

Indiana Legislative Services Agency

Fiscal Issue Brief

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Indiana's Geographically Targeted Development Programs: Enterprise Zones

Introduction

Indiana's Enterprise Zone (EZ) program was established by P.L. 23-1983 [IC 5-28-15], and it allows EZs to be located in municipalities or on former military installations. The first EZs established were located in Evansville, Fort Wayne, Michigan City, Richmond, and South Bend in 1984. These EZs were redesignated in 2004 after an initial 20-year term. The Indiana Economic Development Corporation (IEDC) administers the EZ Program and oversees the operation of the EZs in the state.¹ The IEDC Board has the power to review and approve applications for proposed EZs, renew existing EZs, and monitor EZ operations and incentive use. EZs are designated based on demographic, socioeconomic, and geographic size criteria. The initial designation period is 10 years, with EZs being eligible for two 5-year renewals based on performance reviews by the IEDC Board. In addition, EZs which have operated for a full 20-year period may be redesignated by the IEDC Board for a new term with an initial 10-year designation period.² The IEDC Board is authorized to designate two new municipal EZs each year until December 31, 2015.

Locations

Currently, there are 21 municipal EZs and 3 EZs located on former military installations. Table 1 lists the active Indiana EZs and the year that each was initially designated.

Table 1: Current Indiana Enterprise Zone Locations and Establishment Year.

Enterprise Zone	Established	Enterprise Zone	Established
Bedford	1993	Marion	1993
Bloomington	1992	Michigan City	1984
Connersville	1995	Mitchell	2001
Elkhart	1999	New Albany	2000
Evansville	1984	Portage	2001
Fort Wayne	1984	Richmond	1984
Frankfort	2003	Salem	2003
Hammond	2005	South Bend	1984
Jeffersonville	2000	Vincennes	2002
Kokomo	1990	Fort Harrison	1997
LaPorte	2002	Grissom Aeroplex	1996
Lafayette	1993	River Ridge Dev. Authority*	1998

*Located on the site of the former Indiana Army Ammunition Plant at Jeffersonville.

Source: Indiana Economic Development Corporation, January 2010.

¹ Until 2005, the Enterprise Zone Board with the assistance of the Indiana Department of Commerce approved, reviewed, and monitored the EZ program.

² P.L.182-2009(ss) [IC 5-28-15-10(b)] prohibits an EZ from expiring during the period December 1, 2008 to December 31, 2014, if the fiscal body of the municipality where the EZ is located adopts a resolution renewing the EZ for a 5-year period. The 5-year renewal is applicable to EZs after the initial 10-year designation period or either of the ensuing 5-year designation periods.

EZ Business Tax Incentives

Originally, there were five state business tax incentives specific to EZs: (1) the Employment Expense Credit; (2) the Inventory Tax Credit; (3) the Investment Cost Credit; (4) the Gross Income Tax Exemption; and (5) the Loan Interest Credit. As a result of the tax restructuring initiative enacted in 2002, the Gross Income Tax was repealed at the end of 2002 and the Inventory Tax was eliminated statewide through the 100% inventory deduction beginning in 2007. Consequently, the Gross Income Tax Exemption and the Inventory Tax Credit are no longer operative as EZ tax incentives. The Employment Expense Credit and the Loan Interest Credit are applicable to three state taxes: the Income Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. The Investment Cost Credit, however, is applicable to the Income Tax only. In addition to the three remaining state business tax incentives, a new Property Tax Investment Deduction was enacted and went into effect on July 1, 2005. The existing EZ tax credits are described below followed by Table 2, which reports the EZ tax credit amounts claimed by taxpayers in tax years 2005 through 2008.

Employment Expense Credit: This is a credit for incremental wages paid by an EZ business to an employee who is an EZ resident. At least 90% of the employee's services must be directly related to the EZ business, and at least 50% of the employee's time must be spent working at the EZ business. The credit is equal to 10% of the additional wages paid to a qualified employee during the year up to a maximum of \$1,500. The credit is nonrefundable, but unused credits may be carried forward for up to 10 years or carried back for up to 3 years. The credit may be applied against individual or corporate Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities.

Investment Cost Credit: This is a state tax credit for equity investment in an EZ business. The credit is equal to a maximum of 30% of the price of the ownership interest purchased by the taxpayer. The allowable credit percentage up to 30% varies depending upon the type of investment, the type of business, and the number of jobs created by the investment. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. This credit may be applied against individual or corporate AGI tax liability.

Loan Interest Credit: This is a state tax credit for interest income earned by a taxpayer from a loan that directly benefits an EZ business, increases EZ property values, or is used to rehabilitate, repair, or improve an EZ residence. The credit is equal to 5% of the loan interest received during the year. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. This credit may be applied against the individual or corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax.

Table 2: EZ Tax Credit Amounts Claimed by Individual and Corporate Taxpayers, 2005-2008.

Tax Year	Employment Expense Credit		Investment Cost Credit		Loan Interest Credit	
	Individual	Corporate	Individual	Corporate	Individual	Corporate
2005	419,088	*	151,875	*	71,096	*
2006	248,860	802,567	22,071	-	12,944	2,441,498
2007	605,188	871,830	171,502	1,358	76,630	2,490,933
2008	502,076	**	141,734	**	22,625	**

*Data not reported separately for individual taxpayers before 2005 or for corporate taxpayers before 2006.

**Date not available as of publication date.

Source: Indiana Department of State Revenue, Tax Return Data 2005-2008.

The EZ Property Tax Investment Deduction is described below followed by Table 3, which reports the deductions claimed in 2009 and 2010, and the tax impact of these deductions.

Property Tax Investment Deduction: This is a property tax deduction for the increased value of an EZ business property due to real and personal property investment by the business. The added valuation may be deducted for up to 10 years. Qualified investment at an EZ location includes the following: (1) purchase of a building, new manufacturing or production equipment; (2) costs associated with the repair,

rehabilitation, or modernization of an existing building and related improvements; (3) onsite infrastructure improvements; (4) construction of a new building; and (5) costs associated with retooling existing machinery.

Table 3: EZ Property Tax Investment Deduction Amounts and Tax Impact, 2009-2010.

Location	2008 Pay 2009			2009 Pay 2010		
	Personal Deduction	Real Deduction	Tax Impact Pay 2009	Personal Deduction	Real Deduction	Tax Impact Pay 2010
Bedford	1,175,619	237,700	49,555	2,963,997	315,300	119,478
Bloomington	1,351,262	0	23,589	0	4,618,500	85,837
Connorsville	292,655	4,200	11,973	3,292,760	395,100	165,753
Elkhart	0	0	0	4,583,380	0	155,179
Evansville	1,005,0170	789,620	280,613	12,313,590	2,227,420	373,483
Fort Wayne	13,733,005	1,648,890	436,916	17,791,562	3,537,900	629,591
Frankfort	0	0	0	*	*	*
Hammond	18,386,607	17,000	822,366	0	0	0
Jeffersonville	0	12,711,840	304,118	0	13,062,990	356,594
Kokomo	459,480	0	12,443	0	0	0
LaPorte	0	0	0	0	0	0
Lafayette	*	*	*	*	*	*
Marion	374,210	128,400	16,250	19,860	0	639
Michigan City	*	*	*	*	*	*
Mitchell	50,720	470,000	19,913	7,640	470,000	16,885
New Albany	1,866,560	2,437,450	91,572	*	*	*
Portage	0	0	0	0	0	0
Richmond	2,562,990	68,100	75,725	2,383,457	2,188,400	137,540
Salem	104,900	0	3,321	0	0	0
South Bend	0	0	0	0	0	0
Vincennes	*	*	*	*	*	*
Fort Harrison	0	0	0	0	0	0
Grissom Aeroplex	2,146,260	1,509,100	106,979	0	1,509,100	21,621
River Ridge Dev. Authority	0	23,005,000	513,840	0	23,967,100	612,455

*Valid data not available.

Source: County property tax abstracts.

EZ Employee Income Deduction

Besides the business tax incentives, certain individuals working in EZs are entitled to a deduction for income earned in an EZ. Taxpayers who are qualified employees in an EZ may deduct half of the AGI earned as a qualified employee during the year up to a maximum deduction of \$7,500. The maximum deduction would result in a \$255 reduction in state income tax liability for a qualified employee. A qualified employee is an individual who lives in an EZ and is also employed within that EZ. To qualify for the deduction, at least 90% of the employee's services must be directly related to the EZ business, and at least 50% of the employee's time must be spent working at the EZ business. Table 4 reports the deduction amounts claimed in tax years 2005 through 2008 and the tax impact of these deductions.

Table 4: EZ Employee Income Deduction Amount and Tax Impact, 2005-2008.

Tax Year	Deduction Amount	Tax Impact
2005	27,040,677	919,383
2006	24,667,660	838,700
2007	26,156,750	889,330
2008	25,000,866	850,029

Source: Indiana Department of State Revenue, Tax Return Data 2005-2008.

**Indiana Legislative Services Agency
Office of Fiscal & Management Analysis
200 West Washington Street, Suite 301
Indianapolis, Indiana 46204-2789
Telephone: (317) 233-0696**

Author(s): Jessica Harmon, Fiscal/Program Analyst; Jim Landers, Ph.D., Senior Fiscal/Program Analyst.