
- The amount of Ethanol Production Credits claimed represents a small share of the estimated total ethanol production in Indiana.
- Indiana's ethanol production has been increasing at a rate above the national average since 2004.

The average annual amount of credits claimed from 2006 to 2012 was $575,037, with the total claimed during that seven-year period equal to $4,025,256. Substantial amounts of claims were not made until tax year 2007, and after the initial increase claims have generally declined through 2012. The table below shows the annual credit totals and the estimated ethanol production for which a credit was claimed based on the $0.125 per gallon credit. It also shows this ethanol production as a percent of total state ethanol production.

Ethanol Production Credits Claimed and Total Production

Year	Total Credits Claimed	Credit-Qualified Ethanol Production (gallons)	Total Ethanol Production (gallons)*	% Share of Total
2006	$1,754	14,032	96,012,000	0.01%
2007	$1,860,729	14,885,832	266,154,000	5.59%
2008	$774,175	6,193,400	581,574,000	1.06%
2009	$821,811	6,574,488	702,366,000	0.94%
2010	$502,859	4,022,872	809,886,000	0.50%

*Estimated by the U.S. Energy Information Administration, State Energy Data System.

Ethanol production in the U.S. has steadily increased over the past decade. In 2010 (the most recent year of available data), U.S. manufacturers produced over 13.3 billion gallons, and consumers purchased a total of 12.9 billion gallons. Since 2004, production has increased by an average of about 25% each year. The table below shows ethanol production, consumption, and expenditure estimates for the U.S.

Total U.S. Ethanol Estimates

Year	Production (million gallons)*	Consumption (million gallons)*	Expenditures (million $)**
2000	1,622.3	1,653.4	$1,653.7
2001	1,765.2	1,740.7	$1,683.0
2002	2,140.2	2,073.1	$1,871.5
2003	2,804.4	2,826.0	$2,952.1
2004	3,404.4	3,552.2	$4,416.9
2005	3,904.4	4,058.6	$6,067.4
2006	4,884.3	5,481.2	$9,249.9
2007	6,521.0	6,885.7	$12,579.2
2008	9,308.8	9,683.4	$20,415.9
2009	10,937.8	11,036.6	$16,839.3
2010	13,297.9	12,858.5	$23,349.7

*Including denaturant.
**Excluding denaturant.
Source: U.S. Energy Information Administration, State Energy Data System.

Indiana's ethanol production has also increased over the past decade, with about 810 million gallons produced in 2010. Since 2004 (the first full year the credit was effective), production has increased at an average of 42% annually,

significantly higher than the U.S. average. Before the credit was enacted (from 2000 to 2003), the average annual growth in Indiana ethanol production was about 20%, similar to the U.S. average.

In contrast to production, ethanol consumption in Indiana has grown more slowly than the national average. Indiana ethanol consumption has increased by an average of 14% per year since 2004. Meanwhile, total U.S. ethanol consumption has increased by an average of about 24% per year. This growth in consumption, however, is higher than before the credit was enacted. From 2000 to 2003, Indiana ethanol consumption grew by an average of 4% each year. The table below shows ethanol production, consumption, and expenditure estimates for the state from 2000 to 2010.

Indiana Ethanol Estimates

Year	Production (million gallons)*	Consumption (million gallons)*	Expenditures (million $)**
2000	62.6	118.9	$112.9
2001	68.4	110.8	$100.8
2002	92.8	125.8	$106.5
2003	108.9	134.8	$132.5
2004	99.0	136.3	$158.5
2005	95.2	153.7	$218.5
2006	96.0	162.5	$261.8
2007	266.2	198.8	$354.1
2008	581.6	267.7	$550.5
2009	702.4	295.5	$436.8
2010	809.9	307.7	$537.8

*Including denaturant.
**Excluding denaturant.
Source: U.S. Energy Information Administration, State Energy Data System.

The tax credit data suggest that several factors, likely including the Ethanol Production Tax Credit, have made a positive impact on ethanol production in Indiana. Although the credits claimed each year have been relatively small, the data presented in the tables above indicate that Indiana's ethanol production has been increasing at a rate above the national average since the credit was enacted. Also, the growth in ethanol consumption, although below the national average, has increased more rapidly since the credit's enactment.

Several other states have various tax credits and incentives to encourage ethanol production. Of the 27 states that produced ethanol in 2011, 20 states have instituted some type of incentive and 11 states, like Indiana, offer ethanol production tax credits or incentives. From 2008 to 2011, Indiana has ranked seventh in per capita ethanol production, producing 146.1 gallons per capita in 2011. Indiana ranks fourth compared to the 11 states that offer an ethanol production tax credit or incentive.

The three states that produce the most ethanol per capita, South Dakota, Iowa, and Nebraska, have established various policies that encourage the production and use of ethanol. South Dakota has implemented an ethanol infrastructure incentive program, which awards incentive payments for each ethanol blender pump installed at a retail fueling station. In 2013, South Dakota also enacted an ethanol production incentive, which offers a $0.20 per gallon production incentive. Iowa offers a tax credit for retailers of blended ethanol based on the number of gallons sold. Nebraska's tax credit is available to businesses that invest in research and development activities related to the production of cellulosic ethanol. Nebraska also exempts motor fuels sold to an ethanol production facility and motor fuels sold from an ethanol facility from certain motor fuel tax laws.

Per Capita Ethanol Production (gallons)

State	2006	2007	2008	2009	2010	2011	Average
South Dakota*	678.0	730.6	979.9	1,146.1	1,308.7	1,281.9	1,020.9
Iowa*	492.4	641.8	773.8	1,020.2	1,196.5	1,203.8	888.1
Nebraska*	330.7	457.8	645.8	644.8	969.2	1,083.6	688.6
North Dakota**	46.9	203.3	228.9	387.0	542.0	577.3	330.9
Minnesota**	103.7	111.8	135.7	179.4	218.9	218.0	161.2
Kansas**	61.3	81.4	155.6	144.0	159.7	157.2	126.5
Indiana**	14.8	41.0	89.7	108.3	124.9	146.1	87.5
Illinois*	57.5	70.6	78.5	99.8	101.3	98.4	84.4
Wisconsin*	37.0	49.9	78.7	81.2	91.8	90.7	71.6
Missouri**	19.6	27.0	37.3	43.5	45.7	43.9	36.2
Colorado*	12.6	18.3	24.5	24.8	26.1	25.5	22.0
Michigan*	7.9	18.8	23.0	21.7	27.2	27.8	21.1
Tennessee	9.9	10.6	13.0	26.9	29.6	35.8	21.0
Ohio**	0.2	0.2	28.9	22.8	34.4	39.4	21.0
Idaho**	0.0	1.1	23.5	7.9	36.1	35.4	17.3
New Mexico**	13.7	14.7	10.8	13.3	15.3	15.0	13.8
Wyoming	8.3	8.9	11.2	11.6	12.1	18.0	11.7
Oregon**	0.0	3.8	19.5	15.1	11.0	10.7	10.0
Mississippi**	0.0	0.0	1.5	18.2	19.1	18.7	9.6
Kentucky**	6.9	8.2	8.0	8.1	8.6	8.4	8.0
Arizona*	0.0	4.3	8.5	8.6	9.0	8.8	6.5
Texas	0.0	0.0	7.5	6.7	10.4	12.7	6.2
Georgia	0.0	0.0	2.6	10.4	10.9	10.6	5.8
New York**	0.0	0.2	4.5	2.6	5.8	8.7	3.6
Pennsylvania	0.0	0.0	0.0	0.0	8.3	8.9	2.9
California	1.1	2.4	2.6	1.3	1.9	4.9	2.4
Louisiana*	0.0	0.0	0.2	0.3	0.3	0.3	0.2
All States -- Average	**70.5**	**92.8**	**125.7**	**150.2**	**186.1**	**192.2**	**136.3**

*State offers some type of ethanol production, retail, or investment incentive.
**State offers ethanol production tax credit.
Source: U.S. Department of Energy, Alternative Fuels Data Center.

Indiana
Income Tax Credit
Study

Health Benefit Plan Tax Credit

IC 6-3.1-31

Legislative Services Agency

September 2013

Purpose.

The Health Benefit Plan Tax Credit (IC 6-3.1-31) was created to encourage certain employers to begin offering health benefit plans to employees, regardless of whether such an employer paid any of the premium cost of the plan.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2007	214	N/R	214	$137,189	$2,550	$139,739
2008	218	N/R	218	155,466	50	155,616
2009	216	N/R	216	148,783	150	148,933
2010	168	N/R	168	114,020	2,000	116,020
2011	151	N/R	151	89,346	2	89,348
2012	0	0	0	0	0	0
Mean	**193**	**0**	**193**	**$128,961**	**$950**	**$129,931**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit was available to employers who did not offer health benefit plans to their employees in the taxable year prior to claiming the credit. Participation by employees in the health benefit plan had to be voluntary, and employees had to be able to pay for their share of the plan through a wage assignment for the employer to qualify for the tax credit.

Health benefit plans that qualified for the credit had to be a health insurance policy or a contract with a health maintenance organization (HMO) that satisfies the requirements of Section 125 of the Internal Revenue Code.

The credit could be claimed in each of the first two years that an employer offered health benefits. The credit equaled the lesser of $2,500 or $50 per employee enrolled in the health benefit plan during the taxable year.

A business claiming the credit was required to continue to make a health benefit plan available to its employees for 24 months after the last day of the taxable year in which the taxpayer first offered the health benefit plan. If the taxpayer terminated the plan before the 24 months, the employer was required to repay the Department of State Revenue the amount of credit received.

Health Benefit Plans Tax Credit

Enactment: *The credit was effective beginning in tax year 2007.*

Expiration: *No new credits could be awarded after 2011.The credit expires in 2020.*

Credit Limits: *The credit had no annual limit.*

Award Process: *None, taxpayers claimed the credit when filing their returns.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI), Corporate AGI, Financial Institutions, and Insurance Premiums Tax.*

Refund Provisions: *The credit was nonrefundable, but unused credits could be carried forward. Unused credits could not be carried back.*

Claim Filing Requirements: *The taxpayer claimed the credit on the appropriate return.*

Program Background.

Eligible taxpayers could begin claiming the credit in 2007. The credit expired under P.L. 172-2011. Credits awarded before January 1, 2012, but not claimed may be carried forward between January 1, 2014, and December 31, 2015.

Analysis.

- The number of credits claimed was small relative to the number of employers in the state that did not offer health benefit plans.
- While the credit was effective, employment-based health insurance coverage in Indiana followed national trends.

The average annual amount of credits claimed from 2007 to 2011 was $129,931, with the total claimed during that five-year period equal to $649,656. On average, the amount of credits claimed decreased by about 10.6% each year, and the number of taxpayers claiming the credit decreased by about 8.4% each year. As a percentage of the total number of employers in the state, the number of claims was relatively small. In all years the credit was effective, the average number of filers claiming the credit was equal to less than 0.3% of all Indiana employers that did not offer health benefit plans.[1]

Percent of Population Covered by Employment-Based Private Health Insurance

Year	Indiana	United States
2005	64.5%	60.7%
2006	67.5%	60.3%
2007	66.0%	59.8%
2008	63.8%	58.9%
2009	58.5%	56.1%
2010	59.5%	55.3%
2011	59.2%	55.1%

Source U.S. Census Bureau.

According to the U.S. Census Bureau, the percentage of all people in Indiana covered by an employer-provided health plan has decreased by an average of 1.4% each year since 2005. This pattern follows the national trend of private employment-based coverage decreasing slightly on average since 2005.

In 2012, almost 45% of all private sector firms in Indiana offered health insurance to their employees, down from 59.4% in 2002. The percentage of Indiana firms that offer health insurance has decreased by about 2.8% on average each year since 2002. Most of the change has occurred in smaller firms. Establishments with less than 10 employees that offer health insurance have decreased by an annual average of approximately 6.8% since 2002, and those with less than 50 employees have decreased by an annual average of approximately 5.2%. In contrast, the number of firms with 100 or more employees that offer health insurance has not changed significantly over the past decade.

Percent of Private Sector Establishments in Indiana That Offer Health Insurance

Year	Total	Less than 10 Employees	10-24 Employees	25-99 Employees	100-999 Employees	1,000 or More Employees	Less than 50 Employees	50 or More Employees
2002	59.40%	36.90%	60.00%	84.80%	97.70%	100.00%	44.20%	97.60%
2003	53.40%	26.30%	60.80%	72.90%	94.80%	100.00%	35.50%	95.50%
2004	50.60%	25.00%	59.10%	83.60%	97.50%	100.00%	33.00%	98.60%
2005	55.90%	34.50%	53.70%	82.90%	91.90%	96.70%	41.40%	93.40%
2006	53.20%	24.90%	57.50%	74.80%	95.00%	100.00%	34.00%	96.80%
2007	--	--	--	--	--	--	--	--
2008	53.80%	29.10%	59.50%	82.60%	96.00%	100.00%	38.10%	96.80%
2009	49.10%	22.50%	42.90%	78.50%	93.50%	100.00%	29.50%	96.40%
2010	49.90%	22.30%	52.80%	73.90%	96.00%	100.00%	31.20%	96.60%
2011	50.50%	16.70%	52.30%	77.90%	96.50%	100.00%	27.40%	97.60%
2012	44.90%	18.30%	50.30%	67.40%	95.20%	100.00%	25.80%	95.30%
Mean	**52.07%**	**25.65%**	**54.89%**	**77.93%**	**95.41%**	**99.67%**	**34.01%**	**96.46%**

Data not available for 2007.
Source: U.S. Department of Health and Human Services.

The tax credit included a health insurance policy or a contract with an HMO that satisfies the requirements of Section 125 of the Internal Revenue Code as a qualified health benefit plan. In addition, qualified taxpayers were not required to pay any of the health insurance premium cost. As a result, it is possible that Section 125 premium-only plans may have been the most common type of health benefit plan provided by taxpayers who claimed the credit. Section 125 allows employees and employers to pay their share of insurance premiums with pre-tax dollars, reducing the

[1] Based on total number of establishments reported by U.S. Census Bureau County Business Patterns (all sectors, excluding most government employees, railroad employees, and self-employed persons) and U.S. Department of Health and Human Services Medical Expenditure Panel Survey.

employee's taxable income and the employer's tax liability. Under a premium-only plan, the employer does not have to pay any portion of the health insurance premium.

One reason for the relatively small impact of the tax credit could be that premium-only plans under which employers do not contribute to premium costs are not widely utilized by employers. The majority of employers contribute at least half of the health insurance premium cost. In 2012, Indiana workers enrolled in single coverage paid an average of 21% of premium cost, and workers enrolled in family coverage paid an average of 23% of premium cost.[2] Only a small percentage of all workers pay for more than 50% of premium costs. It is estimated that only 2% of U.S. workers with single coverage and 14% with family coverage paid more than 50% in 2013.[3]

[2] U.S. Department of Health and Human Services, Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey, Tables II.C.3 and II.D.3.
[3] Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits Annual Survey, 2013.

Indiana
Income Tax Credit
Study

Historic Rehabilitation Tax Credit

IC 6-3.1-16

Legislative Services Agency

September 2013

Purpose.

The Historic Rehabilitation Tax Credit (HRTC) (IC 6-3.1-16) was established to encourage the rehabilitation or preservation of historic properties that are at least 50 years old and are income-producing.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	50	0	50	$117,026	$0	$117,026
2007	57	0	57	217,783	0	217,783
2008	48	0	48	153,611	0	153,611
2009	39	0	39	99,285	0	99,285
2010	30	0	30	93,533	0	93,533
2011	39	0	39	165,954	0	165,954
2012*	32	0	32	81,952	0	81,952
Mean	**42**	**0**	**42**	**$132,735**	**0**	**$132,735**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equals 20% of the qualified expenditures as approved by the Department of Natural Resources (DNR) Division of Historic Preservation and Archaeology. The maximum credit per taxpayer is $100,000.

A taxpayer must meet all of the following conditions to qualify for the credit:

- The historic property must be at least 50 years old and located in Indiana.
- The historic property is listed on the register of Indiana historic sites and historic structures.
- The preservation and rehabilitation plan is approved by the DNR.
- The work is completed within five years according to the submitted plan.
- The historic property is actively used in a trade, business, or some other income-producing function.
- The qualified expenditures exceed $10,000.

The statute contains a recapture provision if the property is transferred less than five years after the completion of the preservation work or if additional modifications are made to the property within five years of the initial work that do not meet the standards of the DNR.

Historic Rehabilitation Tax Credit

Enactment: *The credit was effective beginning in tax year 1994.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has an annual aggregate limit of $450,000 per state fiscal year.*

Award Process: *The taxpayer must submit a proposed rehabilitation plan for approval by the Department of Natural Resources.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI) and Corporate AGI.*

Refund Provisions: *The credit is nonrefundable, but unused credits may be carried forward for up to 15 years. Unused credits may not be carried back.*

Claim Filing Requirements: *The taxpayer is required to submit a copy of the certificate from the DNR verifying the amount of eligible credit for the taxable year.*

Analysis.

- The credit usage is extremely low.
- The number of applicants for the HRTC has decreased at a greater rate than the federal Historic Rehabilitation Investment Tax Credit.
- The delay between when a credit is approved and when the taxpayer may claim the credit reduces the effectiveness of the incentive. If a project was approved today, the taxpayer would not be able to claim the credit until 2023.

The HRTC was established to supplement the federal Historic Rehabilitation Investment Tax Credit (RITC). The RITC provides a 20% credit against the taxpayer's federal tax liability for a qualified rehabilitation project. Both credits share similar requirements. They both require the building to be: listed on the National Register; used for income-producing purposes; and owned and operated by the same owner for at least five years after rehabilitation. However, the credits have different expenditure thresholds. The HRTC requires project expenditures to exceed $10,000, while the RITC requires the project to meet the 'substantial rehabilitation test.' To pass the substantial rehabilitation test, the amount of money spent on the project must be greater than the adjusted basis of the building or $5,000, whichever is more. Rutgers University has published several studies estimating the impact of the RITC. According to their most recent report, during the period of FFY 1978 to FFY 2012, $106.1 B in RITC investment created 2.4 million jobs and $121.2 B in GDP. The study determined that the RITC-aided rehabilitation yielded $25.9 B in federal tax receipts compared to the cumulative program cost of $20.5 B. RITC-approved investments are credited with creating about 58,000 jobs and $3.4 B in GDP in FFY 2012, alone.[1]

The HTRC was established to provide an additional incentive for rehabilitation projects. However, the backlog of taxpayers waiting to claim an award makes the credit a nonfactor. The queue of taxpayers waiting to claim the HTRC began in the second year after the credit was created. In 1997, the overall cap was extended to $750,000 a year to ease the backlog, but in 1999 the annual limit was returned to $450,000. The backlog has grown since. By the end of 1999, credits were approved out to 2004. By 2011, credits were being assigned to 2023. There are about $4.1 M in credits to be claimed against future tax liabilities. Recently, the number of applicants for the HTRC has been decreasing at a greater rate than federal applicants. Historic rehabilitation projects are still being conducted in Indiana, but taxpayers are relying more on the federal credit to reduce overall rehabilitation project costs. With the federal credit, the taxpayers can recoup some development costs within a year, while the Indiana credit requires waiting for 10 years for any savings.

Historic Rehabilitation Tax Credit Applications.

Federal Project Certification Year	Total Rehabilitation Costs*	Number of Projects Awarded the Federal Credit	Total Federal Credits Authorized*	Number of Projects Awarded the Indiana Credit	Indiana Credits Authorized*	Indiana Claim Queue** (State Fiscal Year)
2003	$24,846	15	$4,969	8	$580	2009 - 2015
2004	45,462	19	9,092	16	1,002	2013 - 2017
2005	29,871	13	5,974	6	227	2001 - 2017
2006	24,448	13	4,890	8	356	2010 - 2018
2007	132,328	12	26,465	N/R	337	2018 - 2019
2008	119,577	10	23,915	8	800	2019 - 2021
2009	23,757	8	4,751	N/R	200	2021 - 2021
2010	21,986	15	4,397	N/R	342	2022 - 2022
2011	4,448	6	890	N/R	145	2022 - 2023
2012	18,076	7	3,615	N/R	130	2023 - 2023
Grand Totals	**$444,799**	**118**	**$88,958**	**61**	**$4,119**	

N/R = Five or fewer filers, filer count not reportable.
*Dollars in thousands.
**For federally certified projects that are awarded Indiana tax credits, this column represents the range in state fiscal years for which the taxpayers may begin taking the credits. This queue is determined by DNR assignment.
Source: Indiana Department of Natural Resources.

[1] Rutgers: Edward J. Bloustein School of Planning and Public Policy (2013). Annual Report on the Economic Impact of the Federal Historic Tax Credit for FY 2012. (2013) February 2013.

There are fewer credits claimed than authorized for a given year, so the program costs the state less than the amount of credits allocated. About $2.6 M in credits were allocated for years 2005 through 2010, but only 38% of that amount was claimed, a difference of $1.6 M. Also, the difference between the allocations and the claims is increasing as taxpayers wait longer to claim the credit. It may be possible to accelerate the queue by allowing recipients to claim the HRTC through an amended filing once the total remaining amount of credit is determined.

Indiana
Income Tax Credit
Study

Indiana 529 College Savings Contribution Credit

IC 6-3-3-12

Legislative Services Agency
September 2013

Purpose.

The Indiana 529 College Savings Contribution Tax Credit (IC 6-3-3-12) was established to encourage college savings through Indiana's CollegeChoice 529 education savings plan.

Tax Credit Use Profile.

Tax Year	Number of Claims	Amount of Claims	Average Credit Amount	No. of Households Claiming Max. Credit	% of All Returns Filed
2007	33,853	$26,024,050	$769	21,510	1.1%
2008	40,677	28,634,616	704	22,382	1.3
2009	48,229	33,318,076	691	26,085	1.6
2010	55,183	37,163,814	673	28,570	1.8
2011	63,361	42,446,404	670	32,440	1.0
2012*	67,452	44,982,291	667	34,124	1.1

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/A = Not Applicable.

Description.

The credit equals 20% of the taxpayer's annual contribution to an Indiana CollegeChoice 529 Investment Plan savings account, up to a maximum credit of $1,000 annually.

Program Background.

Indiana CollegeChoice 529 education savings plans are tax-advantaged savings products designed to help families set aside funds for future college costs. The program is governed by the Indiana Education Savings Authority (IESA) and administered by Upromise Investments, LLC. The minimum contribution is $25.

Qualified withdrawals from an Indiana CollegeChoice 529 Plan for higher education expenses are state and federally tax-exempt. Eligible expenses can include tuition, mandatory fees, cost for books, supplies and required equipment, certain room and board costs during any academic period the beneficiary is enrolled at least half-time, and certain expenses for special-needs students.

Both Indiana and the federal government impose penalties on withdrawals for unqualified expenses. Federal law imposes a 10% penalty on earnings for unqualified distributions, and the earnings portion is subject to tax as ordinary income. Indiana requires the tax credit for the contribution to be recaptured in the year an unqualified withdrawal is made. In addition, the account must remain open for at least one year to avoid recapture of the tax credit on distributions used to pay qualified education expenses.

Indiana 529 College Savings Contribution Tax Credit

Enactment: *The credit was effective beginning in tax year 2007.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has no annual limit.*

Award Process: *The taxpayer claims the credit on their annual return the year they make the contribution.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI).*

Refund Provisions: *The credit is nonrefundable. Unused credits may not be carried forward or carried back.*

Claim Filing Requirements: *The taxpayer is required to enclose Schedule IN-529 along with their return.*

Analysis.

- The credit is claimed by a substantial number of taxpayers.
- The amount of claims has increased every year.
- There was a significant increase in 529 contributions after the tax credit was enacted.

Indiana established a 529 savings plan in 1997. In 2006, the year before the tax credit was enacted, there were 16,961 accounts held by Indiana residents. The Indiana CollegeChoice Plan had about $505.3 M in assets with an average account balance of $2,000.

Today, there are 195,400 resident accounts with an average balance of $10,000. The total assets of the Indiana CollegeChoice Plan are over $2,055 M. That is a 1052% increase in the number of accounts and a 307% increase of assets. The tremendous growth coincided with the implementation of the tax credit in 2007. There were $82.1 M in 529 contributions in 2006. In 2007, there were $274.6 M in 529 contributions. The discount the tax credit provided was likely a factor in the 235% increase in contributions.

Indiana CollegeChoice 529 Contributions

Year	Assets (Millions)	Contributions (Millions)	Contributions Inferred from Credit Claims (Millions)	Percent of Total Contributions	Withdrawals (Millions)	Percent of Total Assets	
						Contributions	Withdrawals
2006	$505.3	$82.1	$0.0	0%	$30.1	16%	6%
2007	750.1	274.6	130.1	69	46,9	37	6
2008	702.5	206.2	143.2	54	58,4	29	8
2009	1,095.7	308.1	166.6	54	94,6	28	9
2010	1,439.9	343.3	185.8	56	122.3	24	8
2011	1,646.4	379.8	212.2	56	168.9	23	10
2012	2,055.3	421.3	224.9	55	186.0	20	9
Average Growth Rate	**26%**	**31%**	**12%**		**35%**		

Source: Indiana Education Savings Authority.

In addition to the aggregate growth of the fund, an analysis of the tax returns found that families are saving at levels above the incentive the credit provides. Based solely on the credit claims, there have been a minimum of $1,063 M in contributions. That is $870 M less than the total contributions to the fund over the same time period. The difference between the contributions could be attributed to several factors, but the returns show 53% of all credit claims have been at the maximum allowable amount. The taxpayers have either claimed $1,000 or an amount equal to their state tax liability.

The 529 tax credit was likely one factor contributing to the continued growth of the Indiana CollegeChoice Plan. About 79% of households claim the credit in multiple years, which implies that saving is continued once it begins. Research has found that reducing the cost of saving may encourage additional levels of saving, but more often it results in shifting of existing assets.[1] The $274.6 M in contributions in 2007 was likely a combination of new savings and reallocations of existing portfolios. Families could have transferred their existing college savings into a 529 account to take advantage of the discount afforded by the credit. Once the account is established, the taxpayers appear to be continuing their established savings behavior.

All states offer at least one plan, and many offer a combination of college savings and prepaid tuition plans. While the plans have the same general purpose, the fees, investment options, and tax benefits vary across the states. In regards to tax incentives, 33 states offered an income tax deduction and 2 provide a nonrefundable credit. A Government Accountability Office (GAO) study of several states' 529 college savings plans found that families with 529 plans generally have more wealth and education than those without 529 plans. The median income of families

[1] Attanasio, Orazio P, James Banks, and Matthew Wakefield (2004). Effectiveness of Tax Incentives to Boost (Retirement) Saving: Theoretical Motivation and Empirical Evidence. Organization for Economic Co-operation and Development Economic Studies. No. 39. 146-172.

with 529 plans was about three times the median income of families without 529 accounts. The study also found that 91% of the families with a 529 plan had at least one member with a college degree.[2] The Indiana 529 Savings Tax Credit claims presented below support the GAO findings.

529 Savings Tax Credit Statistics by Federal Adjusted Gross Income from Tax Year 2007 through 2012

Federal Adjusted Gross Income Tier	Percent of all Returns	529 Credit Claims	Percent of Total 529 Claims	529 Credit Amount (Thousands)	Percent of Total 529 Credits	Number Claiming Maximum 529 Credit	Percent of Tier Claiming Maximum 529 Credit
Under $25,000	43.8%	6,491	2.1%	$1,684	0.8%	3,169	49%
$25,000 to < $50,000	23.6	18,803	6.2	8,988	4.3	6,023	32
$50,000 to < $75,000	13.8	36,987	12.1	19,830	9.4	13,088	35
$75,000 to < $100,000	8.6	53,346	17.5	30,888	14.7	20,699	39
$100,000 to < $150,000	6.5	84,295	27.6	57,333	27.3	41,269	49
$150,000 to < $200,000	1.8	40,002	13.1	31,828	15.1	25,285	63
$200,000 to < $500,000	1.5	51,208	16.8	46,161	22.0	40,760	80
$500,000 or More	0.4	13,943	4.6	13,480	6.4	12,803	92
Grand Total		**305,705**		**$210,192**		**163,096**	**53%**

*Excludes forms IT-40PNR and IT-40RNR.
Source: LSA Income Tax Database.

[2] United States Government Accountability Office (2012). Higher Education: A Small Percentage of Families Save in 529 Plans. GAO-13-64. December 2012.

Indiana
Income Tax Credit
Study

Indiana College Contribution Tax Credit

IC 6-3-3-5

Legislative Services Agency

September 2013

Purpose.

The Indiana College Contribution Credit (ICCC) (IC 6-3-3-5) was established to encourage donations to Indiana colleges and universities.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	90,691	169	90,860	$8,441,519	$96,681	$8,538,200
2007	94,298	162	94,460	9,131,542	90,148	9,202,137
2008	89,911	122	90,033	8,712,686	70,595	8,783,281
2009	87,916	106	88,021	8,819,399	56,337	8,875,736
2010	87,398	130	87,528	8,566,133	71,166	8,637,299
2011	87,447	115	87,562	8,617,547	74,763	8,692,310
2012*	81,410	30	81,440	7,864,324	16,437	7,880,761
Mean	**88,439**	**119**	**88,558**	**$8,593,307**	**$68,018**	**$8,658,532**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equals 50% of the total amount contributed by a taxpayer during a taxable year.

The maximum credit varies, depending on the type of taxpayer. Single filers may claim up to $100. Joint filers may claim up to $200. Corporations may claim the lesser of either $1,000 or 10% of their total adjusted gross income (AGI) tax liability.

Analysis.

- The credit is predominately claimed on Individual Income Tax returns.
- The minimum contributions represented approximately 2.7% of the estimated gifts received by Indiana colleges and universities in 2011.
- The credit is more effective encouraging smaller contributions from a broad range of taxpayers.

Indiana College Contribution Tax Credit

Enactment: *The credit was effective beginning in tax year 1964.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has no annual credit limit.*

Award Process: *Taxpayers claim the credit on the appropriate return.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI) and Corporate AGI.*

Refund Provisions: *The credit is nonrefundable. Unused credits may not be carried forward or carried back.*

Claim Filing Requirements: *The taxpayer is required to enclose Schedule CC-40 along with their return.*

The ICCC is the oldest income tax credit. It was adopted to encourage contributions to both public and private colleges and universities by lowering the taxpayer's net cost of giving. The credit is claimed far more frequently by individual filers than corporate filers. Since 1996, 99% of the credits were claimed on Individual Income tax returns. About 3% of the Individual Income Tax returns filed have claimed this credit, while less than 1% of corporate filers have claimed the college contribution credit over the same time period. The average credit claimed by individual filers was $95 between years 1998 and 2012. An average of 22% of the corporate claims were limited by

the "10% of AGI" cap annually. The mean credit claimed by corporate taxpayers is $590 between years 1998 and 2012. The table below provides additional statistics on the how the credit has been claimed.

Additional College Contribution Credit Statistics

Tax Year	Individual Income Tax			Corporation Income Tax		
	Number Returns Claiming Max Credit	% of Maximum Claims	Minimum Contribution to Colleges	Number Returns Claiming Max Credit	% of Maximum Claims	Minimum Contribution to Colleges
2004	32,185	34%	$17,711,090	112	55%	$218,454
2005	32,871	35%	17,823,660	121	64%	210,367
2006	30,915	34%	16,883,000	104	61%	193,363
2007	34,414	36%	18,263,040	104	70%	180,295
2008	32,691	36%	17,425,289	79	64%	141,189
2009	32,028	36%	17,043,670	64	60%	113,591
2010	32,557	37%	17,132,266	77	59%	142,333
2011	33,177	38%	17,235,094	80	70%	149,526

Source: LSA Income Tax database

In 2011, the minimum contributions based on the credits claimed equaled $17.4 M. However, because of the credit limits, it is only possible to estimate the minimum amount of contributions. According to the National Center for Education Statistics (NCES), the total amount of gifts to Indiana colleges and universities was about $631 M in the same year.[1] The minimum contributions directly attributed to the credit represent only 2.7% of the total gifts. Clearly, there are more donations given to colleges and universities than can be linked to the credit. According to the tax data alone, the average donation was $211 in 2011. However, the Indiana Commission for Higher Education reports that the average contribution to a public university was nearly $1,300 in 2011. Research on the patterns of charitable giving found that individuals making over $100,000 a year tended to donate to educational institutions[2], and the Lilly Family School of Philanthropy reported that 48% of publicly announced million-dollar gifts went to institutions of higher education.[3]

The impact of tax incentives on charitable giving has been widely studied with no clear consensus among researchers. A meta-analysis of 69 papers found price elasticities ranging from +0.12 to -7.07[4]. Based on those elasticities, a 10% decrease in the cost of making a donation would result in either a 1% decrease in donations or a 70% increase in donations. Because of the lack of consensus among the literature, our analysis used two levels of responsiveness. The low level of responsiveness assumed a price elasticity of -0.5, while the high level assumed an elasticity of -2.0. By applying the response ranges to the minimum contributions inferred from the credit claims, between $3.5 M and $8.7 M in contributions may be attributed to the credit in 2011. However, it is difficult to measure the effectiveness of the credit because the Department of State Revenue does not capture data from the form used to claim the credit, the CC-40. The CC-40 contains the taxpayer's total contribution, including the contribution amount above what is allowed by the credit. Also, the credit has been in place for so long that no contribution data is available from the time before the credit was in effect.

Assuming the estimates of the price elasticity of giving are reasonable, the influence of the tax credit may decrease once the credit limit is reached. For example, a credit of $200 only provides a discount of 2% for a married couple donating $10,000 as opposed to a 50% discount for a donation of $400. The credit's purpose is similar to the federal charitable deduction, but the federal deduction is structured differently.

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[1] National Center for Education Statistics (2013). Integrated Postsecondary Education Data System. Retrieved on May 20, 2013. http://nces.ed.gov/ipeds/datacenter/

[2] Congressional Budget Office (2011). Patterns of Charitable Giving. October 18, 2011.

[3] Indiana University Lilly Family School of Philanthropy (2013). A Decade of Million-Dollar Gifts: A Closer Look at Major Gifts by Type of Recipient Organization, 2001-2001. April 2013.

[4] Peloza, John, and Pier Steel (2005). The Price Elasticities of Charitable Contributions: A Meta-Analysis. Journal of Public Policy & Marketing, 24 (2005), 260-272.

The federal charitable deduction allows individuals to deduct charitable contributions of money or property made to qualified organizations if the deductions are itemized. Unlike the ICCC, the federal charitable deduction is not limited to donations to colleges, but may include contributions to 501(c)(3) organizations and religious organizations as well. The federal deduction provides a dollar-for-dollar reduction to income when determining taxable income. Taxpayers making large charitable contributions to colleges result in a greater reduction to their federal income taxes than their Indiana income taxes. If a married couple with a federal income tax rate of 35% gave $10,000 to an Indiana college, the couple would receive a $3,500 reduction in federal income tax, but only a $200 credit towards Indiana income tax. The federal charitable deduction provides a greater discount for large donations than the ICCC.

However, the federal deduction has an additional requirement. Taxpayers must itemize their deductions to claim charitable donations. The Internal Revenue Service reports that 27% of Indiana resident filers itemized their 2011 income tax returns.[5] Because the ICCC is available to all Indiana filers, the credit appears to be designed to encourage small donations from a broader range of taxpayers.

Indiana Taxpayers Claiming the Federal Charitable Deduction in Tax Year 2011.

Federal Adjusted Gross Income	Number of Returns	Itemizers		Charitable Deduction Claims		IN College Contribution Credit*	
		No. of Returns	% of Returns	No. of Returns	% of Returns	No. of Returns	% of Returns
Under $1	38,919	0	0.0%	0	0.0%	66	0.2%
$1 to < $25,000	1,267,383	73,448	5.8	45,373	3.6	6,054	0.5
$25,000 to < $50,000	718,409	150,250	20.9	100,683	14.0	10,425	1.5
$50,000 to < $75,000	413,711	166,584	40.3	126,305	30.5	13,347	3.2
$75,000 to < $100,000	257,673	146,901	57.0	120,784	46.9	13,853	5.4
$100,000 to < $200,000	262,068	209,266	79.9	186,565	71.2	27,801	10.6
$200,000 to < $500,000	49,248	47,349	96.1	44,442	90.2	10,449	21.2
$500K or More	10,907	10,775	98.8	10,398	95.3	3,379	31.0
Grand Total	**3,018,318**	**804,573**	**26.7%**	**634,550**	**21.0%**	**85,424**	**2.8%**

*Includes forms IT-40 and IT-40EZ
Source: Internal Revenue Service - Statistics of Income and LSA Income Tax Database.

[5] Internal Revenue Service (2013). Statistics of Income: Indiana Individual Income and Tax Data – Tax Year 2011. Retrieved on May 20, 2013. http://www.irs.gov/uac/SOI-Tax-Stats---Historic-Table-2

Indiana
Income Tax Credit
Study

Indiana Comprehensive Health Insurance Association (ICHIA) Assessment Tax Credit

IC 27-8-10-2.4

Legislative Services Agency
September 2013

Purpose.

The ICHIA Assessment Tax Credit (IC 27-8-10-2.4) is for insurers that paid assessments to help fund Indiana's high-risk health insurance pool called the Indiana Comprehensive Health Insurance Association (ICHIA).

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Insurance Premium Tax	Corporation	Total	Insurance Premium Tax	Corporation	Total
2007	N/A	6	6	N/A	$2,091,301	$2,091,301
2008	N/A	7	7	N/A	522,255	522,255
2009	N/A	N/R	0	N/A	916,487	916,487
2010	N/A	N/R	0	N/A	611,095	611,095
2011	N/A	N/R	0	N/A	790,421	790,421
2012*	16	0	0	$725,147	0	725,147
Mean	**16**	**7**	**7**	**$725,147**	**$821,927**	**$942,784**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.
N/A = Tax returns are unavailable.

Description.

No new credits have been awarded after 2004. However, an insurer that had unused credits before 2005 is authorized to claim up to 10% of the unused credits each year beginning in tax year 2007.

ICHIA Assessment Tax Credit

Enactment: *The credit was effective beginning in tax year 1983.*

Expiration: *No new credits have been awarded after 2004.*

Credit Limits: *The credit has no annual credit limits.*

Award Process: *The taxpayer must show the amount of paid assessments against which a tax credit was taken as of the end of 2004.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI), Corporate AGI and Insurance Premiums Tax.*

Refund Provisions: *The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back.*

Claim Filing Requirements: *The taxpayer must provide a signed copy of the completed State of Indiana Assessment Tax Credit Form along with their return.*

Program Background.

The Indiana Comprehensive Health Insurance Association was created in 1981 to provide a safety net for Indiana residents who were unable to get medical coverage in the health insurance market. ICHIA was established as a nonprofit legal entity which was required to assure that health insurance was available throughout the year to each eligible Indiana resident applying to the association for coverage. The applicant had to meet certain general requirements and fall under one of the specific eligibility categories. To be eligible for an ICHIA policy, Indiana residents were required to the following: (1) show evidence of being denied insurance coverage by one carrier for coverage under any insurance plan that meets or exceeds the minimum requirements for accident and sickness insurance policies issued in Indiana without material underwriting restriction, (2) being refused insurance except at a rate exceeding the ICHIA plan rate, or (3) eligibility under the federal Health Insurance Portability and Accountability Act (HIPAA). The individual also could not be eligible for Medicaid or Medicare.

According to the enrollment figures provided by ICHIA, there were 7,400 participants in the ICHIA program in 2012. As required by P.L. 278-2013, ICHIA discontinued new enrollment, effective on the date the health benefit exchange began operating in Indiana (October 1, 2013).

Indiana law required that the premium rates under the program must be set at 150% of the average premium rate charged by the five carriers with the largest premium volume in the state. However, this premium level was not sufficient to cover all the medical expenses of the high-risk insurance pool participants. The difference between the total cost of the program and the total premiums paid by the participants was referred to as Net Loss.

Assessment of Net Loss Prior to 2005: Prior to P.L. 51-2004, 100% of the net loss was assessed by ICHIA to the member insurance companies. All carriers, health maintenance organizations, limited service health maintenance organizations, and self-insurers providing health insurance or health care services in Indiana are members of ICHIA. Between 1983 and 2004, the insurance companies that paid any assessment during a calendar year were allowed to offset those payments by claiming a tax credit against the Insurance Premium Tax or Corporate Adjusted Gross Income Tax. The amount of tax credits claimed represented the cost to the state in the form of forgone tax revenue. Unused tax credits were allowed to be carried forward indefinitely. The members were also provided the option to recoup the assessment amounts by increasing the rates of premiums charged for insurance policies issued under the program.

Assessment of Net Loss Starting 2005: Based on changes under P.L. 51-2004, beginning January 1, 2005, ICHIA assessed members 25% of net losses, and the balance, or 75%, was to be paid by appropriations from the state General Fund. Also beginning January 1, 2005, members were no longer able to offset new expenditures in the ICHIA program with tax credits. However, any unused tax credits existing on January 1, 2005, were allowed to be claimed against a member's tax liability in tax years beginning after December 31, 2006, provided that no more than 10% of the amount existing on January 1, 2005, is claimed in any one year, with certain exceptions. If a member's tax liability is less than the 10% limit for any taxable year, the unused credit is allowed to be carried forward without being subject to the 10% limit in future years.

Analysis.

- On average, the ICHIA program was 50% self-funded through insurance premiums.
- The expenditure not covered by premiums, called the Net Loss, were 100% assessed on member carriers until 2004. The carriers continue to carry forward tax credits provided against assessments prior to 2005.
- It is estimated that between $1 M and $2 M annually will continue to be claimed until tax year 2016.
- The average Net Loss in the ICHIA program between 2009 and 2013 has been $72 M. And 25%, or about $18 M, of this amount is assessed on the member carriers with the remaining covered by state appropriations.

Insurance companies pay Corporate AGI Tax or Insurance Premium tax. An analysis of state Corporate AGI Tax shows that $2.0 M in tax credits was claimed in tax year 2007 by insurance companies filing Corporate AGI tax. The average claim between 2008 and 2011 has been $0.7 M. Sixteen insurance carriers claimed $0.7 M in tax credits on their Insurance Premium Tax returns in 2012. Tax credit data for member carriers filing Insurance Premium Tax is only available for tax year 2012. Based on latest available data and the 10% limit on the carry forward, it is estimated that between $1 M and $2 M in tax credits will be claimed annually until tax year 2016. It will likely be claimed at a lower level in the future until all taxpayers exhaust their credits.

Indiana
Income Tax Credit
Study

Individual Development Account Tax Credit

IC 6-3.1-18

Legislative Services Agency

September 2013

Purpose.

The Individual Development Account (IDA) Tax Credit (IC 6-3.1-18) was created to encourage contributions to community development corporations (CDC) that participate in IDA programs.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	75	N/R	75	$35,027	$40,500	$75,527
2007	52	N/R	52	117,938	26,000	143,938
2008	98	N/R	98	95,715	25,000	120,715
2009	95	N/R	95	40,581	25,000	65,581
2010	113	N/R	113	63,165	20,000	83,165
2011	121	N/R	121	63,790	20,000	83,790
2012*	81	0	81	41,911	0	41,911
Mean	**91**	**N/R**	**91**	**$65,447**	**$22,357**	**$87,804**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equals 50% of the contribution amount if the contribution is between $100 and $50,000.

The credits are granted to requesting CDCs by the Indiana Housing and Community Development Authority (IHCDA). The CDCs are all 501(c)(3) tax-exempt organizations engaged in community enrichment programs. The table below contains the amount of IDA credits allocated by the IHCDA.

IDA Credit Allocation

Fiscal Year	IDA Credit Allocations
2007	140,000
2008	100,000
2009	100,000
2010	90,000
2011	100,000
2012	100,000

Source: IHCDA.

The CDCs use the credits to attract private donations. Taxpayers who donate money to CDCs to support the IDA program are awarded the credits by the CDCs. The CDCs report the qualifying taxpayers to IHCDA, which reports the information to the Department of State Revenue (DOR).

Individual Development Account Tax Credit

Enactment: *The credit was effective beginning in tax year 1997.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has an annual limit of $200,000 per state fiscal year.*

Award Process: *The credit applications are filed by the community development corporations with the IHCDA. IHCDA transmits the qualified recipients electronically to the DOR.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI), Corporate AGI, and Financial Institutions Tax.*

Refund Provisions: *The credit is nonrefundable. Unused credits may not be carried forward or carried back.*

Claim Filing Requirements: *The qualified taxpayer claims the credit on their return. They may be required to provide proof of the contribution upon DOR's request.*

Program Background.

An IDA is a special matched saving account established for individuals who earn income and: (1) the earned income is less than 175% of the federal poverty guideline or (2) the individual receives TANF. Currently, the IDA program is administered through 26 sponsoring nonprofit CDCs and partnerships with 42 financial institutions. The IHCDA is authorized to establish 1,000 accounts each fiscal year. The IHCDA must allocate state matching funds to an IDA for up to four years on the first $400 annually deposited by the account holder. The match rate is $3 of state funds for each $1 deposited by the individual account holder. In addition, the IHCDA may provide state matching funds at the same rate on up to $400 more in account holder deposits. Under the current statute, money withdrawn from an IDA for the following purposes is exempt from state and local taxation:

- Enrolling in postsecondary education or vocational training for the qualifying person or dependent.
- Attending an accredited or licensed training program that may lead to employment for the qualifying person or dependent.
- Purchasing of a primary residence or reducing the principal amount owed on primary residence.
- Purchasing, starting up, or expanding an existing business.
- Rehabilitating the primary residence of an IDA participant to provide permanent, essential improvements that add value to the home and its resale price.

The IHCDA may authorize withdrawals for other purposes, but the IHCDA has chosen to only approve withdrawals for purchases explicitly enumerated in the statute.

For accounts opened after July 1, 2011, all funds must be used within 24 months of the account's last match opportunity. After 24 months, the account will be closed, and the funds will revert to the program.

Analysis.

- The credit has a small number of claims.
- Researchers have found that reducing the cost of charitable giving through tax incentives may increase the total amount of charitable contributions.

The IDA program received an annual state appropriation of $1 M from FY 2010 to FY 2015. In 2011, the IDA credit attracted an estimated minimum of $167,600 in additional funds for the program, which is 16.8% of the total state appropriation. However, the money raised by the credit is retained by the CDCs. The CDCs use the funds to assist with IDA savings matches and to offset a portion of their administrative costs. Each CDC may use up to 20% of the first $100,000 in contributions generated by the IDA credit to pay for administrative expenses. The remaining contributions must be used towards matching IDA savings deposits. The IHCDA awarded IDA allocations to three CDCs in FY 2013.

The IDA tax credit is a targeted charitable-giving tax credit. The impact of other tax incentives established to encourage charitable giving has been widely studied with no clear consensus among researchers. A meta-analysis of 69 papers found price elasticities ranging from +0.12 to -7.07.[1] Based on those elasticities, a 10% decrease in the cost of making a donation would result in either a 1% decrease in donations or a 70% increase in donations. Because of the lack of consensus among the literature, our analysis used two levels of responsiveness. The low level of responsiveness assumed a price elasticity of -0.5, while the high level assumed an elasticity of -2.0. By applying the response ranges to the minimum contributions from the credit claims, between $33,520 and $83,800 in contributions may be attributed to the credit in 2011.

[1] Peloza, John, and Pier Steel (2005). The Price Elasticities of Charitable Contributions: A Meta-Analysis. Journal of Public Policy & Marketing, 24 (2005), 260-272.

Indiana
Income Tax Credit
Study

Indiana Insurance Guaranty Association Credit

IC 27-6-8-15 & IC 27-8-8-16

Legislative Services Agency
September 2013

Purpose.

The Indiana Insurance Guaranty Association Credit (IC 27-6-8-15 & IC 27-8-8-16) and the Indiana Life and Health Insurance Guarantee Association Credit are for insurers that pay assessments to the guaranty associations.

Tax Credit Use Profile.

Tax Year	Filers Claiming Credits			Credits Claimed		
	Insurance Premium Tax	Corporation	Total	Insurance Premium Tax	Corporation	Total
2006	N/A	12	12	N/A	$177,498	$177,498
2007	N/A	10	10	N/A	102,231	102,231
2008	N/A	13	13	N/A	315,360	315,360
2009	N/A	10	10	N/A	106,974	106,974
2010	N/A	10	10	N/A	150,355	150,355
2011	N/A	6	6	N/A	96,660	96,660
2012*	452	0	452	$1,220,892	0	1,220,892
Mean	**452**	**9**	**73**	**$1,220,892**	**$135,583**	**$309,996**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.
N/A = Tax returns are unavailable.

Description.

The credit equals up to 20% of an assessment paid to either the Indiana Insurance Guaranty Association (IIGA) or the Indiana Life and Health Insurance Guaranty Association (ILHIGA).

Program Background.

The Indiana Insurance Guaranty Association was created as a not-for-profit entity in 1971. The IIGA provides a mechanism for the payment of claims under certain insurance policies to avoid excessive financial loss to claimants or policyholders because of the insolvency of a property and casualty insurance company.

The Indiana Life and Health Insurance Guaranty Association was created in 1978 as a not-for-profit entity to protect Indiana residents from insolvency of insurance companies licensed to sell life insurance, health insurance, and annuities in the state of Indiana.

The amount of coverage provided by the guaranty associations generally depends on the type of insurance product. The maximum amount of coverage is limited to $300,000 per individual.

Indiana Insurance Guaranty Association Credit

Enactment: *The credit was effective beginning in tax year 1971.*

Expiration: *This credit has no expiration date.*

Credit Limits: *The credit has no annual limit.*

Award Process: *None. The taxpayer claims the credit on their annual return.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI), Corporate AGI, and Insurance Premiums Tax.*

Refund Provisions: *The credit is nonrefundable. Unused credits may not be carried forward or carried back.*

Claim Filing Requirements: *The taxpayer must enclose supporting assessment and credit documentation along with their return.*

The member insurance companies pay an assessment to provide funds to carry out the powers and duties of the association. If the association's assets exceed the amount necessary to carry out the obligations of the association, then the association issues a refund to member insurers in proportion to the insurers' assessments.

A member insurer may take a credit against Insurance Premium Taxes, Corporate Adjusted Gross Income Taxes, or any combination of them up to 20% of the amount of each assessment. The tax credit can be claimed in a year following the year in which the assessment was paid. When a refund is issued by the association to a member that has already claimed a tax credit against the original assessment, the member is required to repay the amount of the tax credit to the state.

Analysis.
The ILHIGA reported[1] that it ended 2011 with net recorded assets of $19.3 M. In 2012 it reported an assessment income of $1.5 M and total income (along with recoveries and investment income) of $3.7 M. In 2012 it distributed policy benefits of $8.2 M and incurred $0.9 M in administrative expenses with total expenditures of $9.1 M. The end-of-year assets in 2012 were $13.9 M. In 2012 the Board of Directors approved $11 M in assessments from member insurers and called $1.5 M of that assessed amount in 2012. This assessment was triggered by the liquidation of Lincoln Memorial Life Insurance Company.

During the period 2003 through 2012, the ILHIGA assessed a total of $19.9 M and paid covered claims and expenses of $58.8 M. During this period the ILHIGA issued one refund of $5 M.

During the period 2003 through 2012, the IIGA assessed a total of $12.3 M and paid covered claims and expenses of $33.1 M. During this period the IIGA issued two refunds totaling $12.6 M. Decisions on refunds reflect reserves and expenses as authorized by statute plus an additional amount for operating expenses. The IIGA currently has $5.5 M in available funds.

Tax Credit Claims: Under Indiana law, a foreign insurance company (organized under the laws of a state other than Indiana) is required to pay the Insurance Premium Tax. However, a domestic insurance company can pay either the Insurance Premium Tax or the Corporate AGI tax. An analysis of state Corporate AGI Tax shows the average claim between 2007 and 2011 has been $0.16 M.

Detailed tax credit data for members filing Insurance Premium Tax is only available for tax year 2012. A total of 452 insurance carriers claimed $1.2 M in tax credits on their Insurance Premium Tax returns. In the year 2009, the guarantee association issued a refund of previously assessed amounts. The tax credit claimed in 2012 was reduced by the amount of repayment by the insurance companies that received the refund. Based on the available return data, it is not possible to separate the amount of tax credit claimed from the amount of tax credit repaid due to refunded assessments.

It is estimated that between $1.5 M and $2.5 M was claimed by Indiana Insurance Premium Tax payers in 2012. This claim was reduced to $1.2 M due to repayment of tax credits claimed in previous years. The tax credit claimed on Corporate AGI Tax has been between $0.1 M and $0.3 M annually. Based on the available data, it is estimated that the tax credit that that will be claimed in the next five years is between $1.6 M and $2.8 M. Insolvency of any major insurance company could increase the impact from the tax credit.

[1] 2012 ILHIGA Audited Financial, http://www.inlifega.org/

Indiana
Income Tax Credit
Study

Lake County Residential Property Tax Credit

IC 6-3.1-20

Legislative Services Agency

September 2013

Purpose.

The Lake County Residential Property Tax Credit (IC 6-3.1-20) was created to provide property tax relief to low-income individual taxpayers who own and reside in a home within Lake County.

Tax Credit Use Profile.

Tax Year	Number of Claims	Amount of Claims	Average Credit Amount	No. of Households Claiming Max. Credit	% of Lake County Resident Returns Filed
2006	26,968	$7,848,793	$291	25,279	12.40%
2007	23,517	6,894,293	293	22,453	10.46%
2008	29,208	8,506,324	291	27,229	13.32%
2009	29,582	8,586,982	290	27,640	13.46%
2010	30,331	8,821,885	291	28,468	13.80%
2011	30,159	8,764,306	291	28,166	13.78%
2012*	29,050	8,414,751	290	26,980	13.69%

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.

Description.

The taxpayer is eligible to the claim this credit if the taxpayer meets all of the following conditions:

- The taxpayer paid property tax to Lake County during the taxable year on their principal residence.
- The taxpayer's earned income is less than $18,600.
- The taxpayer does not claim the income tax deduction for homeowner's residential property tax.

If the taxpayer's earned income is less than $18,000, the credit equals the lesser of $300 or the amount of property taxes paid on the home. The credit phases out for taxpayers with earned income exceeding $18,000. Under the phaseout, for every dollar of earned income above $18,000, the credit is reduced by $0.50 until the amount reaches $0 for taxpayers with an earned income of $18,600.

The entire cost of this credit is reimbursed to the state General Fund from Riverboat Admission Tax revenue distributed to certain local units within Lake County.

Lake County Residential Property Tax Credit

Enactment: *The credit was effective beginning in tax year 2001.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has no annual limit.*

Award Process: *None. The taxpayer claims the credit when filing their return.*

Eligible Taxes: *Individual Adjusted Gross Income Tax.*

Refund Provisions: *The credit is fully refundable.*

Claim Filing Requirements: *Taxpayers may claim the credit on the IT-40, IT-40EZ, or IT-40PNR.*

Program Background.

The Indiana Supreme Court's decision in December 1998 in the case known as "Town of St. John" led to changes in the statewide property assessment policy. In 2002 Indiana replaced the true tax value assessment with the market value assessment. In Lake County the new assessment system was estimated to shift some property tax burden from businesses to homeowners. The Lake County Residential Income Tax Credit was primarily designed to help low-income homeowners whose property tax bills would increase due to the change in assessment system.

The tax credit is claimed on an individual's income tax return. Since it is a refundable credit, the taxpayer gets the benefit of the total qualified amount regardless of whether the taxpayer has any tax liability. Before July 1 of each year, the Department of State Revenue (DOR) determines the amount of credit allowed in the prior tax year. The DOR reports that figure to the Auditor of State. The table on the right shows the annual tax credit amounts reported by the DOR to the Auditor.

Tax Credit Reported to the Auditor.

Tax Year	Credit Claimed
2001	$5,683,575
2002	6,834,732
2003	6,881,042
2004	7,177,634
2005	7,916,066
2006	7,801,663
2007	7,030,725
2008	8,421,593
2009	8,346,466
2010	8,756,251
2011	8,778,986
2012	8,759,074
Total	**92,387,807**

Note: Tax credit claim figures reported by the Department of State Revenue to the Auditor of State. These figures do not exactly match the table on page 1 due to amended returns which are reported to the Auditor in the year of amendment.

IC 6-3.1-20-7 requires the Auditor to deduct the annual credit amount reported by the DOR from the riverboat admissions tax revenue otherwise payable to Lake County, Gary, East Chicago, and Hammond as follows:

(A) ½ of the amount is deducted from the riverboat admissions taxes distributed to Lake County.

(B) ½ of the amount is deducted in three equal parts from the riverboat admissions taxes distributed to Gary, East Chicago, and Hammond.

The amount deducted from the county and cities is deposited in the state General Fund. This effectively pays back the state General Fund for the individual income tax revenue loss incurred due to this tax credit.

The total amount deducted from the fiscal year starting on July 1 of the current calendar year is equal to the tax credit claimed in the prior tax year. The table below shows the amount deducted from each local unit and deposited in the state General Fund. The state General Fund was erroneously not reimbursed in the first three fiscal years of the credit program. The Auditor deducted those amounts from the supplemental admissions tax distributions in FY2006 through FY2008.

Riverboat Admissions Tax Deducted from Local Units and Deposited in the State General Fund.

Fiscal Year	Lake County	Gary	Hammond	East Chicago	Total
FY 2006	$6,604,129	$2,201,376	$2,201,376	$2,201,376	$13,208,259
FY 2007	7,409,170	2,469,723	2,469,723	2,469,723	14,818,341
FY 2008	7,134,056	2,378,019	2,378,019	2,378,019	14,268,113
FY 2009	3,515,362	1,171,788	1,171,788	1,171,788	7,030,725
FY 2010	4,210,797	1,403,599	1,403,599	1,403,599	8,421,593
FY 2011	4,173,233	1,391,078	1,391,078	1,391,078	8,346,466
FY 2012	4,378,125	1,459,375	1,459,375	1,459,375	8,756,251
FY 2013	4,389,493	1,463,164	1,463,164	1,463,164	8,778,986
FY 2014*	4,379,537	1,459,846	1,459,846	1,459,846	8,759,074
Total	**$46,193,903**	**$15,397,968**	**$15,397,968**	**$15,397,968**	**$92,387,807**

**To be distributed.*

Analysis.

- Between $8 M and $9 M annually is claimed by Lake County homeowners.
- Between 13% and 14% of Lake County resident taxpayers claim this credit.
- 46% of the taxpayers claiming the credit have federal AGI above $18,600.
- 74% of taxpayers claiming the credit are over 65 years of age or blind.

IC 6-3.1-20 defines earned income as (1) wages, salaries, tips, and other employee compensation and (2) net earnings from self-employment. Along with other criteria, it stipulates an individual's earned income as the basis for claiming the tax credit. Earned income forms about three quarters of adjusted gross income, but it excludes income from capital gains, interest, dividends, Social Security and other pension and retirement income, unemployment compensation, and various other business income. About 46% of the taxpayers that claimed the credit since 2001 had federal AGI above $18,600. About 15% of the claimants had more than $50,000 in federal AGI. The table to the right shows the tax credit claimed by federal AGI brackets in tax year 2012 and cumulative since tax year 2001.

Number of Taxpayers Claiming Credit by Federal AGI.

Federal Adjusted Gross Income	2012	% of Returns	2001-2012 Cumulative	% of Returns
Up to $18,600	14,346	49.4%	172,311	53.8%
$18,600 to $25K	2,699	9.3%	32,247	10.1%
$25K to $50K	6,256	21.5%	66,140	20.7%
$50K to $75K	3,087	10.6%	28,192	8.8%
$75K to $100K	1,539	5.3%	12,269	3.8%
$100K to $150K	819	2.8%	6,185	1.9%
$150K to $200K	160	0.6%	1,412	0.4%
$200K to $500K	121	0.4%	1,196	0.4%
$500K and more	23	0.1%	156	0.0%
Grand Total	**29,050**		**320,108**	

The table below compares taxpayers claiming the credit with all Lake County resident filers for tax year 2012. About 65% of Lake County resident filers have federal AGI above $18,600. Almost half of the tax credit claimants in 2012 had federal AGI above $18,600. Approximately 19% of Lake County resident taxpayers are above 65 years of age or blind. Almost three quarters of the taxpayers claiming this credit are seniors or blind. Of the 14,704 claimants having federal AGI above $18,600, 11,409 are seniors or blind. It is presumed that most of their income includes Social Security, pensions and annuities, and other retirement income that is classified as unearned for tax purposes. The brackets that fall above $50,000 are presumed to include capital gains, dividends, partnership, or S-corporation income, and other business income.

Tax Credit Claimant Profile Compared to All Lake County Resident Taxpayer Profile (TY 2012)

	Number of Filers		FAGI Above $18,600	% of Returns		Taxpayer is 65 or Older or Blind	% of Returns		FAGI Above $18,600 and Over 65 or Blind	% of Returns
All Lake County Residents*	212,229		138,178	65.10%		40,154	18.90%		23,253	11.00%
Tax Credit Claimants	29,050		14,704	50.60%		21,764	74.90%		11,409	39.30%

**This category includes total Lake County resident filers. Part-time residents also claimed this tax credit, which is included in the tax credit data throughout this document and the second line of this table.*

Indiana
Income Tax Credit
Study

Maternity Home Tax Credit

IC 6-3.1-14

Legislative Services Agency

September 2013

Purpose.

The Maternity Home Tax Credit (IC 6-3.1-14) was established to provide assistance to owners who operated a registered maternity home that provided a temporary residence to at least one unrelated pregnant woman for at least 60 consecutive days during her pregnancy.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	15	0	15	$6,615	$0	$6,615
2007	13	0	13	4,718	0	4,718
2008	8	0	8	2,056	0	2,056
2009	11	0	11	6,965	0	6,965
2010	6	0	6	1,290	0	1,290
2011	9	0	9	1,827	0	1,827
2012*	0	0	0	0	0	0
Mean	**10**	**0**	**10**	**$3,912**	**0**	**$3,912**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The Maternity Home Credit was for individual and corporate taxpayers who provided a temporary residence to at least one unrelated pregnant woman for at least 60 consecutive days during her pregnancy. The taxpayer had to file an application annually with the State Department of Health to be eligible to claim the credit.

The credit equaled the lesser of $3,000 or the result of the following formula:

- $200 for each pregnant woman who resided in the home
- Multiplied by a fraction equal to the number of days each pregnant woman resided in the home divided by 30
- Minus the amounts collected or owed from each pregnant woman.

Tax credits could not exceed $500,000 for all taxpayers in a state fiscal year. The credit was nonrefundable, but unused credits could be carried forward. Unused credits could not be carried back.

Maternity homes are defined in IC 16-18-2-219 as a public or private facility that provides food and temporary residence to at least one pregnant woman during the pregnancy and not more than 180 days after childbirth. The definition excludes health facilities and landlord-tenant rental agreements from becoming registered maternity homes.

Maternity Home Tax Credit

Enactment: *The credit was effective beginning in tax year 1990.*

Expiration: *No new credits could be awarded after 2011.The credit expires in 2020.*

Credit Limits: *The credit was limited to $500,000 per fiscal year.*

Award Process: *Taxpayers were required to annually apply to the State Department of Health.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI) and Corporate AGI.*

Refund Provisions: *The credit was nonrefundable, but unused credits could be carried forward. Unused credits could not be carried back.*

Claim Filing Requirements: *Taxpayers were required to enclose the certification from the State Department of Health along with the return.*

Program Background.

The credit was enacted by P.L. 117-1990, and was amended in 1993 and 2002. The maximum amount of allowable statewide credits and the calculations used to determine the credit amount did not change.

The credit expired under P.L. 172-2011. New credits could not be awarded after December 31, 2011. Any credits previously awarded but not claimed must be carried forward to tax years 2014 and 2015.

Analysis.

- The credit usage was extremely low.

The average annual amount of credits claimed from 2006 to 2011 was $3,912, with the total claimed during that six-year period equal to $23,471. An average of 10 taxpayers claimed the credit each year between 2006 and 2011. During this period, the total amount of credits claimed declined by an average of 22.7% annually, and the number of taxpayers claiming the credit declined by an average of 9.7% annually. This decline in claims suggests a decreasing demand for the credit, which may be caused by several factors. One reason could be that the number of maternity homes that currently exists in Indiana is smaller than when the credit was enacted in 1990, or it is possible that many maternity homes currently in operation are nonprofit organizations that would be unlikely to claim a tax credit.

Indiana
Income Tax Credit
Study

Neighborhood Assistance Tax Credit

IC 6-3.1-9

Legislative Services Agency

September 2013

Purpose.

The Neighborhood Assistance Tax Credit (IC 6-3.1-9) was created to encourage taxpayers to contribute to neighborhood organizations for certain neighborhood-based programs and projects.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	3,208	18	3,226	$1,415,197	$26,450	$1,441,647
2007	3,488	16	3,504	2,232,736	19,050	2,251,786
2008	3,641	19	3,660	2,082,432	15,337	2,097,769
2009	3,649	18	3,667	1,891,303	14,729	1,906,029
2010	3,499	12	3,511	2,138,479	12,158	2,150,637
2011	2,956	9	2,965	2,181,963	11,586	2,193,549
2012*	2,335	N/R	2,335	1,720,149	1,800	1,721,949
Mean	**3,254**	**15**	**3,267**	**$1,951,751**	**$14,444**	**$1,966,195**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equals 50% of the contribution amount. The maximum annual credit per taxpayer is $25,000. The credit is capped at $2.5 M per state fiscal year.

Program Background.

The Neighborhood Assistance Program provides neighborhood organizations with tax credits they can use to attract contributions from individuals and corporations for certain neighborhood-based programs and projects. The neighborhood organizations are all tax-exempt organizations engaged in community enrichment programs.

A neighborhood organization may be engaged in any of the following activities to receive Neighborhood Assistance Credits (NACs):

1. Community Services:
    - Counseling and advice.
    - Emergency assistance.
    - Medical care.
    - Recreational facilities.
    - Housing facilities.
    - Economic development assistance.
2. Crime Prevention.
3. Education.
4. Job Training.
5. Neighborhood Assistance.

Neighborhood Assistance Tax Credit

Enactment: *The credit was effective beginning in tax year 1984.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has an annual aggregate limit of $2.5 M per state fiscal year.*

Award Process: *The credit applications are filed by the community development corporations with the Indiana Housing and Community Development Authority.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI), Corporate AGI, and Financial Institutions Tax.*

Refund Provisions: *The credit is nonrefundable, and unused credits may not be carried forward or carried back.*

Claim Filing Requirements: *The taxpayer claims the appropriate credit on their tax return.*

An eligible program or project must benefit economically disadvantaged areas or households. The funds raised from NACs must be used to support a new or existing eligible project.

The neighborhood organizations apply to the Indiana Housing and Community Development Authority (IHCDA) for NAC allocations. The IHCDA reviews the applications for completeness and determines whether projects meet the eligibility requirements. Every neighborhood organizations that passes the review process receives an NAC allocation. The allocation method varies depending on the year, but in general a neighborhood organization's allocation depends on the amount of credits they request, the total credits requested by all neighborhood organizations, and whether the entity was awarded a prior NAC allocation.

Once a neighborhood organization is awarded an NAC allocation, it sells the credits in exchange for contributions to their programs. The neighborhood organizations report the credit recipients to the IHCDA, and then the information is reported to the Department of State Revenue. The IHCDA requires the neighborhood organizations to submit periodic reports on the use of NAC-related funds and a project closeout report.

Analysis.

- The IHCDA's administrative policy maximizes the amount of total NAC-eligible contributions.
- NACs are distributed to all qualifying neighborhood organizations, and the credit allocation process is reducing the amount of NACs provided to each neighborhood organization.
- Researchers have found that reducing the cost of charitable giving through tax incentives may increase the total amount of charitable contributions.

The credit provides tax-exempt organizations a mechanism to attract more contributions for specific programs. In 1989, 39 entities were awarded an NAC allocation. More organizations apply for NACs every year. In 2013, the number of neighborhood organizations receiving NAC allocations has increased to 210. Below is a summary of the 2013 allocations by project type.

FY 2013 Neighborhood Assistance Project Approvals and Allocations.

Activity	Applicants	Amount Requested	Amount Awarded	Percent of Total Allocation
Community Service	115	$3,746,400	$1,452,300	58.1%
- Counseling & Advice	31	971,300	376,500	15.1%
- Emergency Assistance	21	692,000	268,300	10.7%
- Medical Services	21	660,500	256,000	10.2%
- Recreational Facilities	12	400,800	155,400	6.2%
- Housing Facilities	24	842,300	326,500	13.1%
- Economic Development Assistance	6	179,500	69,600	2.8%
Crime Prevention	1	5,500	2,100	0.1%
Education	39	1,018,300	394,700	15.8%
Job Training	15	459,000	177,900	7.1%
Neighborhood Assistance	40	1,220,000	472,900	18.9%
Total	**210**	**$6,449,200**	**$2,500,000**	

Source: Indiana Housing and Community Development Authority.

To maximize the use of the credits, the IHCDA will withdraw NACs from neighborhood organizations who fail to distribute 60% of their allocation by January 1. The withdrawn credits are provided to other neighborhood organizations that have exhausted their allocations. Most neighborhood organizations are able to use their NAC allocation. Approximately 1.25% of the initial allocation was re-allocated in 2012.

The average NAC allocation has decreased because of the increasing number of neighborhood organizations applying for the credit and the $2.5 M per fiscal year cap. Still, NAC allocations are highly sought after by organizations because it allows them to encourage contributions with both a state and federal tax benefit.

NAC contributions are also deductible on federal income taxes. The federal charitable deduction is a dollar-for-dollar reduction to taxable income for qualifying contributions. To claim the charitable deduction, the taxpayer must itemize deductions when filing their federal return. A household that contributes $30,000 to a nonprofit with an NAC allocation could receive a $15,000 credit on their Indiana Income Tax and, assuming the taxpayer has a 35% federal income tax rate, they could reduce their federal income tax by $10,590.

NAC is a tax credit to encourage charitable giving. The impact of other tax incentives established to encourage charitable giving has been widely studied with no clear consensus among researchers. A meta-analysis of 69 papers found price elasticities ranging from +0.12 to -7.07.[1] Based on those elasticities, a 10% decrease in the cost of making a donation would result in either a 1% decrease in donations or a 70% increase in donations. Because of the lack of consensus among the literature, our analysis used two levels of responsiveness. The low level of responsiveness assumed a price elasticity of -0.5, while the high level assumed an elasticity of -2.0. By applying the response ranges to the minimum contributions from the credit claimants, between $1.1 M and $2.2 M in contributions could be attributed to the credit in 2011.

Since 2001, NAC credits have attracted at least $50.5 M in contributions, which comprises only 8% of the estimated contributions received by Indiana-based tax-exempt organizations in 2012.[2] From 2001-2011, the credit was claimed a total of 41,443 times by 15,504 households. About 52% of NAC claimants were granted the credit more than once, and 443 households received the NAC for at least nine years since 2001. The taxpayers who received more than one NAC have claimed nearly 90% of the total NAC credits. The table below contains the credit claims since 2001 by federal adjusted gross income.

Neighborhood Assistance Credit Claims on Individual Income Tax Returns Since 2001.

Federal Adjusted Gross Income Tier	Number of NAC Claims	% of NAC Claims	NAC Credit Claimed	% of NAC Credits
Under $1	29	0.1%	$52,278	0.2%
$1 to < $25,000	1,917	4.6	292,095	1.2
$25,000 to < $50,000	3,817	9.2	895,458	3.6
$50,000 to < $75,000	5,191	12.5	1,540,295	6.2
$75,000 to < $100,000	5,586	13.5	1,990,327	8.1
$100,000 to < $150,000	7,776	18.8	3,346,538	13.6
$150,000 to < $200,000	4,352	10.5	2,280,638	9.2
$200,000 to < $500,000	9,078	21.9	6,978,464	28.3
$500,000 or More	3,697	8.9	7,314,316	29.6
Grand Total	**41,443**		**$24,690,407**	

Source: LSA Individual Income Tax Database.

NAC along with the federal charitable deduction are tools that neighborhood organizations can use to leverage donations for certain programs. The two tax incentives can reduce the cost of giving by 85%. Because of the combined discount, more neighborhood organizations are requesting NAC allocations, which is causing the average allocation to decrease every year. The neighborhood organizations can use their NAC allocation to either expand or maintain their donor base. An analysis of the claims found that more NAC is going to the same donors every year as opposed to new donors.

[1] Peloza, John, and Pier Steel (2005). The Price Elasticities of Charitable Contributions: A Meta-Analysis. Journal of Public Policy & Marketing, 24 (2005), 260-272.
[2] Internal Revenue Service (2013). Statistics of Income – Exempt Organizations: Business Master File Extract. Retrieved on September 5, 2013. Posted on August 12, 2013. The estimate excludes entities identified as private schools, colleges, and hospitals.

Indiana
Income Tax Credit
Study

Prison Investment Tax Credit

IC 6-3.1-6

Legislative Services Agency

September 2013

Purpose.

The Prison Investment Tax Credit (IC 6-3.1-6) was established to encourage taxpayers to invest in Indiana prisons to create jobs for offenders.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	19	N/R	19	$21,256	$72,194	$93,450
2007	11	N/R	11	94,600	60,372	154,972
2008	10	0	10	80,054	0	80,054
2009	10	N/R	10	76,133	73,818	149,951
2010	11	N/R	11	56,224	86,861	143,085
2011	11	N/R	11	43,745	100,000	143,754
2012*	6	0	6	35,042	0	35,042
Mean	**11**	**N/R**	**11**	**$58,151**	**$56,178**	**$114,330**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equals 50% of capital investments in a qualifying project, plus 25% of the wages paid to offender workers. The maximum credit is limited to $100,000 per taxpayer.

The taxpayer must enter into an agreement with the Indiana Department of Corrections (IDOC) before any project may be undertaken. Before a credit may be approved, the IDOC must consider the impact of the project upon the workforce of the community where the prison is located. Upon the request of the IDOC, the Department of Workforce Development (DWD) conducts a workforce displacement evaluation. Based on the evaluation, the proposed project will be cancelled if the DWD determines the project will increase unemployment in the local community.

The statute also contains a recapture provision. The taxpayer is required to pay back some of the credit granted if the qualified property is converted to a different use within three years of the investment. The recapture amount depends on when property is converted. The recapture percentages are the following:

- 75% of the tax credit if the property is converted within the first year.
- 50% of the tax credit if the property is converted after year one and not later than year two.
- 25% of the tax credit if the property is converted after year two and before year three.

Prison Investment Tax Credit

Enactment: *The credit was effective beginning in tax year 1985.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has no annual limit.*

Award Process: *The qualified investments and projects must be approved by the Indiana Department of Correction (IDOC).*

Eligible Taxes: *Individual Adjusted Gross Income (AGI) and Corporate AGI*

Refund Provisions: *The credit is nonrefundable, and unused credits may not be carried forward or carried back.*

Claim Filing Requirements: *The taxpayer is required to submit a copy of the certificate from the IDOC verifying the amount of eligible credit for the taxable year.*

Analysis.

- There are a small number of claims.
- The credit is used primarily to reduce labor costs for projects where federal statute mandates the amount of wages paid to offender workers.

According to research, prison industries can be a positive component of correctional systems. Prison industries can help offset the incarceration costs and provide a prison management tool to reduce institutional violence. Prison industries also benefit inmates by increasing their job skills and experience so they can make a successful re-entry to society. The IDOC reports that participants in correctional industry programs have a 24% lower recidivism rate than those who do not work in a correctional industry program.

Indiana's prison industries are managed by Prison Enterprises Network (PEN) Products, a division of the IDOC. PEN Products operates industries at 12 facilities across Indiana. PEN Products sells office and lounge seating, park furniture and equipment, a full line of cleaning products, laundry services, printing, offender clothing, and detention furniture. PEN Products also provides commissary services for all offenders in the IDOC.

PEN Products partners with private firms to provide additional work opportunities. PEN Products enters into two types of joint ventures: service ventures and Prison Industry Enhancement Certification Program (PIECP) projects. Service ventures are arrangements made with private firms to remanufacture or repair existing products. Pallet repair and brake remanufacturing are two examples. Service projects also include work on products for private firms that will remain within the state. The other type of venture, PIECP, is administered by the Bureau of Justice Assistance within the U.S. Department of Justice. A PIECP authorizes PEN Products and a private business to establish a joint venture to produce offender-made goods for interstate commerce. The IDOC states that PIECP participation curbs idleness among an ever-increasing population and provides offenders with marketable job skills.

Another difference between service and PIECP ventures is the wages paid to offender workers. Offenders working on service ventures are paid wages set by the state, which range from $0.35 to $1.25 per hour. However, offenders working on PIECP ventures are required by federal law to be paid a prevailing wage. The DWD determines the hourly wage to be paid to the offender worker in a PIECP project. The average hourly wage of an offender working on a PIECP project in 2012 was $8.67. While offender workers are paid a higher wage for PIECP projects, they are also required to make additional contributions from their earnings to family support, the Victims of Violent Crime Compensation Fund, the IDOC to reduce incarceration costs, and a savings account available to the offender upon release.[1]

PEN Products uses the Prison Investment Credit to recruit PIECP projects. Because of the federal requirement that offenders working on PIECP projects be paid a prevailing wage, private businesses entering these partnerships incur a higher labor cost. The Prison Investment Credit reduces the private firm's labor cost by 25%. The credit may only be used in the taxable year the wage or investment expense was incurred by the taxpayer. According to the information below, more credits are being offered than can be claimed. The statute allows the IDOC to award the credit for investments that expand jobs for offenders whether it is a service venture or PIECP project. They have chosen to use it to promote specific types of ventures where the labor costs are higher.

PEN Offender Jobs from PIECP Operations.

Measure	2010	2011	2012
Number of Partnerships	4	4	3
Offender Jobs*	296	313	276
Total Hours Worked	218,978	210,469	198,052
Total Wages Paid	$1,865,822	$1,799,818	$1,717,689
Total Potential Credit	$466,456	$449,955	$429,422
Total Claimed Credit	$143,085	$143,754	$35,025
Percent of Potential Credit Claimed	31%	32%	8%

Source: Prison Enterprises Network.
*These numbers include all offenders that worked during the year (includes turnover of workers).

[1] Aurebach, Barbara (2011). The Prison Industry Enhancement Certification Program: A Program History. White Paper-National Correction Industries Association. December 2011.

Indiana
Income Tax Credit
Study

Research Expense Tax Credit

IC 6-3.1-4

Legislative Services Agency

September 2013

Purpose.

The Research Expense Tax Credit (IC 6-3.1-4) provides an incentive for businesses to increase their research activities conducted in Indiana.

Tax Credit Use Profile.

Tax Year	Filers Claiming Credits			Credits Claimed		
	Individual	Corporation	Total	Individual	Corporation	Total
2006	524	132	656	$996,339	$33,153,959	$34,150,298
2007	940	126	1,066	5,490,413	25,842,895	31,333,308
2008	940	91	1,031	7,129,928	11,709,753	18,839,682
2009	818	95	913	5,492,302	16,168,398	21,660,700
2010	1,274	151	1,425	9,611,890	34,730,835	44,342,725
2011	1,508	168	1,676	13,380,403	49,511,402	62,891,805
2012*	1,116	37	1,153	8,595,382	1,425,957	10,021,339
Mean	**1,017**	**114**	**1,131**	**$7,242,380**	**$24,649,029**	**$31,891,408**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.

Description.

The tax credit was enacted in 1984. An alternative credit computation method that was subject to the approval of the Indiana Economic Development Corporation (IEDC) was created in 2005. In 2009, the current methods of award computation were established, and it allowed the taxpayer to choose between the two calculation methods.

The credit is based on the increased research expenses incurred during the taxable year. There are two methods to compute the credit.

Method 1: Compute the difference between the research expenses incurred within the taxable year and base-year research expenses. If the difference is less than $1 M, the credit equals 15% of the difference. If the difference is greater than $1 M, the credit equals the amount exceeding $1 M multiplied by 10% plus $150,000. Method 1 is only available for expenses incurred after December 31, 2007.

Method 2: The credit equals 10% of the difference between the taxpayer's current research expenses and 50% of the taxpayer's average qualified Indiana research expenses from the prior three years. If the business did not have qualifying research expenses in any one of the past three years, the credit equals 5% of the expenses from

Research Expense Tax Credit

Enactment: *The credit was enacted in 1984.*

Expiration: *The credit has no expiration date.*

Credit Limits: *This credit has no annual limit.*

Award Process: *The taxpayer claims the credit on their tax return.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI) and Corporate AGI Taxes.*

Refund Provisions: *The credit is nonrefundable, but unused credits may be carried forward for up to 10 consecutive years. Unused credits may not be carried back.*

Claim Filing Requirements: *The taxpayer must complete an IT-20REC form and enclose it along with their return.*

the current year. Method 2 is only available for expenses incurred after December 31, 2009. Method 2 is also available under a separate provision for research expenses incurred by a business in the aerospace industry, except the credit percentage is determined by the IEDC up to a maximum of 10%.

Program Background.

Federal R&D Tax Credit: The Indiana Research Expense Tax Credit is based on federal R&D tax credit. The federal R&D tax credit was first enacted in 1981 and is codified in the Internal Revenue Code (IRC), Section 41. This was following a decade-long decline in R&D expenditure as a share of GDP, also known as R&D intensity. The goal of this incentive was to promote innovation in the United States. It was assumed that this could be achieved by encouraging R&D spending in the public and private sectors of the economy. The credit was initially set to expire in 1985, but has since been extended or re-enacted by Congress. Most recently, on January 1, 2013, Congress extended the credit through the end of 2013.

The Indiana Research Expense Credit uses the IRC definition for "Qualified Research Expense" (QRE) as it was in effect on January 1, 2001. QRE is research undertaken for the purpose of discovering information that is technological in nature and the application of which is intended to be useful in the development of a new or improved business component, as well as all of the activities which constitute elements of a process of experimentation for a new or improved function, performance, reliability, or quality. QRE can be categorized as: (1) wages of employees engaging in qualified research, (2) supplies used for qualified research, (3) a portion of contract research expenses paid to outside entities to perform qualified research.

State R&D Tax Credits: Several states offer incentives related to R&D expenditure. These incentives reduce the business tax payments or the sales tax payment of a taxpayer. The table on page 4 shows[2] the states that provide each type of tax incentive. Forty states provide some type of business tax incentive on R&D expenditure. Most states base their business tax credit on the definitions used for federal tax credits. The state tax credits are modified to apply to the qualified expenditures within the state. Indiana, along with 30 other states, use the QRE definition used for the federal tax credit. These states provide tax credits ranging from as low as 1.25% to 40% of the QRE. Some states do not use QRE to determine the tax credit. Montana provides exemption to new R&D businesses from corporate income tax for the first five years. Mississippi and Oklahoma both offer a credit per employee hired by an R&D company. New Mexico offers a credit for small R&D companies based on their payment for gross receipt taxes or withholding. Twelve states have some form of sunset for the R&D credit in their statute. Several other states have certification requirements tied to the credit. Some states require the taxpayer to submit data showing the impact of the R&D credit. Currently the tax credit is partially or fully refundable in six states. The others, including Indiana, provide nonrefundable credits. State business tax incentives for R&D expenditures started in 1981 and continues to grow in the number and the size of the incentive.

Many states, including Indiana, provide a sales tax exemption to encourage R&D expenditure. There are 27 states that provide some kind of exemption on purchases related to R&D. The table on page 4 shows the states that provide each type of tax incentive. Indiana provides a 100% sales tax exemption for the purchase of qualified research and development property. Research and development property is defined as tangible personal property that has not previously been used in Indiana for any purpose and is acquired by the purchaser for the purpose of research and development activities devoted to experimental or laboratory research and development for new products, new uses of existing products, or improving or testing existing products.

Analysis.

- The National Science Foundation (NSF) reports[1] that the private sector funds 62% of all R&D expenditures in the U.S., with the federal government funding 31%.
- In 2008, among all U.S. states, Indiana's rank was 18 for total R&D expenditures ($6.11 B).
- In 2008, among all U.S. states, Indiana's rank was 20 for R&D intensity (R&D Expenditure/GSP) (2.3%).
- In 2008, Indiana's rank was 15 in R&D expenditure by only businesses ($4.99 B).
- Most studies show that $1 of marginal R&D tax credit results in more than $1 of R&D expenditures.

Although the R&D tax credit represents a small portion of the total state tax collections, the tax revenue foregone is a significant fraction of the corporate tax collections. On average, the corporate tax collections are reduced by 5%. On average, 127 corporate taxpayers claimed this credit every year between tax years 2006 and 2011 (excluding the

partial returns from 2012). Also on average, 80% of the credit every year was claimed by 15 taxpayers. The tax credit claimed by businesses on the Individual Income Tax is a small fraction of the total Individual Income Tax.

Data from the NSF and IRS show that Indiana is ranked 20th in R&D intensity. This could be a result of various other factors including much more lucrative tax credits provided by other states. High intensity R&D states are mostly located in the Northeast and West Coast regions. Texas, a state without any tax incentive in 2008, was 28th by R&D intensity measure. Florida, providing both business tax and sales tax incentives, was 43rd by R&D intensity measure.

Several states have conducted studies to determine the benefits of the R&D tax credit. R&D expenditures are impacted by several factors. These include location, competition, tax burden, workforce, and other social factors. Analyzing the impact of the tax incentive on R&D expenditure becomes very difficult due to considerable variation in decision-making by the businesses. Studies have produced wide-ranging conclusions. Some conclude that the R&D tax credit propels substantial expenditure, whereas others conclude that in long run there is very little evidence that firms allocate their qualified research spending over time to maximize their R&D tax credit. The most common conclusion from various studies points to an elasticity that is greater than one. This means that $1 in marginal R&D tax credit award results in more than $1 of expenditure by businesses. Long-run results are generally found to be significantly larger than in the short run.

[1] http://www.nsf.gov/nsb/sei/companion1/files/StateFacts/RnDStateFacts-IN.pdf, Indiana Facts, National Science Foundation,

[2] http://www.lbb.state.tx.us/, Texas, Legislative Budget Board

U.S. R&D and Gross Domestic Product, by State: 2008

State Ranked by R&D Intensity	R&D Expenditure ($ Millions)	GDP ($ Millions)	R&D / GDP (%)	Rank in R&D/GDP	% of Total R&D	Business Tax R&D Credits*	Sales Tax R&D Credits*
New Mexico	$5,906	$77,959	7.58%	1	1.6%	YES	
District of Columbia	5,946	96,757	6.15	2	1.6		
Maryland	16,605	280,509	5.92	3	4.5	YES	YES
Massachusetts	20,090	363,064	5.53	4	5.4	YES	YES
Connecticut	11,322	222,168	5.10	5	3.0	YES	YES
Washington	16,696	336,315	4.96	6	4.5	YES	YES
New Jersey	20,713	484,332	4.28	7	5.6	YES	YES
New Hampshire	2,496	58,808	4.24	8	0.7	YES	N/A
California	81,323	1,925,499	4.22	9	21.8	YES	
Michigan	15,507	376,184	4.12	10	4.2		YES
Virginia	11,472	400,457	2.86	11	3.1	YES	YES
Alabama	4,870	170,672	2.85	12	1.3		
Oregon	4,802	169,529	2.83	13	1.3	YES	N/A
Delaware	1,594	58,357	2.73	14	0.4	YES	N/A
Arizona	7,010	261,537	2.68	15	1.9	YES	YES
Rhode Island	1,233	47,577	2.59	16	0.3	YES	YES
Minnesota	6,697	261,951	2.56	17	1.8	YES	YES
Idaho	1,375	55,465	2.48	18	0.4	YES	YES
Pennsylvania	13,068	546,145	2.39	19	3.5	YES	YES
Indiana	6,111	263,732	2.32	20	1.6	YES	YES
Colorado	5,810	255,226	2.28	21	1.6	YES	
Utah	2,522	112,725	2.24	22	0.7	YES	YES
Vermont	546	24,993	2.18	23	0.1		YES
Ohio	10,164	472,285	2.15	24	2.7	YES	YES
North Carolina	8,612	404,386	2.13	25	2.3	YES	YES
Wisconsin	4,967	241,174	2.06	26	1.3	YES	YES
Illinois	11,961	635,080	1.88	27	3.2	YES	
Texas	20,316	1,196,771	1.70	28	5.5		
North Dakota	511	31,118	1.64	29	0.1	YES	
Kansas	2,029	124,895	1.62	30	0.5	YES	
Missouri	3,884	239,703	1.62	31	1.0		YES
Tennessee	3,871	246,436	1.57	32	1.0		
Iowa	2,136	136,007	1.57	33	0.6	YES	YES
New York	16,486	1,110,712	1.48	34	4.4	YES	YES
South Carolina	2,086	159,688	1.31	35	0.6	YES	YES
Georgia	5,232	402,097	1.30	36	1.4	YES	
West Virginia	778	61,306	1.27	37	0.2	YES	YES
Nebraska	988	84,639	1.17	38	0.3	YES	
Montana	401	35,818	1.12	39	0.1	YES	N/A
Maine	516	50,462	1.02	40	0.1	YES	YES
Hawaii	663	66,038	1.00	41	0.2		
Kentucky	1,463	155,852	0.94	42	0.4	YES	YES
Florida	6,515	747,803	0.87	43	1.7	YES	YES
Mississippi	808	95,653	0.84	44	0.2	YES	
Arkansas	747	100,232	0.75	45	0.2	YES	
Nevada	913	132,133	0.69	46	0.2	N/A	
Oklahoma	1,030	151,540	0.68	47	0.3	YES	YES
South Dakota	254	37,973	0.67	48	0.1	N/A	
Louisiana	1,193	211,459	0.56	49	0.3	YES	
Alaska	269	49,720	0.54	50	0.1	YES	N/A
Wyoming	154	38,894	0.40	51	0.0	N/A	

*N/A: state does impose the business tax or sales tax.
Source: http://nsf.gov

Indiana
Income Tax Credit
Study

Residential Historic Rehabilitation Tax Credit

IC 6-3.1-22

Legislative Services Agency

September 2013

Purpose.
The Residential Historic Rehabilitation Tax Credit (RHRC) (IC 6-3.1-22) is for the rehabilitation or preservation of a historic property that is at least 50 years old and is the taxpayer's primary residence.

Tax Credit Use Profile.

Tax Year	Number of Claims	Amount of Claims	Average Credit Amount	No. of Households Claiming Max. Credit	% of All Returns Filed
2006	48	$68,817	$1,434	16	<0.01%
2007	58	125,503	2,164	19	<0.01%
2008	133	232,793	1,750	73	<0.01%
2009	97	159,410	1,643	34	<0.01%
2010	97	167,469	1,726	33	<0.01%
2011	158	200,407	1,268	60	<0.01%
2012*	203	247,035	1,217	71	<0.01%

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/A = Not Applicable.

Description. The credit equals 20% of the qualified expenditures as approved by the Department of Natural Resources (DNR) for the preservation or rehabilitation of a taxpayer's primary residence.

A taxpayer must meet all of the following conditions to qualify for this credit:

- The historic property must be at least 50 years old and located in Indiana.
- The historic property is listed on the register of Indiana historic sites and historic structures.
- The preservation and rehabilitation plan is approved by the DNR.
- The work is completed within five years according to the submitted plan.
- The historic property is principally used and occupied by the taxpayer as their residence.
- The qualified expenditures exceed $10,000.

The statute contains a recapture provision if the property is transferred less than five years after the completion of the preservation work or if additional modifications are made to the property within five years of the initial work that do not meet the standards of the DNR.

Analysis.

- The credit usage is low.
- The credit is administered similar to the Historic Rehabilitation Tax Credit (HRTC).
- The average credit granted per project is 300% greater than the average state tax liability of a credit recipient.

Residential Historic Rehabilitation Tax Credit

Enactment: *The credit was effective beginning in tax year 2002.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has an annual aggregate limit of $250,000 per state fiscal year.*

Award Process: *The taxpayer must submit a proposed rehabilitation plan for approval by the Department of Natural Resources.*

Eligible Taxes: *Individual Adjusted Gross Income Tax.*

Refund Provisions: *The credit is nonrefundable, but unused credits may be carried forward for up to 15 years. Unused credits may not be carried back.*

Claim Filing Requirements: *The taxpayer is required to submit a copy of the certificate from the DNR verifying the amount of eligible credit for the taxable year.*

- Researchers have found that historical designation and preservation have a positive effect on property values.

The RHRC is similar to the HRTC. Both credits have the same expenditure requirements, property qualifications, and award computation. The purpose of the property distinguishes the two credits. The RHRC only applies if the property is or will be used as the taxpayer's primary residence. The HRTC is used for the development of historic commercial or income-generating properties. So, if a taxpayer converts a historical building into apartments, they would qualify for the HRTC because the taxpayer will likely attempt to generate income by renting those apartments. However, if the taxpayer decides to convert a historical building for their personal residence, they could qualify for the RHRC. [There is no federal tax credit for the historic preservation of an owner-occupied property.]

The credit is administrated the same as the HRTC. A taxpayer applies to the DNR for approval. If the approval is granted, the DNR informs the taxpayer when they may first claim the credit. The number of requests and approved expenses must be within the annual limit. In most cases, the recipients claim the credit on their next tax return. There have only been a few instances where the taxpayer had to wait more than one year to claim the credit.

The National Register online database lists 1,479 individual properties and 298 historic districts in Indiana. The breakdown of commercial and owner-occupied properties is unknown, as is the number of buildings in each historic district. The tables below list the top 10 counties by the number of approved projects and by credits awarded. Between 2003 and 2012, 145 projects were approved with a total qualifying investment of $8.4 M. The average credit per project is $11,650.

Top 10 Counties by Number of Projects	
County	**Projects**
Marion	45
Floyd	12
Allen	10
Montgomery	8
Tippecanoe	6
Elkhart	6
St. Joseph	N/R
Clinton	N/R
Jefferson	N/R
Hamilton	N/R

Top 10 Counties by Credit Amounts	
County	**Credit Amount**
Marion	$642,527
Montgomery	129,951
Jefferson	107,813
Wabash	103,416
Allen	102,470
Tippecanoe	101,293
Floyd	66,861
Bartholomew	55,281
Cass	48,155
Hendricks	41,075

*N/R = Five or fewer filers, filer count not reportable
Source: Department of Natural Resources.

Less than 3% of the claimants had a single-year tax liability greater than the average project award. Therefore, almost all claimants must carry over unused credit. The average tax liability of an RHRC claimant was $2,678 in tax years 2005 through 2011. For 40% of the claims, the RHRC completely reduced the taxpayer's state tax liability to zero. Considering the mean credit per project and the mean tax liability, the average RHRC recipient could claim the credit for up to five years before using the entire allocation. In the sample, 24% of the recipients claimed the credit in multiple years.

Researchers found that historic designations and preservation activities have a positive effect on property values. A 1993 study conducted in Canada found that after the historic designation of a property, the property, at worst, maintained its value, but usually the value increased even though the development alternatives were reduced. A 2001 study of National Register districts in Philadelphia found that residential property within the districts attracted a price premium of 131%. A 2007 study found that a historic district designation typically increased residential property values by 5% to 35% per decade over the values in similar, undesignated neighborhoods.[1]

To measure the impact of the RHRC, samples of homesteads were examined in Allen and Floyd Counties. The samples contained all the properties that received an RHRC as well as the other properties located within the same census block. The change in the assessed value (AV) of RHRC properties in Floyd County were 1.6% greater than the properties in the same census blocks built before 1952. In Allen County, even though the AV decreased for all properties, the RHRC properties were nearly 1% higher than other properties in the same census block built before

[1] Mason, Randall (2005). Economics and Historic Preservation: A Guide and Review of the Literature. Brookings Institute September 2005.

1929. While the analysis found the average AV of RHRC projects were slightly greater than properties of comparable age within the same census blocks, the data indicated that other factors beyond RHRC were driving the AV values. For example, the RHRC properties in Floyd County experienced average AV increases of 2.5% between 2008 and 2013. The AV for RHRC properties declined an average of 1.2% in Allen County over the same time period.

Indiana
Income Tax Credit
Study

Riverboat Building Tax Credit

IC 6-3.1-17

Legislative Services Agency

September 2013

Purpose.

The Riverboat Building Tax Credit (RBTC) (IC 6-3.1-17) is available to taxpayers that build or refurbish a riverboat licensed to conduct legal gambling in Indiana.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	N/R	0	N/R	$680	$0	$680
2007	N/R	0	N/R	1,750	0	1750
2008	8	N/R	8	5,322	609,455	614,777
2009	N/R	N/R	N/R	450	1,000,000	1,000,450
2010	N/R	N/R	N/R	1,388	184,438	185,826
2011	N/R	0	N/R	2,478	0	2,478
2012*	N/R	0	N/R	2,409	0	2,409
Mean	**N/R**	**N/R**	**N/R**	**$2,068**	**$256,270**	**$258,339**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The Riverboat Building Tax Credit could be claimed by any individual or company that incurs cost towards building or refurbishing a riverboat licensed to conduct legal gambling in Indiana. The tax credit equals 15% of the qualified investment. The total amount of tax credits allowed for all taxpayers in a state fiscal year is limited to $1 M.

Program Background.

The Riverboat Building Tax Credit was enacted in 1994. There has been no substantial change in the tax credit since 1994.

The Indiana Economic Development Corporation (IEDC) must approve the costs of the qualified investment before the costs are incurred. The credit is approved by the IEDC for projects where qualified investments result: (1) from work performed in Indiana to build or refurbish a riverboat; and (2) in taxable income to any other Indiana taxpayer. If the taxpayer meets the approval criteria, IEDC can award tax credits totaling up to $1 M each fiscal year. The tax credits are awarded in the order that the applications are received.

After incurring the cost upon which the tax credit awards were made, the taxpayer submits the documentation required for the certification of the tax credit. IEDC evaluates to verify that each investment for which the taxpayer takes credit is qualified investment.

Riverboat Building Tax Credit

Enactment: *The credit was enacted in 1994 and effective beginning in tax year 1995.*

Expiration: *This credit has no expiration date.*

Credit Limits: *The credit has an annual aggregate limit of $1.0 M per fiscal year.*

Award Process: *The taxpayer must submit an application to the Indiana Economic Development Corporation.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI), Corporate AGI, Financial Institutions, Insurance Premiums, and Sales Tax.*

Refund Provisions: *The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back.*

Claim Filing Requirements: *The taxpayer must enclose the certification from the IEDC along with their return.*

Examples of disqualified investments include, but are not limited to:

- Maintenance costs
- Interest on loans
- Utility expenses
- Forklifts, cars, trucks, etc.
- Slot machine additions, which are evaluated on case-by-case basis

If satisfied that the taxpayer met its obligation, the IEDC provides a certification letter to the taxpayer and the Indiana Department of State Revenue (DOR), at which point the taxpayer may claim the credit against the eligible taxes.

Analysis.

Between FY 2005 and FY 2012:

- 230,114 square feet of riverboat gaming floor space were added in Indiana.
- More than $1 B in project development costs was spent by Indiana riverboat companies.
- Indiana riverboats applied for tax credits against $29.4 M in qualified investment.
- $3.8 M of the potential $8 M in tax credits has been certified by IEDC during this period.
- $1.8 M has been claimed in credit from tax year 2006 to 2012 *(2005 data is not available).*
- Maximum available tax credit has been certified in only three out of the eight years.
- For reasons not clear, the tax credit is used well below the level of investment.
- Investments seem to be driven by competition, and the RBTC had very little impact on the level of investment.

Currently there are 13 gaming facilities licensed to operate in Indiana. Two of the gaming facilities are casinos which operate from land-based facilities. Eleven of the facilities are defined as riverboats under current law. The first riverboat started operation in Evansville on December 18, 1995. The riverboat in French Lick was the 11th and the last riverboat, starting operations on November 1, 2005. The two casinos at the racetracks opened in the second quarter of 2008. This tax credit is not applicable to these two facilities.

According to the Indiana Gaming Commission (IGC), Indiana casinos incurred $73.7 M in total project development costs[1] in CY 2012. The cumulative investment since the inception of gaming in Indiana on all casino projects has been $4.5 B. The project development costs for the riverboats were $66.3 M in CY 2012 and $4.1 B since the inception of gaming in Indiana. The table to the right shows the cost incurred at each facility.

A substantial portion of the cost reported for the riverboat casinos is presumed to be for gaming vessel building and refurbishing. The riverboat gaming floor space increased from

Project Development Cost

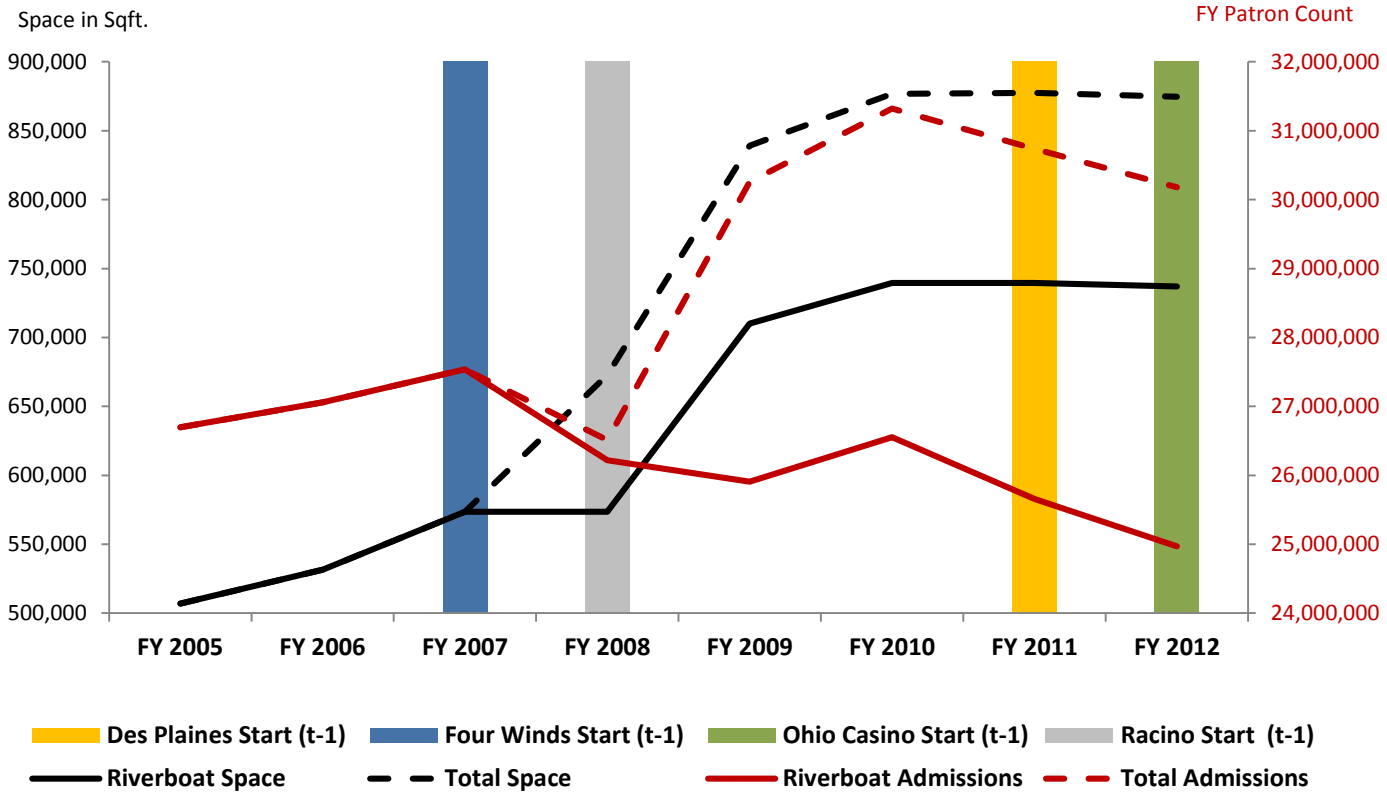
Gaming Facility	CY 2012	Cumulative Since Inception
Ameristar/ East Chicago	$7,183,909	$260,586,860
Belterra/ Dearborn County	5,931,037	369,995,486
Blue Chip / Michigan City	3,616,329	494,429,891
Tropicana / Evansville	11,117,980	229,163,188
Orange County Casino	4,050,866	419,980,859
Rising Star / Rising Sun	2,325,708	79,861,073
Hollywood / Lawrenceburg	18,499,392	677,594,575
Horseshoe/ Hammond	5,046,963	781,865,519
Horseshoe Southern/ Harrison County	4,832,215	535,476,965
Majestic Star I / Gary	2,638,216	220,013,216
Majestic Star II/ Gary	1,028,059	53,397,362
Total Riverboat Investment	**$66,270,674**	**$4,122,364,994**
Hoosier Park / Anderson	$7,026,305	$146,217,702
Indiana Live / Shelbyville	484,662	183,476,129
Total Racino Investment	**$7,510,967**	**$329,693,831**
Total All Casino Investment	**$73,781,641**	**$4,452,058,825**

Source: Indiana Gaming Commission.

Note: This figure includes, but is not limited to, all expenditures associated with the purchase of the vessel and any improvements made thereafter, the purchase and maintenance of all gaming equipment, any construction and improvements made to the land owned or leased by the corporation, and any construction and improvements made to the area adjacent to the casino's land for the specific use of casino traffic.

506,828 square feet in 2005 to 736,942 square feet in 2012. This is an increase of 45% in a span of seven years. *Figure I* below shows that the riverboats (solid lines) have added space while losing patrons. It also shows that competition (columns) to Indiana riverboats has grown on many fronts during this period. The competition stems from in-state racinos and new commercial and tribal casinos in the neighboring states. The addition of gaming floor space has been primarily driven by competition, capacity maximization, profitability, and other market conditions. The size of the tax credit relative to the size of investment is very small. It is unlikely that the tax credit has any substantial impact on the level of market-driven investment.

FIGURE - I INDIANA CASINOS - GAMING FLOOR SPACE & ADMISSIONS [2]



[1] Economic Development Report submitted by each casino to the Indiana Gaming Commission.
[2] Indiana Gaming Commission, Annual Reports, http://www.in.gov/igc/2362.htm.

Indiana
Income Tax Credit
Study

School Scholarship Contribution Tax Credit

IC 6-3.1-30.5

Legislative Services Agency
September 2013

Purpose.

The School Scholarship Contribution Tax Credit (IC 6-3.1-30.5) was established to encourage donations to nonprofit K-12 scholarship-granting organizations (SGOs).

Tax Credit Use Profile.

Tax Year	Filers Claiming Credits			Credits Claimed		
	Individual	Corporation	Total	Individual	Corporation	Total
2010	106	N/R	106	$176,207	$6,875	$183,082
2011	559	N/R	559	1,430,645	17,000	1,447,645
2012*	766	N/R	766	1,342,492	10,000	1,352,492
Mean	**477**	**N/R**	**477**	**$983,115**	**$11,292**	**$994,406**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equals 50% of the total amount contributed to a qualified SGO. Unused credits awarded after December 31, 2012, may be carried forward for up nine years. All credits awarded prior to that date had to be taken in the year they were provided.

Program Background.

The School Scholarship Program was established in 2009 to provide scholarships to qualifying students to attend participating schools. The funding for the scholarships comes from private charitable donations submitted to SGOs. The SGOs must be exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code, organized to grant school scholarships, and be approved by the Indiana Department of Education (IDOE).

An SGO may establish certain criteria for the scholarships they provide, and the recipient must at least meet the pre-enrollment and income qualification. In addition, the student's annual household income must be below 200% of the amount required to qualify for the federal free-or-reduced-lunch program. Families apply to the SGOs for a scholarship. The scholarships must be at least $500 or can be up to full tuition.

School Scholarship Contribution Tax Credit

Enactment: *The credit was effective beginning in tax year 2010.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has an annual aggregate limit of $7.5 M per fiscal year.*

Award Process: *Taxpayers claim the credit on the appropriate return.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI) Corporate AGI, Financial Institutions, and Insurance Premiums Tax.*

Refund Provisions: *The credit is nonrefundable, but unused credits awarded after December 31, 2012, may be carried forward for up to nine years. Unused credits may not be carried back.*

Claim Filing Requirements: *The taxpayer is required to maintain a copy of Schedule IN-SSC.*

The program defines a participating school as a public or private school where students are required to pay tuition to attend and the institution voluntarily agrees to enroll the student. The school must be accredited by the Indiana State Board of Education or a state, national, or regional accreditation organization. The school must also administer the ISTEP+ or another nationally recognized test.

There were 4,660 scholarships awarded in fiscal year 2012 with an average scholarship award of $1,010. A study of the income distribution of Indiana taxpayers reveals that 69% of dependents live in households that meet the minimum income requirements. There may be an estimated 742,000 to 816,000 children that could qualify for a School Scholarship based on household income.[1]

The table below contains the total donations and credit authorizations by state fiscal year.

School Scholarship Tax Credit Fiscal Year Allocations

Fiscal Year	Maximum Credit Allowed	Total Credits Authorized	Total Donations
FY 2010	$2,500,000	$124,200	$248,400
FY 2011	2,500,000	409,053	818,106
FY 2012	5,000,000	2,053,966	4,107,931
FY 2013	5,000,000	2,808,879	5,617,758

Source: Indiana Department of State Revenue.

Analysis.

- The credit usage is low.
- The amount of claims has grown considerably since the credit was established.
- Researchers have found that reducing the cost of charitable giving through tax incentives may increase the total amount of charitable contributions.
- There are other programs that provide benefits to both the taxpayer and the scholarship recipient and that encourage contributions to SGOs.

The School Contribution Tax Credit has been claimed on 1,431 returns by 1,161 different taxpayers for a total of $2.4 M since 2010. The vast majority of the credits are claimed on the Individual Income Tax. The average credit claim is $2,093. The amount of credits and contributions has increased each year. The table below contains credit claims since 2010 by federal adjusted gross income

School Contribution Tax Credit Claims on Resident Individual Income Tax Returns since 2010.

Federal Adjusted Gross Income Tier	% of All Returns	Number of Claims	% of Total Claims	Credits	% of Total Credits
Under $25,000	42.6%	42	3.0%	$47,754	1.7%
$25,000 to < $50,000	23.9	93	6.6	29,744	1.0
$50,000 to < $75,000	14.0	131	9.3	55,122	1.9
$75,000 to < $100,000	8.8	123	8.7	72,729	2.5
$100,000 to < $150,000	6.9	241	17.1	189,621	6.5
$150,000 to < $200,000	1.9	146	10.3	150,503	5.1
$200,000 to < $500,000	1.6	314	22.3	560,415	19.1
$500,000 or More	0.4	321	22.7	1,820,733	62.2
Grand Total		**1,411**		**$2,926,621**	

Excludes forms SC-40 and IT-40PNR
Source: LSA Income Tax database.

The School Scholarship tax credit was enacted to encourage charitable giving. The impact of other tax incentives established to encourage charitable giving has been widely studied with no clear consensus among researchers. A

[1] The number of qualifying dependents was estimated using the LSA Income Tax Database for tax year 2011 and U.S. Census Table: PEPSYASEX-Geography-Indiana: Annual Estimates of Resident Population by Single Year of Age and Sex: April 1, 2010, to July 1,2012.

meta-analysis of 69 papers found price elasticities ranging from +0.12 to -7.07.[2] Based on those elasticities, a 10% decrease in the cost of making a donation would result in either a 1% decrease in donations or a 70% increase in donations. Because of the lack of consensus among the literature, our analysis used two levels of responsiveness. The low level of responsiveness assumed a price elasticity of -0.5, while the high level assumed an elasticity of -2.0. By applying the response ranges to the minimum contributions from the credit claimants, between $1.1 M and $2.2 M in contributions could be attributed to the credit since it was enacted.

SGO contributions also qualify for the federal charitable deduction. The federal charitable deduction is a dollar-for-dollar reduction to taxable income for qualifying contributions. To claim the federal charitable deduction, the taxpayer must itemize deductions when filing their federal income tax return. A household that contributes $4,000 to an SGO would receive a $2,000 Indiana income tax credit and could reduce federal income tax by $1,400 assuming the taxpayer has a 35% federal income tax rate.

The procedure of awarding Choice Scholarships provides another incentive for taxpayers to contribute to SGOs. Students that receive a School Scholarship for an SGO are eligible to receive the Choice Scholarship the following year, provided the student still meets the income qualification. A donor can designate a specific school or group of schools for their donation. For example, a donor could give $1,000 to an SGO to provide one kindergartener a scholarship to the school of the donor's choice. That student is then eligible to receive up to $38,300 in state tuition assistance over the next eight years through the Choice Scholarship program.

[2] Peloza, John, and Pier Steel (2005). The Price Elasticities of Charitable Contributions: A Meta-Analysis. Journal of Public Policy & Marketing, 24 (2005), 260-272.

Indiana
Income Tax Credit
Study

Small Employer Wellness Program Tax Credit

IC 6-3.1-31.2

Legislative Services Agency
September 2013

Purpose.

The Small Employer Wellness Program Tax Credit (IC 6-3.1-31.2) was established to encourage small employers to offer qualified wellness programs to their employees. The taxpayer had to be actively engaged in business and employ between 2 and 100 employees.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2007	83	9	92	$81,631	$20,681	$102,312
2008	170	20	190	180,758	59,030	239,788
2009	199	11	210	265,504	28,829	294,333
2010	183	N/R	183	386,008	24,296	410,304
2011	196	7	203	423,552	33,513	457,065
2012*	0	0	0	0	0	0
Mean	**139**	**9**	**146**	**$222,909**	**$27,725**	**$250,634**

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equaled 50% of the costs incurred by the taxpayer during the taxable year for providing a qualified wellness program to the taxpayer's employees.

A qualified wellness program was required to be approved by the State Department of Health (ISDH) and provide rewards for employees':

- Appropriate weight loss.
- Smoking cessation.
- Pursuit of preventative health care services.

A small employer was defined as an employer of 2 to 100 employees. The credit was nonrefundable, but unused credits could be carried forward. Unused credits could not be carried back. The credit could be applied to individual or corporate AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities. New credits could not be awarded after December 31, 2011.

Program Background.

The Small Employer Wellness Program Tax Credit was enacted by P.L. 218 in 2007 with the purpose of encouraging small employers to implement wellness programs. The ISDH was responsible for reviewing applications, which were to be submitted annually. Applications were evaluated based on several program aspects, including education and

Small Employer Wellness Program Tax Credit

Enactment: *The credit was effective beginning in tax year 2007.*

Expiration: *No new credits could be awarded after 2011.The credit expires in 2020.*

Credit Limits: *The credit had no annual limits.*

Award Process: *The taxpayer had to receive a certification from the State Department of Health before claiming the credit.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI), Corporate AGI, Financial Institutions, and Insurance Premiums Tax.*

Refund Provisions: *The credit was nonrefundable, but unused credits could be carried forward. Unused credits could not be carried back.*

Claim Filing Requirements: *The taxpayer had to enclose the certification from the State Department of Health along with their return.*

intervention materials, rewards, and measurement of employees' success. From 2007 to 2011, ISDH certified an average of 79 employers each year.

For tax years 2007 and 2008, ISDH certified wellness vendors in addition to small employers in order to give small employers access to pre-approved wellness plans. However, the certified vendor status was discontinued due to the disproportionately high number of applications from vendors.[1]

In 2011, P.L. 172 enacted a moratorium on the tax credit. No new credits were awarded after 2011, and the credit is set to expire in 2020. Credits previously awarded but not claimed may be carried forward only during 2014 and 2015.

Analysis.

- The amount of credits claimed was relatively small, but increased each year the credit was available.
- Wellness programs helped improve overall employee health and productivity.

The average annual amount of tax credits claimed from 2007 to 2012 was $250,634, with the total claimed during that six-year period equal to $1,503,802. The amount of credits claimed increased each year by 45% on average through 2011. No credits were claimed in 2012.

ISDH conducted evaluations of the tax credit in 2011 and in 2012.[2] The 2012 study found that as a result of receiving the tax credit, many employers improved or supplemented their wellness programs by adding rewards programs, increasing employee education, or changing the physical environment of the work place (e.g., purchasing physical activity equipment). The most common reasons employers gave for starting a wellness program included reducing health care costs and improving overall employee health. The ISDH study found that many employers that had a wellness program in place for more than two years had improved in these areas. Employers reported that:

- Employee productivity had increased.
- Employees reported fewer accidents and injuries at work.
- Employees took fewer sick days.
- Employees were more active in the workplace.
- More employees were refraining from tobacco use.
- Health insurance costs were rising at lower rates than in previous years.
- Employees were more concerned about topics that related to preventive care.

The 2011 ISDH study found that the majority of employers that applied for the credit fell into the following categories (based on NAICS codes): professional, scientific, and technical services (18%); manufacturing (18%); insurance and finance (13%); and retail trade (7%). In addition, most small employers (94% of applicants in 2011) offered health insurance to full-time employees.

ISDH reported that since the credit has expired, many employers did not plan on eliminating their wellness programs. However, some reported they would need to cut back on certain activities, which could decrease employee participation.

[1] Indiana State Department of Health, Report on Small Employer Qualified Wellness Program Tax Credit as Required by IC 5-14-6, December 2011.
[2] Indiana State Department of Health, Communities Putting Prevention to Work (CPPW): State and Territorial Initiative Final Report, January 24, 2013.

Indiana
Income Tax Credit
Study

Teacher Summer Employment Tax Credit

IC 6-3.1-2

Legislative Services Agency

September 2013

Purpose.

The Teacher Summer Employment Tax Credit (IC 6-3.1-2) was established to encourage businesses to hire certain teachers during their summer vacation.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual	Corporation	Total	Individual	Corporation	Total
2006	22	0	22	$11,917	0	$11,917
2007	21	0	21	15,855	0	18,355
2008	19	N/R	19	9,199	2,500	11,699
2009	24	0	24	12,916	0	12,916
2010	20	0	20	13,106	0	13,106
2011*	18	0	18	23,911	0	23,911
Mean	21	0	21	**$14,484**	**$417**	**$15,317**

*2011 was the final year to claim the credit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equaled the lesser of $2,500 or 50% of the compensation paid to the eligible teacher by the taxpayer during the taxable year.

Program Background.

The credit was intended to encourage the hiring of certain teachers in qualified positions during their summer recess. The statute defined an eligible teacher as a licensed teacher employed by a public school corporation to teach in a designated shortage area during the regular term. The shortage areas included mathematics, science, and other areas designated by the Professional Standards Board. The employer had to hire the teacher for a position that required the teacher's academic training in the shortage area and utilized skills and expertise developed as a result of their training or teaching experience.

Analysis.

- Credit usage was extremely low compared to the eligible population.

The Teacher Summer Employment Tax Credit was not widely used given the eligible population. Ten firms were authorized to claim the credit for hiring a total of 29 teachers between 2001 and 2010 according to the Indiana Department of Education. The credit was used to reduce the wage cost of an average of three teachers a year. In 2008, there were approximately 4,400 math, science, and special education teachers with less than 10 years

Teacher Summer Employment Tax Credit

Enactment: *The credit was effective beginning in tax year 1984.*

Expiration: *No new credits could be awarded after 2011.The credit expires in 2020.*

Credit Limits: *The credit was limited to $500,000 per fiscal year.*

Award Process: *The qualified positions had to be certified by the Indiana Department of Education.*

Eligible Taxes: *Individual Adjusted Gross Income (AGI) Corporate AGI, Financial Institutions, and Insurance Premiums Tax.*

Refund Provisions: *The credit was nonrefundable. Unused credits could not be carried forward or carried back.*

Claim Filing Requirements: *The taxpayer had to enclose the qualified position certificate along with their return.*

of teaching experience. The average annual approvals were less than 0.07% of the math, science, and special education teachers with less than 10 years of experience teaching in 2008.

Indiana
Income Tax Credit
Study

Unified Tax Credit for the Elderly

IC 6-3-3-9

Legislative Services Agency

September 2013

Purpose.

The Unified Tax Credit for the Elderly (UTCE) (IC 6-3-3-9) provides a refundable income tax credit to low-income Indiana residents who are at least 65 years old.

Tax Credit Use Profile.

Tax Year	Number of Claims	Amount of Claims	Average Credit Amount	No. of Households Claiming Max. Credit	% of All Returns Filed
2006	156,199	$11,012,010	$70.50	54,980	5.13%
2007	162,519	11,666,270	71.78	61,341	5.16%
2008	159,447	11,431,740	71.70	59,363	5.12%
2009	165,808	11,967,643	72.18	61,949	5.44%
2010	160,826	11,587,820	72.05	60,186	5.23%
2011	160,190	11,581,160	72.29	60,504	5.16%
2012*	156,816	11,353,380	72.40	59,458	5.13%

*The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.

Description.

The taxpayer is eligible to claim this credit if all of the following conditions are met:

- The taxpayer and/or spouse is at least 65 years old by the end of the taxable year.
- The taxpayer's federal adjusted gross income (FAGI) is less than $10,000.
- The taxpayer has been an Indiana resident for at least six months.

The credit amount is based on the taxpayer's income and marital status.

Federal Adjusted Gross Income	Credit When One Taxpayer is 65 or Over (Single or Joint Filer)	Credit When Both Taxpayers are 65 or Over
Less than $1,000	$100	$140
Between $1,000 and $2,999	$50	$90
Between $3,000 and $9,999	$40	$80

Source: Department of State Revenue.

Analysis.

- A substantial number of taxpayers over the age of 65 claim this credit.
- A substantial amount of the credit is claimed on the stand-alone form, SC-40.
- The number of claims has been decreasing since 2001.

Unified Tax Credit for the Elderly

Enactment: *The credit was effective beginning in tax year 1982. Modifications were made for tax years beginning in tax years 1983 and 1985.*

Expiration: *This credit has no expiration date.*

Credit Limits: *This credit has no annual limit.*

Award Process: *None, the taxpayer claims the credit when filing the return.*

Eligible Taxes: *Individual Adjusted Gross Income Tax.*

Refund Provisions: *The credit is fully refundable.*

Claim Filing Requirements: *Taxpayers may claim the credit on the IT-40 or on the stand-alone credit form, SC-40.*

The credit was established to provide supplemental income to low-income elderly Indiana residents. Since 2001, approximately 31% of the taxpayers 65 years of age or older claim the UTCE. Some taxpayers eligible to receive the

maximum credit are not required to file an Indiana tax return. So, the Department of State Revenue (DOR) produced the SC-40 tax form. The SC-40 form provides a method for an eligible taxpayer to receive the credit without having to fill out a complete tax return. In the past 11 years, about 43% of all UTCE was claimed on the SC-40.

UTCE Claims by Tax Year and Form Type.

Tax Year	Number of Claims			Percent of Claims	
	IT-40	SC-40	Total	IT-40	SC-40
2005	111,109	53,904	165,013	67.3%	32.7%
2006	106,120	50,079	156,199	68.0	32.0
2007	113,578	48,941	162,519	69.9	30.1
2008	111,474	47,973	159,447	70.0	30.0
2009	117,933	47,875	165,808	71.1	28.9
2010	115,244	45,582	160,826	71.7	28.3
2011	114,569	45,621	160,190	71.5	28.5

Tax Year	Credit Amount			Percent of Credit Amount		Average Credit Claimed	
	IT-40	SC-40	Total	IT-40	SC-40	IT-40	SC-40
2005	$6,454,489	$5,178,720	$11,633,209	55.5%	44.5%	$58.09	$96.07
2006	6,188,340	4,823,670	11,012,010	56.2	43.8	58.31	96.32
2007	6,915,490	4,750,780	11,666,270	59.3	40.7	60.89	97.07
2008	6,764,130	4,667,610	11,431,740	59.2	40.8	60.68	97.30
2009	7,302,523	4,665,120	11,967,643	61.0	39.0	61.92	97.44
2010	7,127,410	4,460,410	11,587,820	61.5	38.5	61.85	97.85
2011	7,112,520	4,468,640	11,581,160	61.4	38.6	62.08	98.00

Source: LSA Income Tax database.

The number of UTCE credits claimed has decreased by an average of 0.41% a year since 2001, unlike the above-65 population. According to the U.S. Census Bureau, the Indiana population 65 years of age and older has increased an average of 1.30% a year. The percentage of individuals 65 years of age and older living below poverty in 1999 was 7.7%, compared to 7.2% in 2011. However, the number of elderly individuals with income below the poverty line actually increased by an average of 0.59% a year from 1999 to 2011.

The income threshold for the credit explains why the number of UTCE claims is decreasing while the number of elderly living below poverty is increasing. To qualify for the UTCE, the taxpayer must have an FAGI of less than $10,000. This amount was established in 1982. Adjusting for inflation $10,000 in 1982 is equivalent to more than $24,000 in today's dollars. If the income threshold was adjusted for inflation, the number of claims would have been 299,366 in 2001 and 325,721 in 2011. Adjusting the income thresholds would have resulted in about $7.9 M in additional credit awarded in 2011.

Overall, the credit is providing income assistance to low-income elderly taxpayers. The credit is reaching a narrower band of taxpayers today than it was when the credit was first established, but the assistance is going to those elderly taxpayers in the most need of assistance.

Indiana
Income Tax Credit
Study

Voluntary Remediation Tax Credit

IC 6-3.1-23

Legislative Services Agency

September 2013

Purpose.

The Voluntary Remediation Tax Credit (IC 6-3.1-23) is for qualified investments involving redevelopment of a brownfield or environmental remediation.

Tax Credit Use Profile.

	Filers Claiming Credits			Credits Claimed		
Tax Year	Individual*	Corporation	Total	Individual*	Corporation	Total
2006	79	0	79	$24,450	$0	$24,450
2007	93	0	93	28,143	0	28,143
2008	66	0	66	19,671	0	19,671
2009	63	0	63	36,877	0	36,877
2010	43	0	43	11,937	0	11,937
2011	53	0	53	16,212	0	16,212
2012**	43	0	43	15,494	0	15,494
Mean	**63**	**0**	**63**	**$21,826**	**0**	**$21,826**

*Includes both claims against state and local income tax liabilities.
**The 2012 filer counts and credit amounts are not full-year totals because of filing extensions and suspension of returns for audit.
N/R = Five or fewer filers, filer count not reportable.

Description.

The credit equals the lesser of $200,000 or the sum of 100% of the first $100,000 of the qualified investment and 50% of the amount that exceeds $100,000.

A qualified investment means the costs that:

- Result from work performed in Indiana to conduct a voluntary remediation.
- Are not recovered by a taxpayer from another person after the taxpayer has made a good-faith effort to recover the costs.
- Are not paid from state financial assistance.
- Result in taxable income to any Indiana taxpayer.
- Are approved by the Indiana Department of Environmental Management (IDEM) and the Indiana Finance Authority (IFA).

Analysis.

- No credits have ever been authorized by IDEM and IFA.
- Businesses may be pursuing more lucrative tax credits or incentives.

No Voluntary Remediation Tax Credits were ever approved by either the IFA or the IDEM. All credit claims reported in the table above are erroneous and subject to audit by the Department of State Revenue.

Voluntary Remediation Tax Credit

Enactment: *The credit was effective beginning in tax year 2002.*

Expiration: *No new credits may be awarded after 2007.*

Credit Limits: *This credit has an annual aggregate limit of $2 M per state fiscal year.*

Award Process: *The taxpayer must have the qualifying expenditures approved by the Indiana Department of Environmental Management and the Indiana Finance Authority.*

Eligible Taxes: *All taxes listed under IC 6-8.1-1-1.*

Refund Provisions: *The credit is nonrefundable, but unused credits may be carried forward for up to five years. Unused credits may be carried back to the immediately preceding taxable year.*

Claim Filing Requirements: *The taxpayer is required to submit a copy of the certificate from the IFA and IDEM verifying the amount of eligible credit for the taxable year.*

Taxpayers are conducting remediation projects in Indiana without applying for the state tax credit. There are at least 3,400 active sites that may have qualified for the credit, and an average of 390 new projects begin each year. The remediation costs can range from $15,000 to $100 M, depending on the scope of the project.[1]

The Voluntary Remediation Tax Credit was enacted to complement the federal Brownfields Tax Incentive. The Brownfields Tax Incentive allowed environmental cleanup costs to be fully deductible in the year incurred, rather than capitalized and spread out over time. This gave taxpayers an immediate reduction to taxable income to help offset the short-term remediation costs. The federal Brownfield Tax Incentive was signed into law in 1997 and extended through December 31, 2011. The federal program was not renewed and cannot be claimed for tax years beyond 2011. Also, about half of the other states offer some type of tax incentive including: remediation tax credits; cancellation of back taxes; sales tax rebates; and property tax abatements. Many of the brownfield remediation tax programs grew out of economic development incentives for distressed areas or enterprise zone programs.[2]

While Indiana allowed the Voluntary Remediation Tax Credit to expire, it still has programs in place that offer financial assistance for brownfield remediation.[3] They include:

- Indiana Brownfields Program's Revolving Loan Fund, which provides funding through low-to-zero-interest loans to finance environmental cleanups and to facilitate redevelopment of brownfield sites throughout the state.
- Supplemental Environmental Projects (SEPs), which allow the money from assessed civil penalties to be used to provide additional redevelopment funding.
- Automotive Sector Initiative, which provides financial assistance to facilitate the redevelopment of permanently idled or closed auto dealerships and parts/supplier, assembly, and manufacturing plants that are brownfields sites resulting from the downsizing of the automotive manufacturing sector.
- Brownfield Property Tax Reductions or Waivers, which are provided by the Department of Local Government Finance, for delinquent taxes on a brownfield property.

[1] The totals include projects from the following Indiana programs: Voluntary Remediation Program (VRP), Brownfields (BF) Program, State Cleanup (SC) Program, and Leaking Underground Storage Tanks Section (LUST).

[2] United States Environmental Protection Agency (2011). A Guide to Federal Tax Incentives for Brownfield Redevelopment. Retrieved on August 14, 2013. http://www.epa.gov/brownfields/tax/index.htm. EPA 560-F-11-003. April 2011.

[3] Indiana Finance Authority (2013). Indiana Brownfields website. Accessed on August 14, 2013. http://www.in.gov/ifa/brownfields/2366.htm