



OFFICE OF FISCAL AND
MANAGEMENT ANALYSIS

LEGISLATIVE SERVICES AGENCY

2020 INDIANA TAX INCENTIVE REVIEW

The Office of Fiscal and Management Analysis (OFMA) is a division of the Legislative Services Agency that performs fiscal, budgetary, and management analysis for the Indiana General Assembly.

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CONTENTS

PREFACE	i
EXECUTIVE SUMMARY	1
INTRODUCTION	2
TAX INCENTIVE REVIEW PROCESS	2
DEFINITION OF TAX INCENTIVE	3
TAX INCENTIVE REVIEW PURPOSES AND APPROACHES	3
TAX INCENTIVE REVIEW REPORT	4
TAX INCENTIVE REVIEW SCHEDULE	4
ENTERPRISE ZONE PROGRAM (IC 5-28-15)	7
ADMINISTRATION	10
TAX INCENTIVES TO BUSINESSES AND EMPLOYEES	11
ENTERPRISE ZONE ESTABLISHMENTS	13
EFFECTIVENESS OF THE PROGRAM: LITERATURE REVIEW	15
ANALYSIS	16
ENTERPRISE ZONE EMPLOYMENT EXPENSE CREDIT (IC 6-3-3-10)	21
ENTERPRISE ZONE EMPLOYEE INCOME DEDUCTION (IC 6-3-2-8)	22
INDIVIDUALS	24
EMPLOYMENT BY FIRMS	24
ENTERPRISE ZONE OBSOLESCENCE DEDUCTION (IC 6-1.1-12-40)	26
ENTERPRISE ZONE INVESTMENT DEDUCTION (IC 6-1.1-45)	27

ENTREPRENEUR AND ENTERPRISE DISTRICT (IC 5-28-15.5)	29
ADMINISTRATION	30
FUNDING	30
EED INCENTIVES	31
IMPLICATIONS OF EED PROGRAM FROM EXISTING RESEARCH	31
PROGRAM IMPLEMENTATION	32
ABATEMENT DEDUCTION FOR VACANT BUILDINGS (IC 6-1.1-46.2)	34
EXEMPTION FROM PERSONAL PROPERTY ASSESSMENT FLOOR (IC 6-1.1-3-25)	35
PROPERTY TAX ABATEMENTS (IC 6-1.1-12.1)	36
INDIANA PROPERTY TAX ABATEMENT	36
CHARACTERISTICS OF THE INDIANA ABATEMENT PROGRAM	38
INDIANA ABATEMENT CLAIMS DATA	41
INDIANA ABATEMENT SAVINGS AND PROPERTY TAX RELIEF	41
PREVIOUS RESEARCH	46
ANALYSIS	48
CONCLUSION	52
APPENDIX A: ENTREPRENEUR AND ENTERPRISE DISTRICTS (MAPS)	A
APPENDIX B: TAX INCENTIVE REVIEW STATUTE (IC 2-5-3.2-1)	B
APPENDIX C: TAX INCENTIVE AND INCENTIVE PROGRAM DESCRIPTIONS	E
REFERENCES	I

PREFACE

IC 2-5-3.2-1 establishes an annual review, analysis, and evaluation process for state and local tax incentives.

THE ORIGINAL STATUTE REQUIRED THE EVALUATION of each tax incentive at least once during two consecutive five-year cycles. The first five-year review cycle began during the 2014 legislative interim and was completed during the 2018 interim. During the 2019 legislative session, the legislature extended the second tax incentive review schedule from a five-year cycle to a seven-year cycle. The annual tax incentive review is conducted by the Office of Fiscal and Management Analysis, Legislative Services Agency. The prior year reports can be found on the Indiana General Assembly's website at https://iga.in.gov/legislative/2020/publications/tax_incentive_review/.

Pursuant to IC 2-5-3.2-1, the report:

- Specifies the review schedule for 2020-2025
- Reviews, analyzes, and evaluates the following tax incentives and incentive programs:
 - Enterprise Zone Employment Expense Credit
 - Enterprise Zone Employee Deduction
 - Enterprise Zone Obsolescence Deduction
 - Enterprise Zone and Entrepreneur and Enterprise District Investment Deduction
 - Entrepreneur and Enterprise District Pilot Program
 - Entrepreneur and Enterprise District Vacant Building Abatement
 - Entrepreneur and Enterprise District Personal Property Minimum Value Exemption
 - Property Tax Abatements
- Provides descriptive information and data relating to the tax incentives and incentive programs subject to review in 2020.
- Analyzes and evaluates the effectiveness of the tax incentives and incentive programs subject to review in 2020.

We would like to acknowledge the following agencies and non-profit organizations for their assistance in providing data that is presented and analyzed in this report:

- Department of State Revenue
- Indiana Economic Development Corporation
- Department of Local Government Finance
- Association of Indiana Enterprise Zones

EXECUTIVE SUMMARY

2020 REVIEW OF TAX INCENTIVES

The Legislative Services Agency (LSA) analyzed various tax incentives this year that largely focus on activities such as regional development, job creation, business attraction, and wage growth.

THE INCENTIVES REVIEWED THIS year were among the incentives included in LSA's annual tax incentive evaluations in 2016 and 2017, with the exception of the Entrepreneur and Enterprise District program and its related incentives. This is the second report in the second tax incentive review cycle that started in 2019.

The **Indiana Enterprise Zone (EZ)** program and its related tax incentives were established to encourage the development of distressed areas. The conclusions from the prior LSA report on EZs were revisited alongside a new analysis that focused on aggregate trends and long-term impacts. Academic literature provided many areas of interest to evaluate including the impact of incentive types on employment levels, the relationship between employment and wages, and the changes in property values over time. This nuanced approach to evaluation precludes the report from making any new causal claims related to the impacts of EZs, but it does develop a broader understanding of what economic changes have occurred in these zones.

With the expiration of two EZ incentives since the prior LSA evaluation, there were three remaining active EZ incentives to analyze this year. The **employment expense income tax credit** represents

a small and declining portion of all tax incentives claimed by EZ businesses, but recently those businesses claiming the credit have been investing at higher levels relative to their incentives received. While the **employee income tax deduction** has seen an increase in repeat tax claimants in recent years, overall claims continue to decline as the vast majority of zone businesses are primarily employing workers outside of the zones. A review of the most popular EZ incentive, the **property tax investment deduction**, shows that not only has the total tax savings increased year over year, but the tax savings have increased at a higher rate than tax bills for deduction recipients.

Beginning in 2018, the **Entrepreneur and Enterprise District (EED)** pilot program was launched in Fort Wayne and Lafayette to encourage, develop, and support entrepreneurship and small business development. This program is administered by the same urban enterprise associations (UEA) that previously ran the EZ programs in each city. While the program had not been operational long enough for a quantitative analysis to be conducted on EED effectiveness, suggestions for future evaluation techniques and focus are discussed. The EZ **property tax**

investment deduction was expanded to also apply to businesses in the EEDs. Two new property tax deductions were also created for use in the EEDs: **the personal property minimum value exemption** and the **vacant building abatement**. At this time, there is insufficient data to analyze the effectiveness of these EED incentives.

Property tax abatements were analyzed in the first review cycle in 2017. That report showed that both the personal and real property abatements represented a small savings for the typical firm. The analysis conducted for this report continues to demonstrate that the attributes of Indiana's property tax system also affect the value of abatements. The scenarios show how a higher local property tax rate makes the value of an abatement increase, while property tax

caps reduce the value. The actual savings from an abatement are reduced to the extent that a property receives a tax cap credit.

While the exact discount necessary to influence a business' decision to invest or locate in a region is unknown, the value of abatement savings relative to the costs of doing business and output for each industrial sector provides insight on the potential influence of abatements.

Comparing abatements against major expenses shows that the value of an abatement is somewhat low. The value varies across sectors, which implies it could be more influential to certain types of industries. The general conclusion from long-standing and advancing research is that on average there may be a small, if any, effect of property tax abatements on business location decisions.

INTRODUCTION

DEFINING TAX INCENTIVES, THE REVIEW PROCESS, AND PURPOSE AND APPROACH

IC 2-5-3.2-1 defines a tax incentive as a benefit provided through a state or local tax that is intended to alter, reward, or subsidize a particular action or behavior by the tax incentive recipient, including a tax incentive providing a benefit intended to encourage economic development.

A TAX INCENTIVE INCLUDES AN exemption, deduction, credit, preferential rate, or other tax benefit that reduces a taxpayer's state or local tax liability or results in a tax refund. A tax incentive, for the purposes of the evaluation, also includes a program where revenue is dedicated by a political subdivision to pay for improvements

in an economic or sports development area, community revitalization area, an enterprise zone, a tax increment financing district, or a similar district.

TAX INCENTIVE REVIEW PROCESS

IC 2-5-3.2-1 establishes an annual review, analysis, and evaluation process for state and local tax incentives. Appendix B

contains the text of IC 2-5-3.2-1.

The review of Indiana tax incentives is conducted by the Office of Fiscal and Management Analysis, LSA. The original statute required the evaluation of each tax incentive at least one time during two consecutive five-year cycles. The first five-year review cycle began during the 2014 legislative interim and was completed during the 2018 interim. During the 2019 legislative session, the legislature extended the second tax incentive review schedule from a five-year cycle to a seven-year cycle.

The statute requires the LSA to submit a report containing the results of the annual tax incentive review to the Legislative Council and the Interim Study Committee on Fiscal Policy. The report must be submitted before October 1 each year. The statute requires the Committee to hold at least one public hearing between September 30 and November 1 at which the LSA presents the report to the Committee. The Committee is required to submit any recommendations from information reported in the tax incentive review to the Legislative Council. The statute requires the General Assembly to use the LSA's report and the Committee's recommendations to determine whether or not a tax incentive (1) is successful,

(2) is provided at a cost that can be accommodated by the state's biennial budget, and (3) should be continued, amended, or repealed.

TAX INCENTIVE REVIEW PURPOSES AND APPROACHES

IC 2-5-3.2-1 specifies that the purpose of the annual tax incentive review is to (1) ensure tax incentives accomplish the purpose for which they were enacted, (2) provide information to allow the inclusion of the cost of tax incentives in the biennial budgeting process, and (3) provide information needed by the General Assembly to make policy choices about the efficacy of tax incentives.

IC 2-5-3.2-1 lists a variety of descriptive and analytical information that could accomplish tax incentive review goals. The information is as follows:

- The attributes and policy goals of the tax incentive.
- The tax incentive's equity, simplicity, competitiveness, public purpose, adequacy, and conformance with the purposes of the legislation enacting the incentive.
- The activities the tax incentive is intended to promote and the effectiveness of the tax incentive in promoting those activities.

What is a tax incentive?

A tax incentive is a provision of the tax code aimed at reducing a taxpayer's liability in order to encourage certain behavior or to participate in targeted activities.

Tax incentives are a significant part of local tax laws, state tax codes, and the federal Internal Revenue Code. Tax incentives contrast with direct spending programs.

Tax incentive programs direct public funding to certain purposes by foregoing tax revenue.

Tax incentive programs also are not subject to the periodic scrutiny that direct-spending programs are subject to through the normal budgetary process.

The LSA produces an expenditure report on November 1 of the first year of the Indiana biennium (https://iga.in.gov/legislative/2019/publications/tax_expenditure_reports/#document-524f35ff).

In 2017, The PEW Charitable Trusts identified Indiana as one of 10 "leading states" in an evaluation

of state tax incentive review procedures. That assessment was based on three criteria: making a plan, measuring impact, and informing policy choices. Research by PEW indicates that tax incentive evaluations are more effective when the analysis of incentives is regularly and strategically scheduled. The analyses of tax incentives should include clear policy relevant conclusions from an impartial, nonpartisan perspective (PEW Charitable Trusts, 2017).

- The number of taxpayers applying for, qualifying for, or claiming the tax incentive, and the tax incentive amounts (in dollars) claimed by taxpayers.
- The tax incentive amounts (in dollars) claimed over time.
- The tax incentive amounts (in dollars) claimed by industry sector.
- The amount of income tax credits that could be carried forward for the ensuing five-year period.
- An estimate of the economic impact of the tax incentive, including a return on investment calculation, cost benefit analysis, and direct employment impact estimate.
- The estimated state cost of administering the tax incentive.
- The methodology and assumptions of the tax incentive review, analysis, and evaluation.
- The estimated leakage of tax incentive benefits out of Indiana.
- Whether the tax incentive could be made more effective through legislation changes.
- Whether measuring the economic impact of the tax incentive is limited due to data constraints and whether legislative changes could facilitate data collection and improve the review, analysis, or evaluation.
- An estimate of the indirect economic activity stimulated by the tax incentive.

Tax Incentive Review Report

IC 2-5-3.2-1 requires the LSA to submit a report containing the results of the annual

tax incentive review to the Legislative Council and the Interim Study Committee on Fiscal Policy. The report must be submitted before October 1 each year. The report must include at least the following:

- A detailed description of the review, analysis, and evaluation for each tax incentive reviewed.
- Information to be used by the General Assembly to determine whether a reviewed tax incentive should be continued, modified, or terminated, the basis of the recommendation, and the expected impact of the recommendation on the state's economy.
- Information to be used by the General Assembly to better align a reviewed tax incentive with the original intent of the legislation that enacted the tax incentive.

Tax Incentive Review Schedule

A total of 62 tax incentives were evaluated during the first five-year cycle (2014-2018). A total of 53 incentives are scheduled for a second review over seven years (2019-2025). The tax incentives reviewed in 2020 include the enterprise zone program, entrepreneurship and enterprise district program, the tax incentives related to those programs, and property tax abatements. Table 1 specifies the tax review schedule, and Appendix C contains the descriptions of tax incentives and incentive programs on the review schedule.

TABLE 1.**TAX INCENTIVES AND INCENTIVE PROGRAMS
SCHEDULED FOR REVIEW, 2020-2025**

Tax	Tax Provision
2020	
Corporate Income Tax (C)/ Individual Income Tax (I)	• Enterprise Zone Employee Deduction (I) • Enterprise Zone Employment Expense Credit (C)(I)
Property Tax	• Enterprise Zone and Entrepreneur and Enterprise District Investment Deduction • Enterprise Zone Obsolescence Deduction • Entrepreneur and Enterprise District Personal Property Minimum Value Exemption • Entrepreneur and Enterprise District Vacant Building Abatement • Personal Property Abatements in an Economic Revitalization Area • Real Property Abatements in an Economic Revitalization Area
Other	• Enterprise Zones • Entrepreneur and Enterprise District Pilot Program
2021	
Corporate Income Tax (C)/ Individual Income Tax (I)	• Community Revitalization Enhancement District Credit (C)(I)
Property Tax	• Brownfield Revitalization Zone Deduction • Certified Technology Park Deduction • Infrastructure Development Zone Deduction • Low-Income Housing Deduction
Other	• Certified Technology Parks • Community Revitalization Enhancement District
2022	
Corporate Income Tax (C)/ Individual Income Tax (I)	• Coal Gasification Technology Investment Credit (C)(I) • Economic Development for a Growing Economy (EDGE) Credit (C)(I) • Headquarters Relocation Credit (C)(I) • Hoosier Business Investment Credit (C)(I)
2023	
Corporate Income Tax (C)/ Individual Income Tax (I)	• Regional Development Authority Infrastructure Fund Contribution Deduction (C)(I) • Patent-Derived Income Deduction (C)(I) • Research Expense Credit (C)(I) • Venture Capital Investment Credit (C)(I)
Sales Tax	• Aircraft Parts Exemption • Aviation Fuel Exemption • Cargo Trailers/RVs Sold to Certain Nonresidents Exemption • Certain Aircraft Exemption • Research and Development Property

Tax	Tax Provision
2024	
Corporate Income Tax (C)/ Individual Income Tax (I)	• Redevelopment Tax Credit (C)(I)
Property Tax	• Data Center Property Tax Exemption • Resource Recovery System Deduction
Sales Tax	• Certain Racing Equipment Exemption • Data Center Equipment Exemption
Other	• Professional Sports and Convention Development Areas • Promotional Free-Play Deduction • Motorsports Investment District
2025	
Corporate Income Tax (C)/ Individual Income Tax (I)	• Adoption Tax Credit (I) • Earned Income Tax Credit (I) • Indiana 529 College Savings Account Contribution (I) • Indiana Colleges and Universities Contribution Credit (C)(I) • Indiana Partnership Long-Term Care Insurance Premiums Deduction (I) • School Scholarship Contribution Credit (C)(I)
Property Tax	• Geothermal Energy Device Deduction • Hydroelectric Power Device Deduction • Solar-Energy Heating or Cooling System Deduction • Solar Power Device Deduction • Wind-Powered Device Deduction

ENTERPRISE ZONE PROGRAM

IC 5-28-15

Over the last 40 years, states and the federal government have adopted various programs to stimulate economic activity in economically distressed urban and rural locations. Enterprise zones have been one of the most widely used programs toward the goal.

ENTERPRISE ZONES ARE DESIGNED to stimulate business investment, growth, and job creation in communities where market forces would not be able to achieve those objectives. Forty-five states and the federal government have some version of an enterprise zone program. States began enacting enterprise zones in the U.S. in the early 1980s. This type of program is referred to by a variety of different names including Enterprise Zones (Indiana), Empowerment Zones (federal), Empire Zones (New York), Renaissance Zones (Michigan), or Economic Target Areas (Massachusetts).

In order to discourage businesses from moving out of an area designated as an enterprise zone or to encourage businesses to locate or expand within the enterprise zone, state and local units provide various incentives. Businesses within enterprise zones often receive some combination of tax incentives such as property tax abatements and income tax deductions and credits for employment creation and capital investment.

Indiana's Enterprise Zone (EZ) program was established in 1983 and allows EZs to be located in municipalities or on closed military bases. Since the inception of the program, 31 EZs have been designated in Indiana. There are currently 18 active EZs; the other 13 EZs have expired. Among

the first to be designated were Evansville, Fort Wayne, Michigan City, Richmond, and South Bend in 1984. Indiana law sets out the criteria for an area to be designated as an EZ. Before being phased out, an application by a municipality for designation as an EZ had to show the following:

- At least 25% of the households in the zone are below the poverty level.
- The population of the area is more than 2,000 but less than 10,500 people.
- The area is greater than 3/4 of a square mile but less than four square miles.
- The area contains property suitable for economic development.

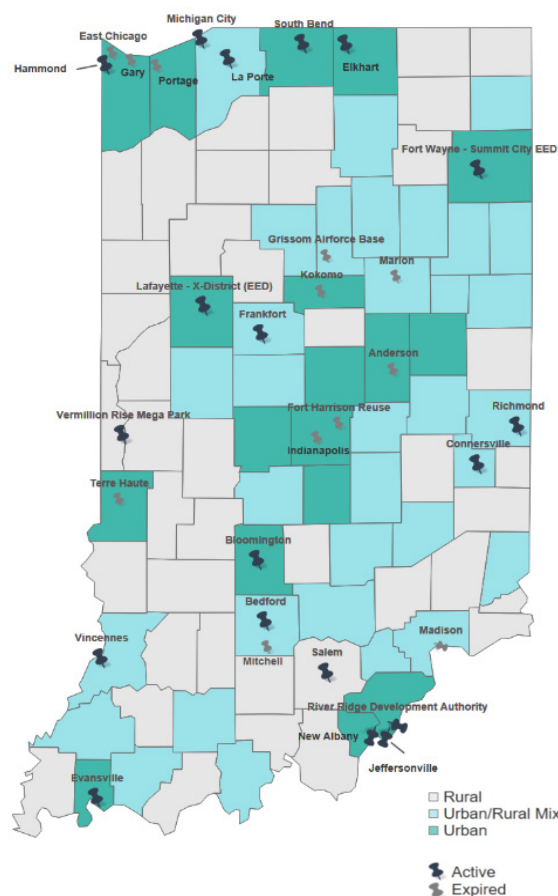
About 2,145 federal empowerment zones were designated between the mid-1990s and 2010. Of those, 18% were located in urban areas, 80% were located in rural areas, and 2% were not classified in either category (HUD, 2018). Indiana EZs are mostly located in urban counties. For this analysis, U.S. census data was used to determine the urban share of county population. Counties with more than 75% of the population residing in urban areas were considered urban, counties with 40% to 75% of population in urban areas were classified as an urban-rural mix, and counties with

less than 40% of population in urban areas were considered rural counties. Of the 31 EZs that have been approved in the last four decades, 18 have been in urban counties, 11 in urban-rural mix counties and only two in rural counties (Salem in Washington County and Vermillion Rise Mega Park in Vermillion County).

The average area of an EZ in Indiana is approximately 3.2 square miles, and about 68% of EZs occupy areas smaller than this. The largest EZs are Hammond at 6.38 square miles and River Ridge at 12.75 square miles. While the relatively large EZs are concentrated in the northern and southern parts of the state, the smaller EZs, with areas of 2.7 square miles or less, are generally located in the central part of the state. Some of the largest EZs (e.g., Michigan City, Hammond) were also among the first to be designated in 1984 and 1985. However, none of those EZs are geographically close to each other. Similarly, several small EZs (e.g., Marion, Bloomington) were designated in the early 1990s. None of those EZs are close to each other, which seems to dispel the notion of spillover (the concept that one area may adopt a program in response to its neighbor's decision to adopt a program). The designation of EZs appears to have been largely case-by-case considerations by local units.

Originally, an EZ was in effect for 10 years upon designation with the potential for two five-year renewals. A 2016 law allowed for a further extension of one year under certain stipulations. In 2019, the General Assembly provided that the Indiana Economic Development Corporation (IEDC) may renew an EZ

FIGURE 1.
LOCATION AND STATUS OF EZs BY URBAN-RURAL COUNTIES



SOURCE: Indiana Association of Enterprise Zones, Indiana Department of State Revenue.

that is established in an inactive or closed military base for not more than 10 years subject to certain criteria. This qualified four EZs that had expired or were going to sunset to receive extensions. Since the passage of this law, Vermillion Rise Mega Park in Vermillion County and River Ridge Development Authority in Clark County have received extensions to continue the EZ program.

TABLE 1.
EZ DESIGNATIONS AND EXPIRATIONS

Enterprize Zone	EZ Designation Dates	EZ Expiration Dates
Fort Wayne - Summit City EED*	1984	2022
Evansville	1984	2023
Michigan City	1984	2023
South Bend	1984	2023
Richmond	1984	2024
Hammond	1985	2024
Bloomington	1992	2023
Lafayette - X-District (EED)*	1993	2022
Bedford	1993	2023
Connersville	1995	2024
River Ridge Development Authority	1998	2023
Elkhart	1999	2024
New Albany	2000	2024
La Porte	2002	2021
Vincennes	2002	2022
Frankfort	2003	2022
Salem	2003	2022
Vermillion Rise Mega Park	N/A	2027
Anderson	1984	Expired
East Chicago	1985	Expired
Gary	1985	Expired
Madison	1986	Expired
Indianapolis	1990	Expired
Kokomo	1990	Expired
Marion	1992	Expired
Terre Haute	1994	Expired
Grissom Airforce Base	1995	Expired
Fort Harrison Reuse	1997	Expired
Jeffersonville	2000	Expired
Mitchell	2001	Expired
Portage	2001	Expired

*The Fort Wayne and Lafayette EZ have transitioned into an entrepreneur and enterprise district (EED).

SOURCE: Association of Indiana Enterprize Zones.

ADMINISTRATION

Each EZ is coordinated and promoted by an urban enterprise association (UEA) comprised of 12 members, and two of the members are appointed by the Governor. The executive of the municipality in which the zone is located appoints five members—two must be representatives of businesses located in the zone, and one must be a resident of the zone. The legislative body of the municipality appoints the remaining five members. Each member of the UEA serves a four-year term. The UEA in an EZ may adopt guidelines for the disqualification of a zone business. The UEA may also modify the boundaries of the EZ.

Beginning on January 1, 2019, administrative responsibilities for the program were shifted from the IEDC to the local enterprise zone associations. As a result, zone businesses are no longer required to file their annual Enterprise Zone Business Registration (EZB-R) with the IEDC. Each zone business must now file an annual registration with its UEA to claim tax savings and stay in good standing. A zone business must file its EZB-R or Request for Extension (EZB-E) with its local fiscal body by June 1 of each year.

Until calendar year 2019, a business located in an EZ also paid an annual registration fee equal to 1% of the business's total incentives exceeding \$1,000. The fee only applied to incentives associated with the EZ program: enterprise zone investment deduction, employment expense tax credit, and loan

interest tax credit. IEDC annually received \$200,000 to \$300,000 in registration fees through the end of 2018. Starting in 2019, each zone business receiving incentives in excess of \$1,000 per year must pay an annual registration fee of 1% of its tax savings to the local UEA that administers the EZ.

All UEAs require zone businesses to submit a percentage of their tax incentive savings for their operations (although some UEAs have granted clemency for certain businesses claiming only one incentive, for example). Fees range from 15% to 50% of a firm's total tax savings, and a UEA is allowed to change its percentage at any time. The local legislative body may pass an ordinance disqualifying a zone business from eligibility for incentives if the zone business does not assist the UEA with the participation fees. Since UEAs are 501(c)(3) organizations, they can apply for most types of grant funding from local, state, or federal governments, community foundations, or private corporations. However, the majority of, or in many cases, the entirety of the revenues of most UEAs come from participation fees. These fees are used to fund the vast majority of UEA operations and their programs, which provide intangible benefits to the areas. The local UEAs use their revenue for administrative costs and community development projects such as infrastructure and utility construction, commercial building rehabilitation and improvements, and training and educational programs.

TABLE 2.
TOTAL REVENUES BY SELECT UEAs, 2017-2020

UEA	2017-2018		2018-2019		2019-2020	
	Total Revenue	Participation Fee % of Total Revenue	Total Revenue	Participation Fee % of Total Revenue	Total Revenue	Participation Fee % of Total Revenue
Bedford	\$77,331	100%	\$80,841	100%	\$130,767	100%
East Chicago	230,367	77%	202,190	76%	N/A	N/A
Hammond	N/A	N/A	762,472	100%	491,057	100%
New Albany	96,200	100%	95,000	100%	122,000	100%
River Ridge Dev Authority	3,579,316	100%	4,385,870	100%	4,716,755	100%
South Bend	103,431	97%	63,518	93%	50,952	93%
Vincennes	84,339	96%	170,001	97%	132,000	100%

SOURCE: Indiana Urban Enterprise Associations.

NOTE: 2017-2018 data for Hammond is not available. East Chicago EZ expired in 2019.

TAX INCENTIVES TO BUSINESSES AND EMPLOYEES

Two state tax incentives and one local property tax incentive are provided to encourage businesses to locate in a zone. Two additional income tax credits were offered before their expiration on January 1, 2018. The state and local tax incentives that are available include:

- **Employee income tax deduction** - An income tax deduction is available for qualified employees of an enterprise zone business. The qualified employee is entitled to a deduction from their adjusted gross income equal to the lesser of 50% of their adjusted gross income for the taxable year that the employee earns as a qualified employee; or \$7,500.
- **Employment expense income tax credit** - An income tax credit is available for employers that hire qualified employees. The credit is the lesser of 10% multiplied by the qualified increased employment expenditures of the taxpayer for the taxable year, or \$1,500 multiplied by the number of qualified employees employed by the taxpayer during the taxable year.
- **Loan interest income tax credit (expired)** - Prior to January 1, 2018, a taxpayer was entitled to an income tax credit if the taxpayer received interest on a qualified loan in that taxable year. The amount of the credit to which the taxpayer was entitled was 5% multiplied by the amount of interest received during the taxable year from the qualified loans. The credit can be carried forward for 10 years. Notwithstanding any other law, a taxpayer is not entitled to receive an

enterprise zone loan credit for interest received on a qualified loan made after December 31, 2017. However, a taxpayer may continue to claim a credit for interest on a qualified loan made before January 1, 2018. In addition, a taxpayer may carry an unused tax credit attributable to a qualified loan made before January 1, 2018, forward to a taxable year beginning after December 31, 2017, and before January 1, 2028.

- **Investment cost income tax credit (expired)** – Prior to January 1, 2018, a taxpayer was permitted to make a qualified investment (the purchase of an ownership interest in a business located in an EZ) and receive a tax credit approved by the IEDC. The amount of the credit was a percentage determined by the IEDC multiplied by the price of the qualified investment made by the taxpayer in the taxable year. A taxpayer continues to be entitled to receive a credit for a qualified investment made after December 31, 2017, and before January 1, 2028, only if the qualified investment is approved by the IEDC before January 1, 2018. A taxpayer may carry an unused tax credit attributable to a qualified investment made before January 1, 2018, or approved by the IEDC before January 1, 2018, forward in the manner provided by IC 6-3.1-10-7.
- **Property tax investment deduction** – A property tax deduction is available 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.

The three active incentives are further analyzed in this report.

Although the employee income tax deduction and investment cost tax credit were designed to support the objectives of the EZ program, these incentives are not directly claimed by EZ businesses. These two incentives are claimed by individual taxpayers, and the UEA is not entitled to receive a percentage of the tax savings provided by those incentives. Table 3 shows the three tax incentives that are designed to directly support EZ businesses. Each incentive is claimed by the business directly, and a portion of the tax savings a business receives is remitted as participation fees to the UEAs. EZB-R filings by zone businesses provide information on the incentives claimed as well as the investments made by those zone businesses.

Table 3 shows the annual reported capital investment by businesses claiming incentives alongside the ratio of tax incentives to capital investment. This ratio highlights how many dollars of investment occur for each dollar of incentive awarded; a lower percentage indicates that fewer dollars of incentive were awarded for each dollar of investment made. While this relationship between incentives and investments cannot reasonably be presented as causal, it still illustrates the investment trends by EZ businesses relative to incentives received.

TABLE 3.
INCENTIVES AND CAPITAL INVESTMENT FOR EZ
BUSINESSES, 2006 TO 2018

Year	Investment Deduction	Employment Expense Credit	Loan Interest Credit	Capital Investment	Total Tax Incentives as Share of Capital Investment
2006	\$3,023,962	\$1,203,593	\$123,666	\$202,600,000	2.1%
2007	1,840,224	1,486,813	98,050	133,200,000	1.7%
2008	4,587,063	1,306,002	134,583	168,200,000	3.0%
2009	4,317,078	1,396,207	1,322,806	121,500,000	5.8%
2010	9,508,162	1,343,279	1,131,358	234,700,000	5.1%
2011	9,395,852	1,136,793	1,386,091	155,900,000	7.6%
2012	11,479,340	1,242,648	1,207,353	189,300,000	7.4%
2013	14,428,262	1,368,569	1,150,104	235,500,000	7.2%
2014	18,499,966	1,552,828	1,297,263	247,200,000	8.6%
2015	18,563,708	1,575,961	1,317,925	251,300,000	8.5%
2016	16,812,354	1,284,273	1,096,913	153,300,000	12.5%
2017	17,016,924	1,292,475	1,127,188	170,700,000	11.4%
2018	20,325,152	1,201,945	1,355,156	230,200,000	9.9%

SOURCE: Raw data provided by Indiana Economic Development Corporation, data analysis by the Office of Fiscal and Management Analysis.

NOTE: The figures reported in this table are derived from the EZB-R forms filed by the businesses vs. the data presented in each incentive analysis that are derived from OFMA's income tax and property tax databases.

ENTERPRISE ZONE ESTABLISHMENTS

Data on Indiana business establishments, provided by Department of Workforce Development Unemployment Insurance Tax Administrative Records, were geocoded by LSA by their geographical coordinates and physical addresses and matched to EZ shape files in order to identify those establishments located within EZs. Based on recently available quarterly employer reports filed during 2018, approximately 5,600 establishments were located within the EZs active in 2018. As the EZs are restricted in size and scope, this represents approximately 3.3% of businesses in the state. The Bloomington

EZ contains the largest number of establishments at above 400, and some zones with the fewest businesses are located in Connersville, Bedford, and Salem.

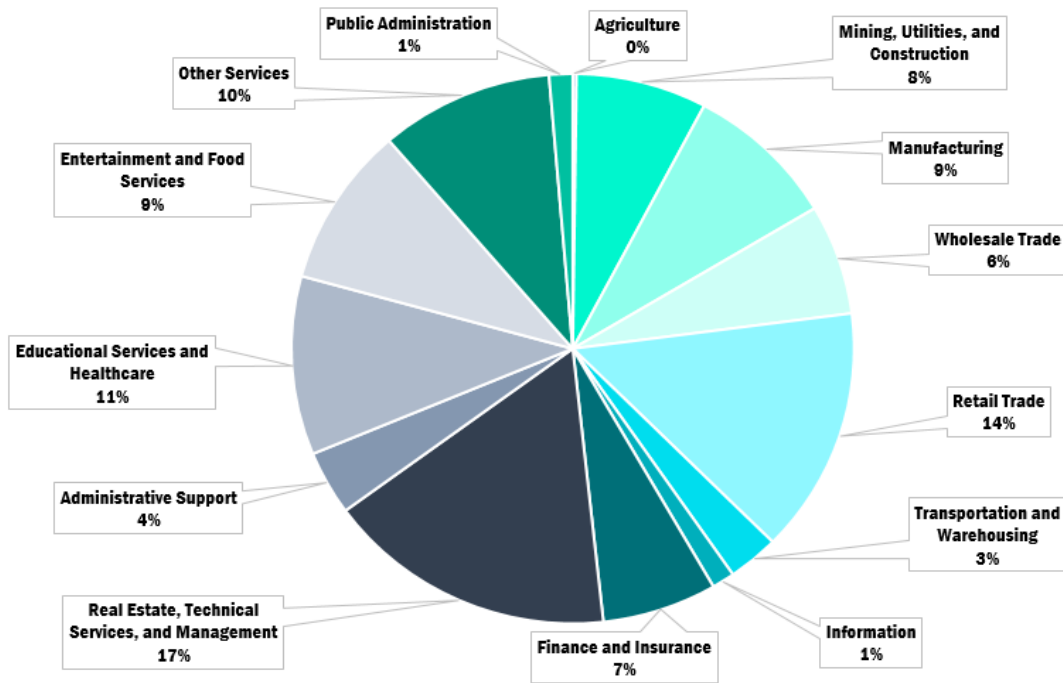
Figure 2 shows the percentage of EZ establishments by industry. Real estate, technical services, and management of companies (NAICS codes 53-55) make up the largest percentage of zone businesses, followed by retail trade (NAICS codes 44-45).

Approximately 4% to 5% of all businesses in an EZ claim tax incentives annually based on historical EZB-R filings. The vast majority of EZ tax incentive dollars tend to be claimed by

manufacturing firms (NAICS codes 31-33; see Figure 3 for an industry-level breakdown of EZ incentive claims). Despite their high level of incentives received, manufacturing firms only make up about 9% of all zone establishments. However, these firms also tend to employ about three times as many workers as other industries.

FIGURE 2.

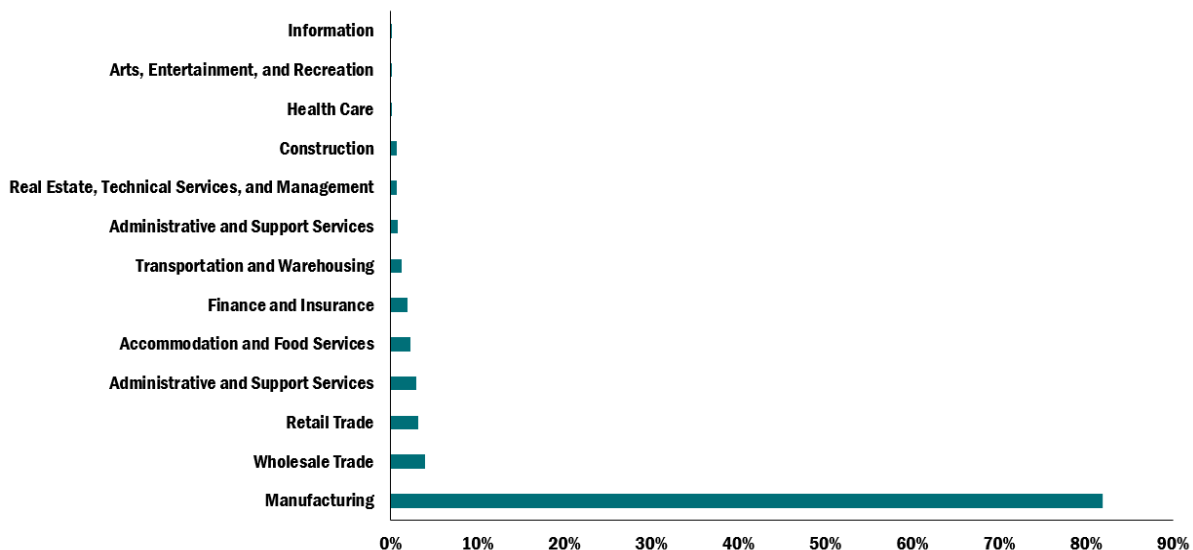
PERCENTAGE OF EZ ESTABLISHMENTS BY INDUSTRY, 2018



SOURCE: Raw data provided by Quarterly Census of Employment and Wages and IEDC, data analysis by the Office of Fiscal and Management Analysis.

FIGURE 3.

SHARE OF EZ TAX INCENTIVES BY INDUSTRY SECTOR, 2012 - 2018



SOURCE: Raw data provided by Quarterly Census of Employment and Wages and IEDC, data analysis by the Office of Fiscal and Management Analysis.

EFFECTIVENESS OF THE PROGRAM: LITERATURE REVIEW

There is an enormous body of research that has been conducted on the design and impacts of EZs going back to the 1980s. However, the findings across different academic works vary, providing little consensus on the overall effectiveness of EZs. Many researchers have found that EZs have not been successful at increasing employment for workers who live in the zones (Elvery, 2009; Greenbaum and Landers, 2009; Peters and Fisher, 2002). At the same time, other scholarly works have identified positive impacts from EZs that suggest Enterprise Zone designation results in increased resident employment (Freedman, 2012; O’Keefe, 2004), and that it also generates wage increases for workers from zone neighborhoods (Busso et al., 2013).

LSA constructed an econometric model to analyze the impacts of EZs on employment and wages in its 2016 Indiana Tax Incentive Evaluation. Looking at the positive results of the analysis, LSA found that on average, employment tends to rise for firms receiving less than \$20,000 in tax incentives, and that firms with fewer than 50 employees receiving less than \$100,000 tend to create jobs. LSA also found that capital investment by firms is positively related to tax incentives received, and that firms that receive \$20,000 tend to experience a 68% higher gross assessed value (GAV) than firms that receive \$10,000. However, LSA also concluded that on average, employment tends to decline for firms receiving more than \$20,000, and employment tends to decline for firms with fewer than 50 employees receiving more than \$100,000. Additionally, wages did not increase at the same pace as the rate at which firms

receive tax incentives, and firms that receive much more in tax incentives do not invest any differently than firms that receive smaller amounts. Finally, while GAV increases for firms receiving \$20,000 compared to \$10,000, this effect starts declining for firms receiving \$30,000. This means that the property values of firms receiving a greater amount in tax incentives do not fare any better than firms receiving very little.

While this model provides insight into the detailed impacts of the incentives in Indiana, the long duration of the EZs suggests a broader approach may be necessary in LSA’s second review. Recent scholarly work has analyzed individual programs and existing EZ studies to find where commonality exists and to determine what conclusions can be drawn on the macro level. Hanson and Rohlin (2017) look at the federal empowerment zone program and use several different analytical methods to see how results vary by the technique used. Their results show common findings across methods related to short-term increases in the number of firms in targeted areas, but longer-term results were inconsistent. The authors caution that no single evaluation method should be considered definitive when looking at EZ impacts, and often the effect of EZ programs on factors such as employment or wages remains uncertain.

Hooten and Tyler (2018) examined selected cities participating in the federal empowerment zone program. Their research suggests that it is possible that an EZ program can have an impact, but that it might only be able to mitigate decline or accelerate growth in an area. Ultimately, the authors find that having an EZ may not be enough to actually reverse the trend for a distressed area. If the trajectory of a

region is independent of the presence of an EZ, it could contribute to why the conclusions of different EZ analyses vary.

Using a more conceptual approach, Chaudhary and Potter (2019) present a theoretical framework for EZ evaluation. Their framework provides potential mediating influences on the EZ's goal of increasing employment and property demand. It includes looking at the ratio of capital subsidies to employment subsidies and the distribution of profit versus investment, among others. It also outlines some potential explanations for the differing findings among EZ evaluations such as how new jobs might not be filled by the targeted unemployed, and how wage growth might adversely affect employment growth. This approach provides alternatives to often narrow-focused research designs used to analyze EZs. The framework proposed allows for a richer analysis of the relationship between wages, employment, and other factors in EZs.

ANALYSIS

While LSA's previous research already provided the estimated impacts of incentives on certain target metrics, this second review of the EZ program lends itself to aggregate trends and new perspectives derived from the trends. First, LSA draws upon Chaudhary and Potter's (2019) theoretical framework and connectors between the EZ program and employment outcomes as a way of interpreting relationships in the data and providing more tangible context for the outcomes seen in the analysis. Their report offers multiple angles from which to examine the trends in the data, and LSA can compare some of the predicted

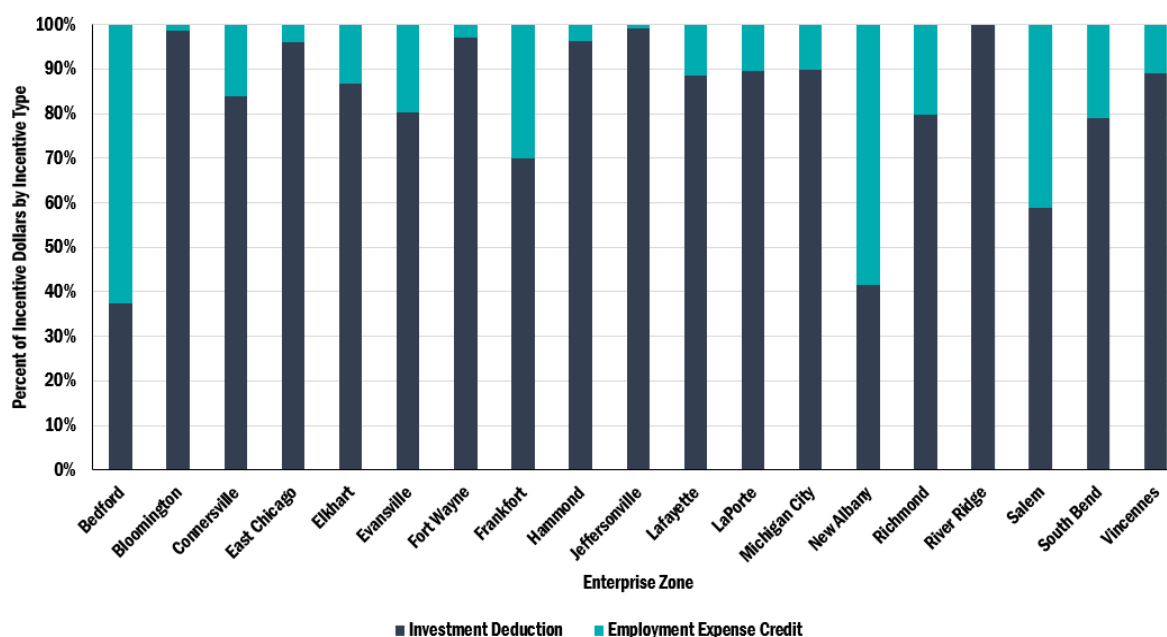
relationships in their model with the trends actually present in Indiana EZs. Next, the analysis undertakes an examination of employment and wage trends in EZs by industrial sector, in light of incentives awarded and goals of the EZs. Finally, looking at trends in property values for certain EZ properties can help determine some of the lasting impacts of EZ designations in an area.

In line with Chaudhary and Potter's (2019) theoretical framework for EZ evaluation, LSA examines the ratio of employment subsidies to capital subsidies. Their framework suggests that if capital subsidies are large compared with employment subsidies, then labor demand growth could be counterbalanced by capital-labor substitution. Capital subsidies may increase capital investment but also could decrease the need for additional employees. They see this as likely being a more pronounced problem in manufacturing dominated zones since substitution may be easier in manufacturing jobs than service jobs.

To look at this relationship in Indiana EZs, LSA compares the amount of employment expense credit awarded to the amount of investment deduction awarded in each zone. Figure 4 displays this ratio for each EZ, illustrating the percent of incentive dollars coming from each of the sources. A preliminary inspection reveals investment deduction dollars tend to make up a much larger share of the overall incentive dollars in most EZs. With the large amount of manufacturing in Indiana EZs, this warrants evaluating Chaudhary and Potter's (2019) proposition of capital substituting for employment.

To evaluate this claim, the selected

FIGURE 4.
SHARE OF EZ INCENTIVE DOLLARS BY INCENTIVE TYPE



SOURCE: Raw data provided by Indiana Economic Development Corporation, data analysis by Office of Fiscal and Management Analysis.

EZs in Figure 4 were categorized as either high investment deduction zones (with investment deduction incentives comprising 80% or more of total incentive dollars), or mixed incentive zones (with investment deduction incentives comprising less than 80% of total incentive dollars). For both groups of EZs, the average employment from 2012 to 2019 decreased by approximately 2.0%. With no major difference in employment trends across the two groups, it can be inferred that capital investments were not a substitute for employment.

The relationship between wage growth and employment growth in EZs is another comparison of interest put forth by Chaudhary and Potter (2019). They assume wage growth might also reduce employment growth, particularly in places and periods of constrained labor supply. To examine this relationship in

Indiana EZs, LSA studied the trends in employment and wages over several years. Figures 5 and 6 illustrate the annual percent change in employment and wages in the EZs and statewide, respectively. Values plotted above 0% represent growth in wages or employment, and values plotted below 0% indicate decline in wages or employment for that year; a value of 0% in a given year indicates no change from the previous year.

If wage growth has a limiting effect on employment growth in the EZs, LSA would expect to see the trends for employment and wages in Figure 5 to be inverse of one another; specifically, when average wage is growing (above the 0% line), employment would decline (below the 0% line). Further, LSA might also observe a consistent percentage of decline in employment for each percentage increase in wages.

FIGURE 5.
PERCENT CHANGE IN EZ
EMPLOYMENT AND WAGES, 2012-2019

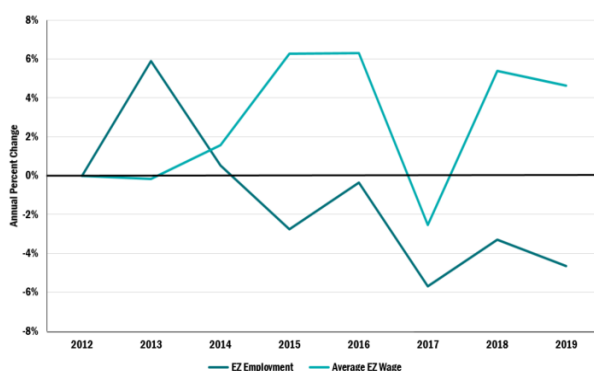
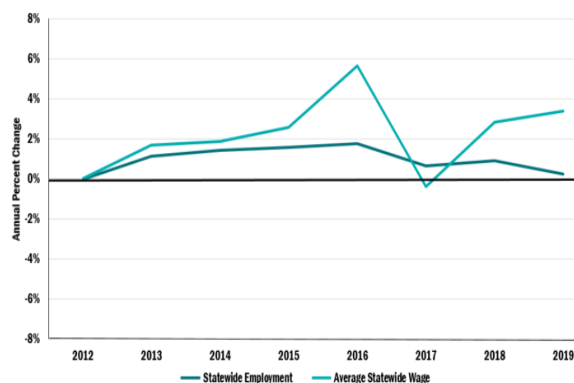


FIGURE 6.
PERCENT CHANGE IN STATE
EMPLOYMENT AND WAGES, 2012-2019



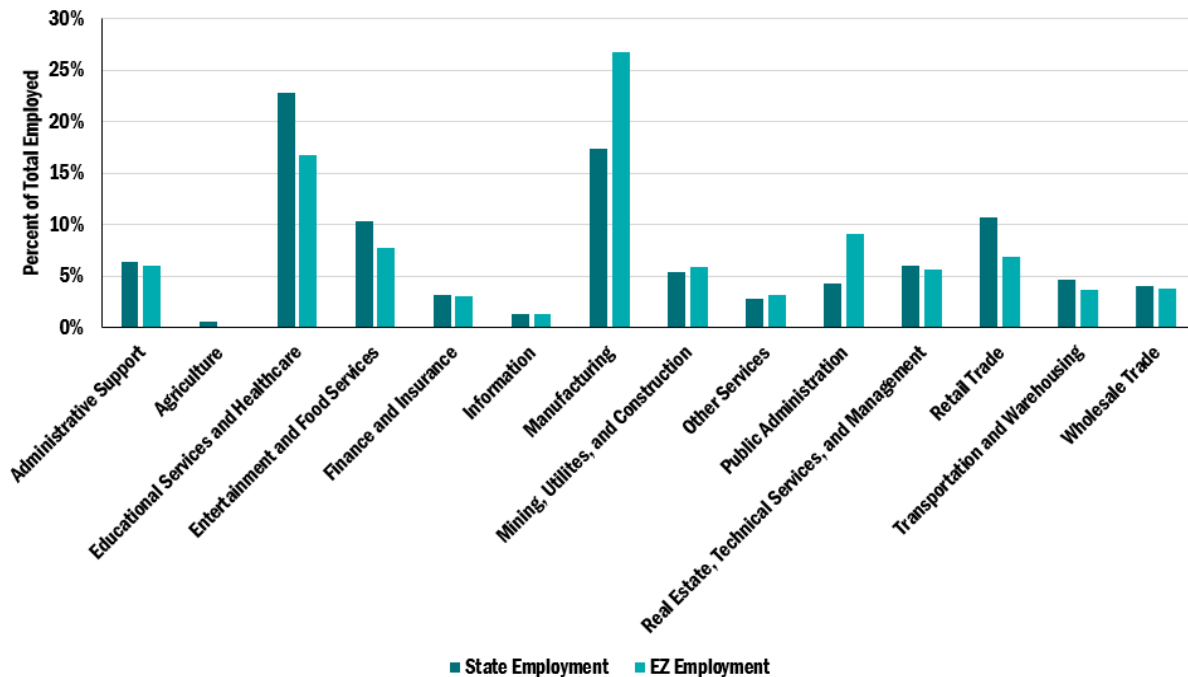
SOURCE: Raw data provided by Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), data analysis by the Office of Fiscal and Management Analysis.

The trends for employment and wages do appear to largely satisfy the first criteria of being inverse, with the exception of similar values in 2014 and 2017. However, there is little evidence in proportionality in the magnitude of changes across all of the years. Taken together, the data is inconclusive on whether there is a tradeoff between wage growth and employment growth. The analysis of EZ trends do not provide clear answers on the relationship between the two measures, but comparing those trends to the same values statewide does provide additional insight. The graphs show both the magnitude and the direction of the change. In times of growth, the measure will be positive; in times of decline, the measure will be negative. Between 2012 and 2019, statewide wages maintained a low but consistent level of growth, and employment statewide experienced growth, with the exception of a minimal decline in 2017. EZ employment has been stagnant or in decline since 2014, even as EZ wages have maintained growth in most years. This implies more employment volatility in EZs than statewide. However,

EZs represent such a small percentage of statewide jobs that any volatility in wages or employment will be more visible.

Another way to analyze EZs is by looking at employment and wage trends by industrial sector. Statewide and EZ employment track relatively well in most industry sectors. Manufacturing comprises a larger portion of EZ employment than its overall share statewide. Public administration is also more prominent in the EZs, while educational services, healthcare, and retail trade are all underrepresented in EZs compared to the rest of the state.

At the individual EZ level (not shown here), some of the zones with the largest share of manufacturing jobs are Indianapolis, East Chicago, and Fort Wayne. The next largest sector, education services and healthcare, were most prominent in Evansville, South Bend, Bloomington, and Jeffersonville. Portage stands out for its large share of mining, utilities, and construction, and Michigan City has by far the largest share of entertainment and food service employment.

FIGURE 7.**EMPLOYMENT BY NAICS SECTOR, STATEWIDE AND IN EZs**

SOURCE: Raw data provided by Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW) , data analysis by the Office of Fiscal and Management Analysis.

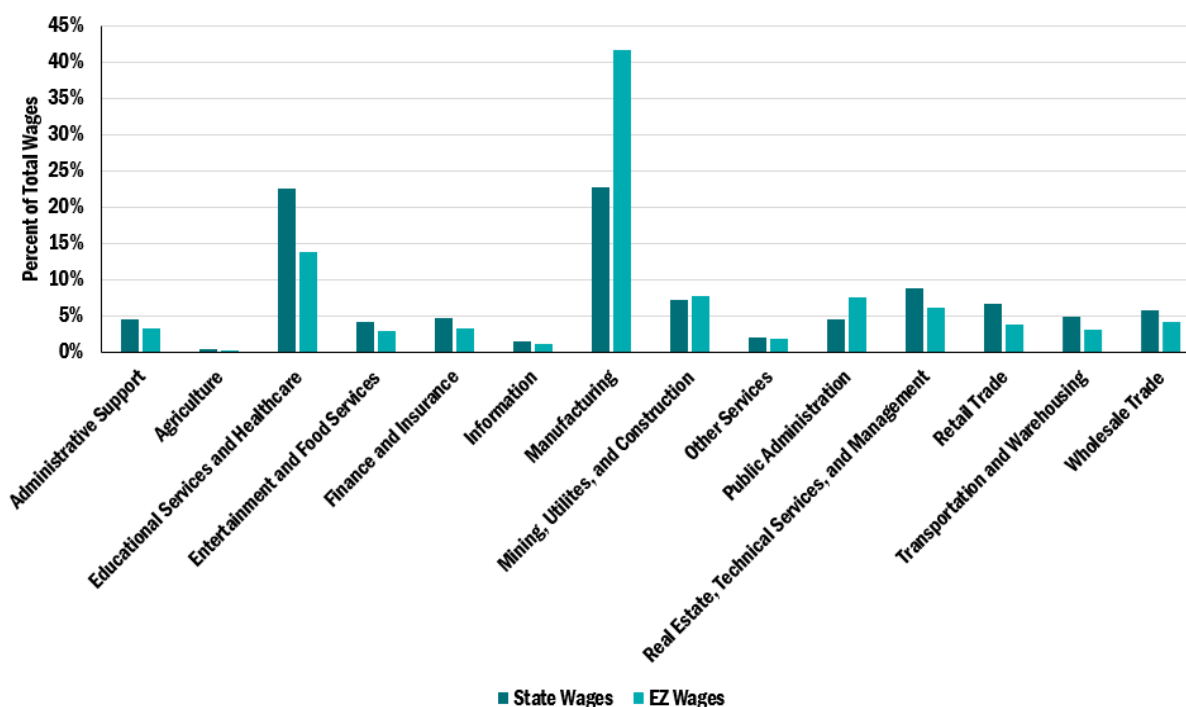
State and EZ wages mirror each other similarly, as wages are roughly proportional to sector employment. However, while manufacturing makes up just over one quarter of EZ jobs, it translates to over 40% of total EZ wages. Retail trade, entertainment, and food services encompass a lower percentage of wages relative to their share of total employment in the EZs. While this data shows a large share of employment and wages going to manufacturing businesses, it is still not sufficient to say the large amount of incentive dollars claimed by that industry has resulted in these employment outcomes. However, it does reflect the original EZ emphasis on manufacturing.

LSA can also look at trends in GAV for real and personal property among businesses claiming the EZ investment deduction. Between 2012 and 2020,

program participants in a majority of the zones experienced increases in both personal property GAV and real property GAV. The median personal property GAV change was an increase of about 41.0%, and the median real property GAV change was an increase of roughly 20.1%.

The value of personal property generally depreciates over time, while real property values generally appreciate over time. Without any additional investment, LSA would expect to see declining personal property values and increasing real property values. Thus, a decline in personal property AV for EZ claimants in a zone does not necessarily mean that there is a decline in activity in the zone. An increase in personal property AV and a more than nominal increase in real property AV indicate continued investment by EZ claimants.

FIGURE 8.
WAGES BY NAICS SECTOR, STATEWIDE AND IN EZs



SOURCE: Raw data provided by Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), data analysis by the Office of Fiscal and Management Analysis.

An important consideration when evaluating this information is that the population for this data is businesses in the EZs that claimed the investment deduction at least once in the nine-year window. As a result, there could be establishments that claimed the deduction only one year during this period, and some businesses may have moved into the EZ in the time window. Further, when reflecting on Hooten and Tyler's (2018) findings, it is possible that these property value trends reflect the trajectory the area was already on, independent of its designation as an EZ. Following from their research in that scenario, it is possible the GAV growth seen in both categories was amplified by the EZ, and the rate of decline in some of the other areas was potentially mitigated or slowed by being part of an EZ. With that in mind, the values for GAV seen in the

zones could be related to several factors independent of the incentive's impacts.

The results from the second evaluation of the EZ program in Indiana are supported by much of the new literature discussed, as well as LSA's prior causal model. Looking at the data with a longer view and parsing it from multiple perspectives allows for a thorough understanding of what economic changes occurred. While this approach makes it difficult to draw any additional causal conclusions about the impact of the program's tax incentives on metrics such as employment and wages, an abundance of new literature also suggests that researchers should be wary of trying to make such claims from a single analysis. A broader and more inclusive approach of evaluating the EZ program provides a nuanced look at the outcomes occurring in EZs.

ENTERPRISE ZONE EMPLOYMENT EXPENSE CREDIT

IC 6-3-3-10

The enterprise zone employment expense credit was established in conjunction with the EZ program in 1983 to encourage businesses to hire qualified employees in EZs.

THE CREDIT EQUALS THE LESSER OF 10% of the qualified increase in wages paid to employees of an EZ business, or \$1,500 per qualified employee. For a person to qualify as an eligible employee, they must live in an EZ and work at least 50% of the time in an EZ.

The qualified increase in wages is computed by taking the difference between the wages paid in the taxable year and the base period wages. The base period wages equal the wages the business paid in the year before the EZ was established. If the business was not operating before the EZ was designated, the base wages equal zero. In addition,

the base wages for pass-through entities are always zero regardless of the year the business began operations.

The credit may be used to offset individual AGI, corporate AGI, insurance premiums, and financial institutions tax liabilities. Statute requires the taxpayer to offset the taxes in the order listed above. The credit is nonrefundable. However, the credit may be either carried forward for ten years or back for three years preceding the year the credit was awarded.

A zone business must also pay a registration fee and a participation fee to the local urban enterprise association based on a percentage of its tax savings.

TABLE 1.

EZ EMPLOYMENT EXPENSE CREDIT CLAIMS HISTORY, 2010-2017

Tax Year	Claims			Credits		
	Individual	Corporation	Total	Individual	Corporation	Total
2010	250	40	290	\$619,377	\$805,662	\$1,425,039
2011	196	32	228	609,083	590,936	1,200,019
2012	229	32	261	632,170	931,466	1,563,636
2013	242	20	262	778,167	493,387	1,271,554
2014	230	22	252	761,755	446,244	1,207,999
2015	222	35	257	674,671	509,309	1,183,980
2016	197	19	216	719,980	564,293	1,284,273
2017	214	32	246	635,327	336,034	971,361

SOURCE: Raw data provided by the Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.

The number of individual claims has remained fairly steady over time, while the number of corporate claims has fluctuated but declined. With respect to all tax incentives claimed by zone businesses, this credit represents a small and declining portion. As zone businesses are required to reinvest their tax savings into their business, it is clear that much of the reinvestment must be from incentives other than the employment expense credit. Tax filings by zone businesses to the IEDC (referred to as EZ business registration, or EZB-R), provide information on the incentives claimed and the investments made by those zone businesses. In 2012, for every dollar in tax savings awarded to businesses claiming this credit, there was

approximately \$14 in reported capital investment; by 2018, every dollar of tax savings corresponded to approximately \$26 of capital investment. Thus, despite the declining tax savings impact of the credit, EZ businesses claiming the credit are investing at higher levels relative to their incentives received.

Based on historical EZB-R filings from 2012 to 2018, the average EZ business that claimed the employment expense credit employed approximately 91 employees annually at an average wage of \$41,127 and claimed an average of \$12,687 in credits. The average zone business that did not claim the employment expense credit employed approximately 37 employees annually at an average wage of \$47,986.

ENTERPRISE ZONE EMPLOYEE INCOME DEDUCTION

IC 6-3-2-8

The EZ employee income deduction was established to encourage individuals to live and work within an EZ. To qualify for the deduction, the individual must live in an EZ and must perform 50% of their work at an establishment in the same EZ.

THE EMPLOYER CAN BE A PRIVATE firm, nonprofit entity, state or local government, or the federal government. The deduction equals the lesser of 50% of the employee's earned income for the taxable year, or \$7,500. Married couples may each take the deduction if both individuals qualify. The combined maximum deduction for married filers is \$15,000.

Taxpayers receive an IT-40QEC from their employer if they are eligible to claim the deduction. An IT-40QEC shows the amount of money a person earned from a business operating in an EZ. A person

qualifies for the deduction if they:

1. Have a principal residence in the EZ where they are employed.
2. Perform services for the employer, 90% of which are directly related to the conduct of the employer's business activities in the zone.
3. Perform services for the employer for at least 50% of the taxable year in the EZ.
4. Are employed by a business that remains eligible to receive benefits and incentives as provided by EZ legislation.

TABLE 1.**EZ EMPLOYEE INCOME DEDUCTION CLAIMS HISTORY, 2010-2017**

Tax Year	Claims	Deduction	Tax Impact
2010	3,778	\$24,845,773	\$844,756
2011	3,711	24,219,058	823,448
2012	3,555	23,598,697	802,356
2013	3,572	23,801,196	809,241
2014	3,740	24,968,346	823,955
2015	3,694	24,530,999	809,523
2016	3,466	22,988,947	758,635
2017	3,361	22,651,090	724,835

SOURCE: Raw data provided by the Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.

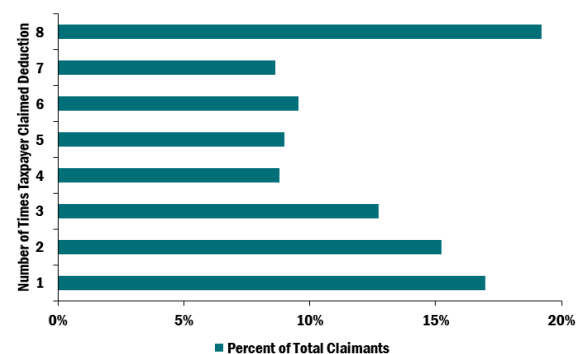
Table 1 shows the tax deduction claims have remained relatively low but stable, until declining in 2016 and again in 2017. There could be factors driving the stable but lower number of claims. One, residents of zones may not be aware of the deduction. Two, the same residents may be claiming the deduction year after year. Three, some residents claiming the deduction may move out of the zone, thereby no longer qualifying for the tax incentive.

Another way to examine the number of taxpayers claiming this deduction is to look at the share of taxpayers claiming the deduction in only one tax year versus those who claim the deduction over many tax years. This provides insight for the retention of employees who both live and work in EZs. Based on individual tax returns from 2010 to 2017, approximately 17% of the taxpayers claimed the deduction only once (see Figure 1). More than half (63%) of these taxpayers claimed the deduction less than six times, and almost 20% of taxpayers were repeat claimants in all eight years. This reflects a

change in trend from the prior evaluation that examined these same metrics from 2000 to 2013. In that prior analysis, there were twice as many one-time claimants, and taxpayers claiming the deduction more than four times represented a much smaller share of the total claimants.

Unfortunately, the data does not tell us why they stopped claiming the deduction. Nevertheless, this is not reflective of the employment trends in all EZs. This is a reflection on the number of people who both live and work within EZs.

FIGURE 1.
FREQUENCY OF SAME TAXPAYER CLAIMING EZ EMPLOYEE DEDUCTION, 2010-2017



SOURCE: Raw data provided by the Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.

INDIVIDUALS

The distribution of taxpayers claiming the deduction is slightly different than the total state population of individual taxpayers. Table 2 shows deduction claimants and all taxpayers by income brackets. Seventy-two percent of the deduction claimants have a federal AGI of less than \$50,000, compared to 67% of all Indiana resident taxpayers.

TABLE 2.

INCOME DISTRIBUTION OF EZ EMPLOYEE INCOME DEDUCTION CLAIMS FOR TAX YEARS, 2010-2017

Federal Adjusted Gross Income Tier	Frequency		Percent of Total	
	All Taxpayers	Deduction Claimants	All Taxpayers	Deduction Claimants
Under \$10,000	6,128,035	2,791	24.2%	9.7%
\$10,000 Under \$25,000	5,167,204	7,509	20.4%	26.0%
\$25,000 Under \$50,000	5,646,165	10,558	22.3%	36.6%
\$50,000 Under \$75,000	3,279,978	4,683	13.0%	16.2%
\$75,000 Under \$100,000	2,114,535	1,959	8.4%	6.8%
\$100,000 Under \$150,000	1,823,890	1,075	7.2%	3.7%
\$150,000 Under \$200,000	546,736	176	2.2%	0.6%
\$200,000 Under \$500,000	477,410	95	1.9%	0.3%
\$500,000 or More	109,573	31	0.4%	0.1%

SOURCE: Raw data provided by the Department of State Revenue, data analysis by the Office of Fiscal and Management Analysis.

While the total number of claims have fluctuated, the average claim has remained nearly the same. The average deduction amount is about \$6,819. Approximately 67% of all claimants deducted the full \$7,500 per eligible taxpayer. The deduction claims vary depending on whether the taxpayer is a single or a joint filer. Approximately 38% of the claims are made by joint filers. The average deduction for joint filers is \$7,576 and \$6,062 for single filers. The corresponding average tax impact, adjusting for available income, is \$242 and \$194, respectively. Statute allows both taxpayers on a joint return to claim the maximum \$7,500 deduction if the individuals meet all the necessary requirements. An analysis of the tax returns found an average of 195 returns

a year were filed with both taxpayers claiming the deduction.

EMPLOYMENT BY FIRMS

Zone employment has exhibited different trends compared to statewide employment over the past several years. Preliminary data from the Bureau of Labor Statistics' Quarterly Census of Employment and Wages indicates a sharp decline in zone employment since 2012 in contrast with increasing employment numbers at the state level. Employment trends specific to zone businesses claiming incentives have shown more variance over the period from 2012 to 2018; this is due in part to the relatively small number of firms claiming these incentives.

TABLE 3.**STATEWIDE AND EZ EMPLOYMENT, 2012-2018**

Total All Industries	2012	2017	2018	Change from 2012 to 2018	Change from 2017 to 2018
Statewide Employment	2,855,732	3,049,038	3,073,206	7.6%	0.8%
EZ Employment	174,236	159,299	152,660	(12.4%)	(4.2%)
EZ Incentive Firm's Employment	15,481	13,714	10,933	(29.4%)	(20.3%)
<i>Incentive Employment within ZONE</i>	4.5%	8.6%	7.2%		

SOURCE: Raw data provided by the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), data analysis by the Office of Fiscal and Management Analysis.

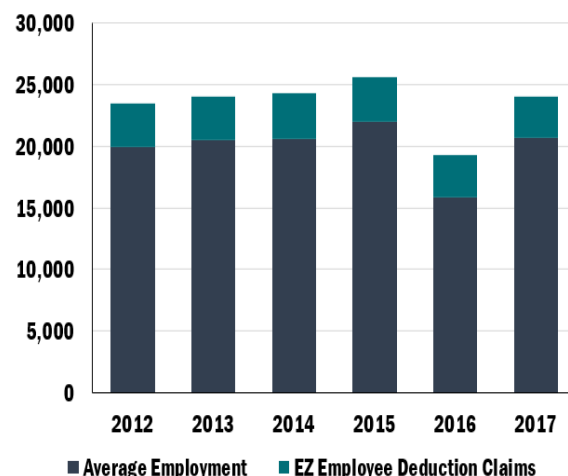
Statewide employment was up 0.8% from 2017 to 2018, and up 7.6% since 2012 (See Table 3). On the other hand, EZ employment was down 4.2% over the year, and it remained 12.4% below 2012 levels in 2018. For EZ businesses claiming incentives, employment is down by 2,800 jobs over the year (20.3%), with an overall reduction of about 4,500 jobs (29.4%) from 2012 to 2018. Given the small concentration of businesses utilizing incentives, the employment trends are subject to volatile short-term trends.

Figure 2 shows yearly employment for businesses with employees eligible to claim the deduction. Generally speaking, businesses were hiring workers even though claims are going down, suggesting the deduction is not incentivizing zone residents to work in zone businesses. There are likely several factors impacting this trend: (1) a declining working age population in EZ areas; (2) a mismatch in skills among zone residents that leads employers to seek individuals outside of the zone to fill vacancies; (3) a general lack of awareness among business and individuals of the availability of these incentive programs.

EZB-R filings by zone businesses

include data on average employment level and average employment of zone residents in a given year. Based on EZB-R filings from 2012 through 2018, approximately 7% of all zone employees tend to be zone residents, on an annual average. This further illustrates that a vast majority of zone businesses are employing workers from outside the EZ. As a result, claims for the employee income deduction have not only been relatively low, but have also declined year over year.

FIGURE 2.
FIRM LEVEL EMPLOYMENT BY
EMPLOYEE DEDUCTION CLAIMS,
2012- 2017



SOURCE: Raw data provided by the Department of State Revenue and the Indiana Economic Development Corporation, data analysis by the Office of Fiscal and Management Analysis.

EZB-R filings also include data on total wages and salaries of all employees, including zone residents. Based on self-reported data by businesses, the average EZ resident employee makes approximately \$29,100, while the average non-EZ resident employee makes up to \$48,300. This suggests that most relatively higher paying jobs are performed by employees from outside the EZ. This is also a sign that the skills in demand by EZ employers are not met by the EZ residents, again leading to other states recommending training programs in conjunction with employment incentive programs targeted at certain populations or geographic areas.

ENTERPRISE ZONE OBsolescence DEDUCTION

IC 6-1.1-12-40

The EZ obsolescence deduction was enacted in 2001 to permit Marion County to allow an obsolescence adjustment to continue, but be phased out, on real property that is sold.

IN ORDER TO RECEIVE THE EZ obsolescence deduction, each of the following criteria must be met:

1. The property is located in an EZ in Marion County.
2. The obsolescence depreciation adjustment for either functional or economic obsolescence was allowed for the property for property taxes assessed in the year before the owner purchased the property.
3. The owner submits an application requesting the deduction to the fiscal body of the county.
4. The fiscal body approves the deduction.

The deduction can be claimed for up to four years. The deduction amount is

equal to the amount of the obsolescence depreciation adjustment allowed for the property for property taxes assessed in the year before the owner purchased the property multiplied by:

1. 100% for property taxes assessed in the year in which the owner purchased the property.
2. 75% for property taxes assessed in the second year of ownership.
3. 50% for property taxes assessed in the third year of ownership.
4. 25% for property taxes assessed in the fourth year of ownership.

This deduction targeted a specific property when it was established in 2001. This deduction is now defunct because the Indianapolis EZ has expired.

ENTERPRISE ZONE INVESTMENT DEDUCTION

IC 6-1.1-45

The EZ investment deduction was enacted in 2005 to encourage the occupancy of and investment in real and personal property located in an EZ. In 2017, the EZ investment deduction was also made available in entrepreneur and enterprise districts (EED).

IN ORDER TO RECEIVE THE DEDUCTION from the AV of the EZ property, the taxpayer must file a certified application for the deduction with the county auditor and make one or more of the following qualified investments:

1. The purchase of a building.
2. The purchase of new manufacturing or production equipment.
3. Costs associated with the repair, rehabilitation, or modernization of an existing building and related improvements.
4. Onsite infrastructure improvements.
5. The construction of a new building.
6. Costs associated with retooling existing machinery.
7. In the case of an EED, the purchase of new information technology,

logistical distribution, or research and development equipment.

The deduction amount is equal to the increase in real and personal property AV at the EZ or EED location, as compared to the value in the calendar year before a qualified investment was made. A taxpayer can claim the deduction for up to 10 years. Table 1 presents the claims history from 2012 to 2020. Total claims have generally increased over time, and the investment deduction is the most popular EZ incentive since the inventory tax credit was eliminated in 2004. The total tax impact shown in Table 1 is the property tax savings realized by the taxpayers receiving the deduction.

TABLE 1.

EZ INVESTMENT DEDUCTION CLAIMS HISTORY, 2012-2020

Pay Year	Number of Claims			AV Deduction Amount		
	Personal Property	Real Property	Total	Personal Property	Real Property	Total Net Tax Impact*
2012	208	126	334	\$184,222,310	\$151,846,633	\$9,157,246
2013	264	143	407	231,413,273	160,599,730	10,489,218
2014	239	156	395	271,703,542	215,758,564	12,982,786
2015	263	172	435	324,537,298	268,223,019	16,134,642
2016	265	183	448	349,994,350	278,374,475	16,812,354
2017	255	206	461	347,746,150	319,300,807	16,851,800
2018	267	194	461	355,232,246	357,525,470	17,929,608
2019	268	182	450	354,012,496	398,533,043	18,905,494
2020	259	183	442	359,709,421	459,533,875	20,782,569

SOURCE: Parcel-level data provided by county auditors, data analysis by the Office of Fiscal and Management Analysis.

*Net tax impact equals the property taxes saved by the taxpayer, net of all local credits and tax caps.

Not only has the total tax savings increased year over year, but the tax savings has increased at a higher rate than tax bills for deduction recipients. In 2020, the total net property tax paid by deduction recipients would have been about \$51 million had they not received the deduction. The deduction reduced their tax bills by 41%.

If the deducted AV from the investments were included in the property tax base, it would have these impacts: Because a large portion of the properties are located in TIF districts, net TIF revenues would

increase by about \$10 million. Taxing units' net revenue would increase by \$5.5 million through lower tax cap losses, and about \$5.5 million in taxes would be shifted to the deduction recipients from other taxpayers.

Table 2 presents the distribution of claims by EZ and EED. Fort Wayne has the highest number of claims, followed by Evansville. Taxpayers in the River Ridge EZ realized the greatest tax savings, followed by taxpayers in the Bloomington EZ and the Fort Wayne EED.

TABLE 2.

ZONE DISTRIBUTION OF EZ INVESTMENT DEDUCTION CLAIMS FOR PAY YEARS 2019 AND 2020

Location	2018 Pay 2019				2019 Pay 2020			
	Total Claims	Personal Property Deduction	Real Property Deduction	Net Tax Impact	Total Claims	Personal Property Deduction	Real Property Deduction	Net Tax Impact
Bedford	12	\$7,504,720	\$4,310,000	\$328,790	9	\$9,044,273	\$1,469,000	\$292,768
Bloomington	42	31,392,613	82,578,468	2,360,345	34	31,451,350	75,331,768	2,221,156
Connersville	23	15,129,006	1,198,300	403,690	25	13,943,146	1,967,500	400,214
East Chicago	25	36,191,771	2,453,000	507,679	28	43,267,415	2,710,500	588,837
Elkhart	14	6,816,280	1,504,100	196,119	17	7,978,460	2,369,700	252,511
Evansville	48	23,188,018	3,903,400	582,218	45	20,859,531	3,223,200	482,154
Fort Wayne	77	58,888,888	11,209,305	2,025,418	90	63,362,494	11,870,605	2,185,079
Hammond	45	51,362,135	8,520,600	1,108,161	43	44,773,012	7,841,300	797,624
Jeffersonville	17	11,653,639	13,374,200	679,587	17	3,311,660	14,677,900	495,484
LaPorte	6	0	4,254,400	121,211	8	0	6,181,500	174,986
Lafayette	14	8,116,449	1,409,182	248,663	16	10,306,571	6,348,482	432,464
Michigan City	5	0	1,922,000	50,109	3	0	825,100	23,270
Mitchell	1	415,750	0	12,473	0	0	0	0
New Albany	23	4,683,976	4,593,600	254,493	18	842,190	6,168,300	192,978
Richmond	10	2,816,040	960,300	123,072	8	161,920	526,400	12,986
Salem	4	4,169,630	640,830	126,936	4	6,615,740	509,420	210,096
South Bend	22	15,447,391	2,201,500	62,565	18	15,917,520	1,870,500	58,274

ENTREPRENEUR AND ENTERPRISE DISTRICT (IC 5-28-15)

Location	2018 Pay 2019				2019 Pay 2020			
	Total Claims	Personal Property Deduction	Real Property Deduction	Net Tax Impact	Total Claims	Personal Property Deduction	Real Property Deduction	Net Tax Impact
Vincennes	21	4,315,476	9,822,700	385,517	14	8,111,725	7,886,400	433,140
Grissom Aeroplex	4	0	333,300	4,164	3	0	211,900	2,625
River Ridge	37	71,920,714	243,343,858	9,324,286	42	79,762,414	307,544,400	11,525,922
Total	450	354,012,496	398,533,043	18,905,494	442	359,709,421	459,533,875	20,782,569

SOURCE: Parcel-level data provided by county auditors, data analysis by the Office of Fiscal and Management Analysis.

Large firms, those with at least 50 employees, tend to claim the investment deduction. Based on historical EZB-R filings from 2012 to 2018, the average firm that claimed the deduction employed approximately 66 workers annually. Approximately 59% of all firms that annually claimed the deduction, on

average, belonged to the manufacturing sector (corroborating research by Greenbaum and Engberg, 2004; Couch et al., 2005; Zhang, 2015). On average, approximately 8% of EZ firms were in the manufacturing sector, so these firms tend to receive the investment deduction much more frequently than other EZ firms.

ENTREPRENEUR AND ENTERPRISE DISTRICT

IC 5-28-15.5

The Entrepreneur and Enterprise District (EED) program is a pilot program established in 2018 by the General Assembly to encourage, develop, and support entrepreneurship and small business development in targeted areas of the state.

THE TERRITORY OF A DISTRICT may not exceed the greater of four square miles or 10% of the territory of the qualified municipality. Fort Wayne and Lafayette are the cities identified as qualified municipalities by the enacting legislation and are the only two locations implementing the pilot program. The mayor of a city in which a district is established must designate the board of directors of the district by

either designating the UEA in that city as the board of directors of the district, or by appointing a board of directors of the district consisting of seven members selected by the mayor and the fiscal body of the city. A district expires five years after the establishment of the district, or no later than December 31, 2022.

The funding for the pilot programs primarily comes from participation fees from district businesses receiving

incentives and specific IEDC grant money. The districts also utilize other grants and revenue sources to supplement this funding.

The Fort Wayne and Lafayette UEAs previously administered the EZ programs in each city and have transitioned to implementing EED programs. Both UEAs are independent, nonpartisan, nonprofit community development corporations with 501(c)3 status. The change to an EED prompted a rebranding of the Fort Wayne UEA to the Summit City Entrepreneur and Enterprise District (SEED). Alternatively, the Lafayette UEA serves as the parent organization to the Lafayette Entrepreneur and Enterprise District, branded as the X-District.

ADMINISTRATION

Previously, each zone or district business had to file an EZB-R with the IEDC. On January 1, 2019, administration of the EZ and EED programs was transferred from the IEDC to the local UEAs by the General Assembly. Each zone or district business must now file an annual registration with its local UEA to claim tax savings and remain eligible for participation. A zone or district business must file its EZB-R or Request for Extension (EZB-E) with its local fiscal body by June 1 of each year. If an EZB-E is filed, the zone or district business has until July 15 to file its EZB-R.

The Association of Indiana Enterprise Zones (AIEZ) facilitates program administration statewide. As part of the administrative change, the AIEZ now collects a 1% registration fee from EZ and EED businesses that receive incentives in excess of \$1,000. The treasurer of the AIEZ oversees this process. Just as with

the EZ program, the two UEAs in the pilot program require district businesses to submit a percentage of their tax incentive savings for their operations. The fees for Lafayette and Fort Wayne are 35% and 20% of a firm's total tax savings, respectively. These fees are used to fund a large share of UEA operations and their programs.

FUNDING

Table 1 shows the breakdown of funding for the two UEAs participating in the pilot program. While the percent of total revenue attributable to participation fees from district businesses declined from 2018 to 2019, that change is not indicative of a diminishing importance or amount of those fees. In fact, the total amount of participation fees increased for both UEAs between 2018 and 2019 by about 8% in Fort Wayne and 37% in Lafayette. The percent of total revenue coming from participation fees was likely inflated in 2018 since this was the first year of the program. Participation fees as a percent of total funding declined as time allowed for additional funding sources to be leveraged by the two UEAs.

The IEDC is allowed to make grants from the Indiana Twenty-First Century Research and Technology Fund to the districts established in the cities of Lafayette and Fort Wayne. The total amount of grant money to each district may not exceed \$1 million for a total of \$2 million per state fiscal year. The grant money must be used for programs that support entrepreneurship, small business development, technology development, and innovation. Both EEDs received grant money from the fund in 2019.

TABLE 1.**TOTAL REVENUES BY EED URBAN ENTERPRISE ASSOCIATIONS**

UEA	2018		2019	
	Total Revenue	Participation Fee % of Total Revenue	Total Revenue	Participation Fee % of Total Revenue
Lafayette	\$87,862	99%	\$387,328	31%
Fort Wayne	751,754	55%	1,200,742	37%

SOURCE: Fort Wayne and Lafayette Urban Enterprise Associations.

EED INCENTIVES

There are three incentives available to businesses in the EEDs: the entrepreneur and enterprise district investment deduction, the entrepreneur and enterprise district personal property minimum value exemption, and the entrepreneur and enterprise district vacant building abatement. The EZ investment deduction was expanded to include EEDs in the form of the EED investment deduction, which includes an expansion of eligible expense criteria to accommodate the new focus of the EEDs. Expenses on new information technology, new logistic technology, and on research and redevelopment are included for businesses in the EEDs. This deduction has been the primary incentive claimed by businesses in the EEDs. The personal property minimum value exemption and the vacant building abatement have yet to be claimed in the first two years of the pilot program. Self-reported EZB-R data from 2018 shows the total capital investment by district businesses to be around \$51.3 million, compared with about \$2.2 million in EED incentives awarded to district businesses.

1
INVESTMENT
DEDUCTION

2
PERSONAL
PROPERTY
MINIMUM VALUE
EXEMPTION

3
VACANT
BUILDING
ABATEMENT

IMPLICATIONS OF THE EED PROGRAM FROM EXISTING RESEARCH

The most significant change from the EZ program to the EED program is the shift in emphasis from promoting investments in manufacturing to promoting entrepreneurship and small business development. This change means that EEDs have fundamentally different goals and measures of success than the EZ programs. A review of existing research on entrepreneurial and small business development incentive programs is presented to understand the implications of this pilot program design.

A report by The International Economic

Development Council (2015) highlights that utilizing incentives effectively remains a challenge for governmental units wanting to make them more cost effective. The report provides strategies on how to maximize the effectiveness of incentive programs, and many of those suggestions overlap with EED practices. Recommended programmatic principles such as leveraging local talent, promoting entrepreneurship, targeting incentives toward high-value economic activity, and collaborating with regional partners on economic development are all utilized by the EEDs. This suggests that the design of the pilot program is in line

with best practices.

More specifically, there are existing reports and scholarly research on government-promoted entrepreneurship. Motoyama and Wiens (2015) offer suggestions on how government units can best promote entrepreneurship. Some of their recommendations are to avoid direct investments and traditional public incubators, and to instead foster connections, reinvent existing public venture funds, and make incubators more catalytic networking spaces. The design of the EEDs is highly compatible with these guidelines.

While there is a significant body of research on the impacts and effectiveness of EZs, there is very little research available that examines these same questions for programs analogous to the EEDs. Bruce and Deskins (2010) find that state tax policies do not appear to have quantitatively important effects on entrepreneurial activity. Their report uses a regression model to look at the impact of statutory tax rates and other indicators of state tax policies measured against entrepreneurial activity. The model shows that the number of tax incentives offered by states is associated with slightly higher rates of entrepreneurship; however, they find that the impact of adding one tax incentive program is very small. Garrett and Wall (2006) use a feasible generalized least squares regression model to look at entrepreneurship and state policies across different U.S. states and find that certain tax exemption rates, corporate income tax rates, and minimum wage all have a statistically and economically significant impact on a state's level of entrepreneurship. However, they do not find the personal

income tax rate to have an effect on the level of entrepreneurship in a given state.

Although the findings of this research indicate minimal impact on entrepreneurship as a result of state tax policies, the programs being analyzed do not closely model the design or scope of the pilot program. In particular, the available research focuses largely on the impacts resulting from tax dollars; while tax incentives are offered to district businesses, the core funding of the pilot program is participation fees and grants. Neither analysis looks at a place-based program and, by extension, neither analysis examines spatially-targeted entrepreneurial incentives. This disparity between the types of programs evaluated by existing research and the actual design of the pilot program means that it is difficult to draw any conclusions about the effectiveness of the EED program design from available scholarly work.

PROGRAM IMPLEMENTATION

Both EEDs have begun various programming to further the goal of encouraging entrepreneurship and small business development. Each district is boosting awareness of existing community resources, building connectivity among entrepreneurs and the local business community, removing barriers for success, and leveraging state and local resources to support its array of programs and services.

More generally, the UEAs identified three key areas of focus for programming as an EED, and in their broader work: economic development, community development, and workforce development.

The UEAs envision these three programmatic components as the foundation that can then be customized to meet the unique needs of different communities.



SOURCE: Adapted from the Fort Wayne and Lafayette Urban Enterprise Associations.

Some current programmatic highlights of the two EEDs are listed as follows:

- **Build Institute Fort Wayne:** The cohort-style program offers “Build Basics” Entrepreneur Education licensed through the BUILD Institute of Detroit and focuses on aspiring and early entrepreneurs. In addition to business planning education, participants receive a free strengths assessment, one-on-one time with entrepreneur coaching services, and other services during the nine week program.
- **MBX Idea Accelerator:** This business incubator is intended to stimulate entrepreneurial activity by helping early-stage entrepreneurs get their idea, project, or startup to the next step. The program is administered by the Lafayette X-District and is comprised of a broader entrepreneur development initiative and a more selective venture development initiative. It is broken into four annual cohorts, and the program invests in about 50 new ventures each year.
- **Fuse NEI:** This website is Fort Wayne’s initiative to launch an online hub where entrepreneurs can find resources and business assistance to address regional underutilization of existing resources. In addition to centralizing information, the long term goal is to use Fuse to form a regional coalition of entrepreneur support organizations.
- **The LAB Makerspace:** The LAB is a community center in Lafayette that provides technology, manufacturing/prototyping equipment, and educational opportunities to the public. The space allows community members, students, businesses, and entrepreneurs to design, prototype, and manufacture items using tools that would in many instances be inaccessible or unaffordable such as 3-D printers, laser cutters, digital fabrication machines, and the latest in computer-aided design (CAD) software.

An important consideration in reviewing this initiative is that the EEDs are a pilot program and are only in their third year of operation. At this stage in the districts’ program implementation, there are insufficient data and outcomes to truly evaluate the effectiveness of the pilot program.

However, later analyses could utilize yearly data and comprehensive metrics to capture a more complete profile of the program over time. Stangler and Bell-Masterson (2015) released a detailed set of recommendations on strategies and methods of evaluating an entrepreneurial ecosystem.

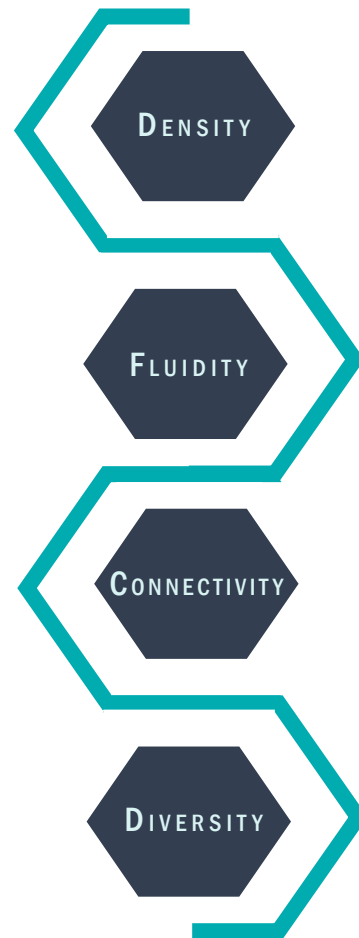
The report posits four major indicators of entrepreneurial ecosystem “vibrancy” as:

- **Density**, which reflects the concentration and employment share of new and targeted-sector firms;
- **Fluidity**, or the amount of flux in population and labor market reallocation;
- **Connectivity**, which measures the interconnectedness between programs, companies, individuals, and resources; and
- **Diversity**, measured through a combination of economic diversification, immigration, and income mobility.

The report then offers variables and potential data sources that can be used to analytically model these indicators. The authors emphasize that a “snapshot” approach is not the most effective method of analyzing these types of programs and suggest looking at important measures over a longer period of time. The authors also note that the four indicators they use are not exhaustive for program evaluators, and that others should feel free to revise and expand upon their framework. This approach could potentially overcome some of the

shortcomings of existing research that study place-based economic development programs.

FIGURE 1.
INDICATORS OF ENTREPRENEURIAL
ECOSYSTEM VIBRANCY



SOURCE: Adapted from Stangler and Bell-Masterson (2015).

ABATEMENT DEDUCTION FOR VACANT BUILDINGS

IC 6-1.1-46.2

The abatement deduction for vacant buildings was established in 2017. This deduction is available to owners of vacant industrial and commercial buildings in an Entrepreneur and Enterprise District (EED) to encourage the occupancy of those buildings.

THE BUILDING MUST HAVE BEEN vacant for at least one year prior to occupancy by the owner or a tenant. The owner must apply for the deduction prior to occupancy. The district board, after considering the application and statement of benefits, determines whether the application should be granted. The fiscal body of the municipality must also approve the deduction.

If granted, the district board, with the approval of the fiscal body, determines

the length of the deduction and the deduction percentage for each year. The deduction may be granted for up to 10 years. The deduction equals the AV of the occupied portion of the building multiplied by the deduction percentage for that year.

There have been no applications for this deduction in either of the two EEDs. In Lafayette, the EED director advised that there are not many vacant buildings.

EXEMPTION FROM PERSONAL PROPERTY ASSESSMENT FLOOR

IC 6-1.1-3-25

The exemption from the personal property 30% assessment floor was established in 2017. The valuation floor exemption is available to owners of business personal property in an EED to encourage the placement of additional personal property in service in the district.

THE PERSONAL PROPERTY MUST have been placed in service in the district after designation of the district, and it must be used by employees who perform the majority of their service within the district.

Business personal property is assessed according to a depreciation schedule specified by rule. The depreciated value of all of a taxpayer's personal property located in a single taxing district may not be less than 30% of the property's acquisition cost. The value is adjusted up to 30% if necessary. This is the 30% valuation floor.

The exemption from the floor will only be operative for a taxpayer in the district that has reached the floor. If the taxpayer makes no personal

property investment beyond the initial investment, it will take between four and eight years for new personal property to reach the 30% floor, depending on depreciation life. Additional investment and retirement of older property will extend the time that it takes to reach the floor. Some property owners may never reach the floor.

There have been no valuation floor exemptions in either of the two EEDs. In Lafayette, the EED director advised that the focus is on small startups that are not personal property-heavy. In Fort Wayne, the director stated that most taxpayers they see are heavy in personal property, but the property is new and has not yet reached the valuation floor.

PROPERTY TAX ABATEMENTS

IC 6-1.1-12.1

Indiana's property tax abatement law was enacted in 1977. The intention of most property tax abatements is to attract businesses, create jobs, and increase the income of local residents.

PROPERTY TAX ABATEMENTS MAY be used by local governments to rehabilitate distressed properties and for other purposes regarded as appropriate. This section provides a general overview of the literature on property tax abatements and their effectiveness in the U.S., and an analysis of the effectiveness of Indiana's property tax abatements.

INDIANA PROPERTY TAX ABATEMENT

Indiana provides three local property tax abatements which are: (1) personal property; (2) real property; and (3) residentially distressed property. There are unique requirements for each type of Indiana property tax abatement.

The abatement process begins with the designation of an area as an Economic Revitalization Area (ERA) by the local designating body, which is the fiscal body of the county, city, town or, in Marion County, the Metropolitan Redevelopment Commission. An ERA is a given area that has become undesirable for, or impossible of, normal development and occupancy based on guidelines established in statute. An area where facilities that are technologically, economically, or energy obsolete are located, and where

TYPES OF PROPERTY AVAILABLE FOR ABATEMENT PROGRAMS

Personal Property

Personal property abatements are available for new equipment used for:

- Manufacturing
- Research & development
- Logistical distribution
- Information technology

Real Property

New building or structure, not including land, located in a designated economic revitalization area. Eligibility also includes remodeling, repairs, or betterments of property if it increases the assessed value.

Residentially Distressed Area

An area located in an economic revitalization area with the following characteristics:

- Dwellings for one to four families.
- Many dwellings are unsafe or have major deficiencies.
- Many of the properties were sold but not redeemed in a tax sale, or are owned by a local unit of government.
- The number of dwellings in the area has decreased over time, or the area is owned by the U.S. or Indiana.
- The area does not exceed 10% of the area within the designating body's district.

the obsolescence may lead to a decline in employment and tax revenues may also be designated as an ERA. Finally, a residentially distressed area may be designated as an ERA. Designating bodies may make an ERA designation proactively, or they may make an ERA designation based on the review of a designation application filed by an abatement applicant.

A statement of benefits must accompany the application for abatement. However, if the designating body requires information for use in making its decision about whether to designate an ERA, the

applicant must provide the statement of benefits before the public hearing regarding the designation.

A property owner who is granted an abatement must comply with the statement of benefits. The abatement may be terminated or reduced if the property owner does not comply with the statement of benefits. An abatement may be transferred to a new property owner if the property use is commercial or industrial. Table 1 shows the requirements that must be included by the applicant in the statement of benefits submitted to a designating body.

TABLE 1.
REQUIRED STATEMENT OF BENEFITS FOR REAL AND PERSONAL ABATEMENTS

Personal Property	Real Property
• Description of the new equipment. • Estimated number of people who will be employed or whose jobs will be retained as a result of the installation of new equipment. • Estimated cost of the new equipment. • Estimated amount of converted waste if the equipment is used to convert solid or hazardous waste into energy or other useful products. • Any other benefits requested by the designating body.	• Description of the proposed redevelopment or rehabilitation. • Estimated number of individuals who will be employed or whose employment will be retained as a result of the redevelopment or rehabilitation, and an estimate of the annual salaries of these individuals. • Estimated value of the redevelopment or rehabilitation.

SOURCE: Indiana Code.

The awarded deduction amount for personal property is equal to the assessed value (AV) of the new equipment multiplied by a percentage in the abatement schedule adopted by the designating body. Under current Indiana Code, abatements may last for up to 10 years. Alternatively, the statute permits a designating body to establish an enhanced abatement schedule for up to 20 years for a personal property abatement.

Real property tax deductions are equal to the AV increase attributed to the rehabilitation or redevelopment made to the property multiplied by a percentage in the abatement schedule adopted by the designating body. Deduction percentages are determined by the designating body. Real property abatements can last no more than 10 years.

CHARACTERISTICS OF THE INDIANA ABATEMENT PROGRAM

This section examines abatements that are not part of another incentive program such as enterprise zones. The number of states allowing those types of property tax abatement programs has increased over the past few decades. Kenyon et al. (2012) estimate there were just 15 states in 1964 offering a stand-alone abatement program. In 2010, the estimate climbed

to 37 states offering 82 stand-alone abatement programs. The programs across the country differ on a number of attributes.

Table 2 summarizes the general characteristics of Indiana's property tax abatement program. Two differences worth exploring further are how the maximum abatement value is computed and which taxing units bear the cost of the abatement.

TABLE 2.
CHARACTERISTICS OF INDIANA'S ABATEMENT PROGRAM

Attribute	Description
Maximum Duration of Abatement in Years	The maximum number of years and the level of government (state or local) that makes the decision on the duration of abatements varies across states. Indiana allows a maximum of 10 years for real property. Personal property abatements may be granted for up to 20 years if authorized by the designating body.
Who Grants the Abatement	The designated body who grants abatements varies by state. It can be a local governmental unit or a state. Cities, towns, and counties grant abatements in Indiana. In Marion County, The Metropolitan Development Commission grants abatements.
Who Bears the Cost	Nationally, the cost of abatements may be borne by the unit of government that grants the abatement, all overlapping units in which the abatement is granted, or by the state. In Indiana, all overlapping governmental units are affected by an awarded abatement.
Eligible Property	Some states limit the types of properties that are eligible to receive an abatement. The common types of property are industrial, manufacturing, commercial, residential, or research. Indiana defines eligibility for abatements relatively broadly.
Property Tax Abated	Abatements may be granted for certain types of personal property, land, and/or improvements across states. Indiana only allows abatements for new equipment or new improvements to, or rehabilitation of real property.
Maximum Abatement	In some states, all AV of a property may be abated. In others, only "value add" (i.e., new improvements) may be abated. Also, the maximum value abated is as high as 100% in a given year in some states. The maximum abatement can vary between 51% and 99% of the value in some states, while others allow a maximum abatement of less than 50%. Indiana allows a maximum abatement of 100% of added AV.
Limiting Provisions	States have imposed certain limitations on the provisions of their abatement programs. Some states may terminate an abatement if certain expectations are not met. States also allow for "clawbacks" which allows for a portion of the abatement to be paid back if certain expectations are not met. Finally, some states place a "sunset," or an end date on the abatement program. Indiana allows for termination and clawbacks.

SOURCE: These categories were adapted from Kenyon, et al. 2012.

All overlapping units are not impacted by a single unit offering an abatement in some states. In those cases, the unit or state primarily bears the cost. Indiana's abatements can be approved by a county, city, town, or in Marion County, the Metropolitan Development Commission. An abatement granted by one local governmental unit impacts all the taxing units in which the property is located. For example, if a city chooses to grant an abatement, the abated AV for that property is not added to the tax base for the county, city, school corporation, or any other taxing unit whose boundaries include the property.

Using the previous example, if a city not located in Indiana offers an abatement, the AV the city abated will still be included when computing property taxes for the county, school corporation, or any other taxing unit. In the programs that operate this way, the taxing units would need to work together to decide whether or not to abate all the firm's property taxes.

Some states limit eligibility for abatements to certain types of properties. Indiana allows abatements for several types of property, including: industrial/manufacturing, commercial, residential, and research facilities. However, Indiana only abates the increased AV (i.e., value added) of a given property. For example, if a business purchases a vacant factory and makes repairs and improvements to the building, the abatement only applies to the increased AV that results from the repairs and improvements. Wassmer

(2009) contends that this approach most effectively connects the size of the abatement to the possible benefits the abated property might provide. There are provisions in Indiana that allow for abatements to be terminated or even clawed back (i.e., portion of the abatement paid back) if certain conditions are not met.

Illustration of Property Tax Abatement Process

Table 3 illustrates the real property tax process in Indiana, with a comparison between two identical hypothetical properties. Both properties have a \$1.0 million land gross assessed value (GAV). One property receives a 100% abatement on \$9.0 million of new improvement AV, and the other property does not receive an abatement for the same amount of new AV. As shown, both properties have a total GAV of \$10 million. However, the full \$9.0 million is abated for one property in the first year of the new improvement. The result is a \$9.0 million difference in net AV between properties. Applying the tax rate of \$3.50 per \$100 net AV results in a gross tax amount of \$350,000 for the property without the abatement, and \$35,000 for the property with the abatement.

Each property also receives a hypothetical 5% locally funded credit.^[1] The locally funded credit provides property tax relief to the property owner. The net tax before applying the tax cap is calculated by subtracting the locally funded credit from the gross tax.

¹Local income tax councils or county fiscal bodies may adopt a local income tax for various purposes. The adopting body may allocate a portion of the revenue for property tax relief to homesteads, other residential properties, or business property as determined by the fiscal body. This example assumes that the property owner received a 5% credit toward property tax relief.

TABLE 3.**COMPARISON OF IDENTICAL HYPOTHETICAL PROPERTIES WITH AND WITHOUT REAL PROPERTY TAX ABATEMENTS**

	No Abatement	100% Abatement	Note: Nonresidential property with a 3% tax cap
Land GAV	\$1,000,000	\$1,000,000	1. The calculation begins with calculating the total GAV by summing the land GAV and the GAV of improvements. Abatement percentage may only be applied to the GAV of new improvements. LAND GAV + IMPROVEMENTS GAV = TOTAL GAV
Existing Improvements GAV	0	0	
New Improvement GAV	\$9,000,000	\$9,000,000	
1. Total GAV	\$10,000,000	\$10,000,000	2. The percentage of new improvements AV that is abated determines the amount of AV abated. NEW IMPROVEMENT GAV X %ABATED = ABATED AV
%Abated	0%	100%	
2. Abated AV	0	\$9,000,000	
3. Net AV	\$10,000,000	\$1,000,000	3. Net AV is determined by subtracting the amount abated AV from total GAV. TOTAL GAV - ABATED AV = NET AV
Tax Rate per \$100 AV	\$3.50	\$3.50	
4. Gross Tax Bill	\$350,000	\$35,000	
Locally Funded Credit (5% Illustrated)	\$17,500	\$1,750	4. The gross tax bill is determined by multiplying the net AV by the tax rate per \$100 of AV NET AV X TAX RATE / 100 = GROSS TAX
5. Net Tax Before Tax Cap	\$332,500	\$33,250	
Tax Cap	\$300,000	\$300,000	
Tax Cap Credit	\$32,500	\$0	5. The locally funded credit (if any) is determined as a percentage of the gross tax and subtracted from gross tax to determine the net tax before the tax cap. GROSS TAX - LOCALLY FUNDED CREDIT = NET TAX BEFORE TAX CAP
6. Net Tax Bill	\$300,000	\$33,250	

SOURCE: Office of Fiscal and Management Analysis.

Finally, the net tax bill is calculated by applying the tax cap credit to properties whose net tax before tax caps exceeds a certain percentage of GAV. For these hypothetical properties, the property tax is capped at \$300,000 (or 3% of \$10 million GAV). The net tax before the tax cap for the property without the abatement is \$332,500, which is \$32,500 above the capped amount. Therefore, that property's net tax bill is capped at \$300,000. The initial net tax for the property with the abatement is \$33,250,

well below the \$300,000 tax cap.

INDIANA ABATEMENT CLAIMS DATA

Since 2008, an abatement has been claimed at least once in every county except Pike. As Figure 1 shows, abatements are claimed on real property more often than personal property, although the gap has been decreasing. While most of the claims are real property, personal property has a larger share of the tax savings as seen in Figure 2.

FIGURE 1.
COUNT OF REAL AND PERSONAL
PROPERTY ABATEMENTS

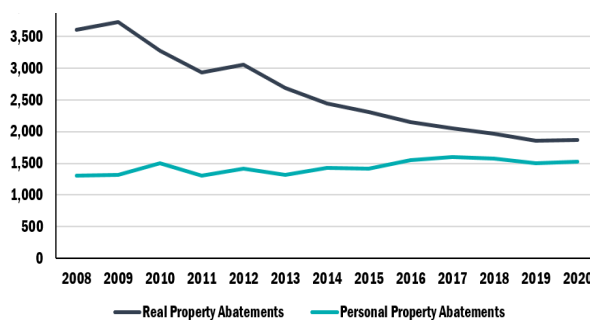
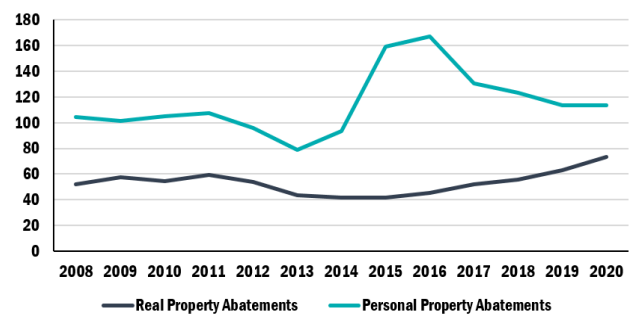


FIGURE 2.
TOTAL TAX SAVINGS FROM REAL
AND PERSONAL PROPERTY TAX
ABATEMENTS (\$ IN MILLIONS)



SOURCE: Parcel-level data provided by county auditors, data analysis by the Office of Fiscal and Management Analysis.

Since 2008, 77 counties had at least one abatement in every year, and more than \$101.1 billion in GAV was abated. As Table 4 shows, personal property has not only accounted for a larger share of the total savings, but a much larger portion of its total AV has been abated. Of the total statewide real property AV, less than 1% was abated. However, more than 9% of the statewide personal property was abated in each of the past seven years. Map 1 illustrates the percentage of total GAV that was abated per county in 2020.

The analysis of the location of abatements found parcels with abated AV that were also within tax increment financing areas (TIFs). TIF is a financing tool used by local governments that

captures incremental property tax revenue in a defined area to fund redevelopment projects. In 2012, about 19% of taxpayers with abatements had a portion of their AV allocated to a TIF. Abated AV within TIFs represented about 35% of the total abated AV. The number of abatements and abated AV in TIFs has increased over time. In 2019, 27% of all abatements were in TIFs, and they comprised 49% of all abated AV.

INDIANA ABATEMENT SAVINGS AND PROPERTY TAX RELIEF

The tax savings generated by an abatement is impacted by both the property tax rate and the property tax caps. Higher property tax rates make the

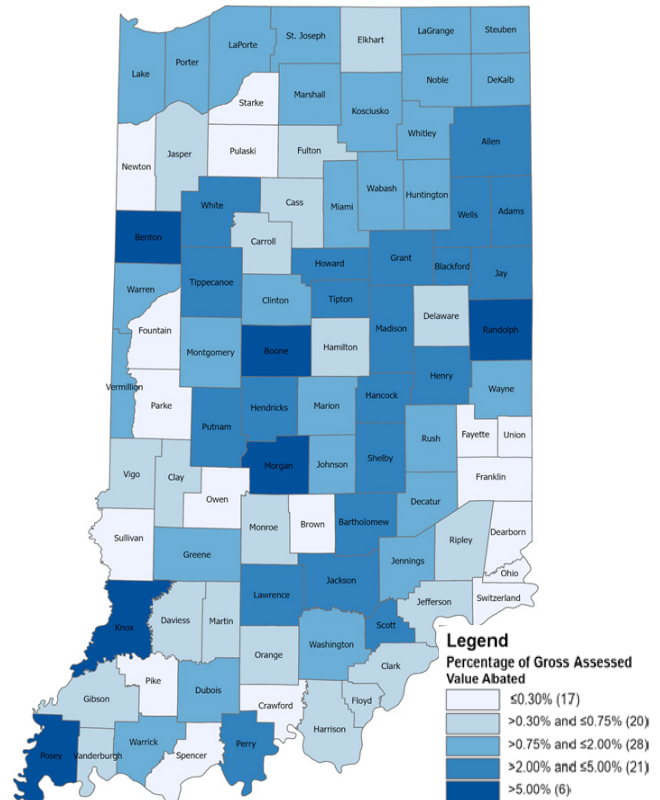
TABLE 4.
PROPERTY TAX ABATEMENT HISTORY, 2012-2020

Year	Real Property			Personal Property			Total		
	Count	% of Real Gross AV Abated	Tax Savings	Count	% of P.P. Gross AV Abated	Tax Savings	Count	% of Total Gross AV Abated	Tax Savings
2012	3,057	0.6%	\$53,855,680	1,420	9.9%	\$96,046,399	4,477	1.5%	\$149,902,079
2013	2,686	0.5	43,604,543	1,315	8.1	78,984,080	4,001	1.3	122,588,622
2014	2,439	0.5	41,573,358	1,432	9.2	93,401,194	3,871	1.4	134,974,552
2015	2,310	0.5	41,384,146	1,411	12.3	158,974,938	3,721	1.9	200,359,084
2016	2,153	0.5	45,064,743	1,551	12.9	166,898,132	3,704	2.0	211,962,875
2017	2,054	0.5	51,803,413	1,593	10.9	130,464,287	3,647	1.8	182,267,701
2018	1,966	0.6	55,515,808	1,569	10.3	123,038,090	3,535	1.7	178,553,898
2019	1,856	0.6	62,719,288	1,504	9.4	113,423,826	3,360	1.7	176,143,114
2020	1,870	0.7	73,253,146	1,524	9.6	113,287,252	3,394	1.7	186,540,398

SOURCE: Parcel-level data provided by county auditors, data analysis by the Office of Fiscal and Management Analysis.

value of an abatement increase because each abated dollar of valuation would be taxed at a higher rate so the tax savings increase. Property tax caps have the opposite effect. They limit the effective property tax rate. The maximum effective rate for most properties that receive a real or personal property abatement is 3%. In tax districts with lower property tax rates, the effective property tax rate is below the tax cap percentage, and thus the full tax value of the abatement is realized. A taxing district may exceed the maximum effective rate allowed by the tax caps. When this occurs, a portion of the savings that would have been generated by the abatement is instead generated by the tax cap. In other words, some of the anticipated savings from the abatement are already generated by the tax cap regardless of whether an abatement is granted. This impact may be illustrated by comparing multiple hypothetical properties that vary only by tax rate.

MAP 1.
PERCENTAGE OF GAV ABATED BY COUNTY



SOURCE: Parcel-level data provided by county auditors, data analysis by the Office of Fiscal and Management Analysis.

Tax Savings from Abatements and Tax Cap Credits for Hypothetical Properties

Tables 5 through 8 show a comparison between three identical hypothetical properties that vary only in tax rate. As Table 5 shows, all properties have a current \$1 million land GAV and a current \$40 million AV for existing improvements. New improvements equaling \$9 million in GAV are planned for each property. A seven year abatement schedule is set for those new improvements, ranging from 100% in the first year through 25% percent in the final year. The properties are nonresidential, and the taxes are

capped at 3% of total GAV (\$1.5 million tax cap). The property will receive a credit for the tax amount above \$1.5 million. The hypothetical properties' tax rates per \$100 AV range from \$2.50 to \$4.00. As illustrated in Table 5, the abated AV for all properties ranges from the full \$9 million of the new improvement GAV in the first year to \$2.25 million in the final year of the abatement schedule. It is assumed that the GAV does not change over the seven year abatement schedule. As a result, net AV ranges from \$41 million to \$47.75 million over the seven-year period for all properties.

TABLE 5.
HYPOTHETICAL PROPERTIES RECEIVING AN
ABATEMENT AT VARIOUS PROPERTY TAX RATES

	All Properties	Scenario: Land GAV Existing Improvement GAV NEW IMPROVEMENT GAV (to be abated on 7 year schedule): Total GAV=						\$1 M \$40 M \$9 M \$50 M
	All Properties TAX CAP CREDIT: 3%	TAX RATE Per \$100 AV : Property A: \$2.50 Property B: \$3.50 Property C: \$4.00						
	Without Abatement	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
		Abatement Percentage						
		100%	90%	80%	70%	60%	50%	25%
Abated AV	\$0	\$9,000	\$8,100	\$7,200	\$6,300	\$5,400	\$4,500	\$2,250
Net AV	\$50,000	\$41,000	\$41,900	\$42,800	\$43,700	\$44,600	\$45,500	\$47,750
(Amounts in thousands of dollars)								

SOURCE: Office of Fiscal and Management Analysis.

Table 6 shows the gross tax and net tax before the tax cap based on the tax rate of each property. It also shows the net tax before the tax cap after a hypothetical 5% locally funded credit. As would be expected, the gross tax and net tax before the tax cap vary from lower amounts at the lowest tax rates to higher amounts for the highest tax rates over the seven-year period. Both values also increase as

the abatement decreases from 100% to 25% of the GAV. The golden highlighted portion of the table shows the years in which Property B (\$3.50 per \$100 AV) and Property C (\$4.00 per \$100 AV) exceeded the 3% property tax cap (\$1.5 million for these properties). The portion of the table highlighted in blue shows that without abatement, Property B was at the tax cap. With abatement, taxes fell below the cap.

TABLE 6.**HYPOTHETICAL PROPERTIES' GROSS TAX AND NET TAX BEFORE THE TAX CAP**

	Without Abatement	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
		Abatement Percentage						
		100%	90%	80%	70%	60%	50%	25%
Gross Tax								
Property A	\$1,250	\$1,025	\$1,048	\$1,070	\$1,093	\$1,115	\$1,138	\$1,194
Property B	\$1,750	\$1,435	\$1,467	\$1,498	\$1,530	\$1,561	\$1,593	\$1,671
Property C	\$2,000	\$1,640	\$1,676	\$1,712	\$1,748	\$1,784	\$1,820	\$1,910
Net Tax Before the Cap (after 5% Local Credit)								
Property A	\$1,188	\$974	\$995	\$1,017	\$1,038	\$1,059	\$1,081	\$1,134
Property B	\$1,663	\$1,363	\$1,393	\$1,423	\$1,453	\$1,483	\$1,513	\$1,588
Property C	\$1,900	\$1,558	\$1,592	\$1,626	\$1,661	\$1,695	\$1,729	\$1,815
(Amounts in thousands of dollars)								

SOURCE: Office of Fiscal and Management Analysis.

The direct impact of the 3% property tax cap is demonstrated in Table 7. It illustrates the impact that the tax cap had on the net tax bill. As shown, tax cap credits were received only for years

where the tax before the cap exceeds 3% of GAV. The years during which a given property would have been over the cap had a capped net tax bill of \$1.5 million.

TABLE 7.**HYPOTHETICAL PROPERTIES' GROSS TAX AND NET TAX BILL**

	Without Abatement	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
		Abatement Percentage						
		100%	90%	80%	70%	60%	50%	25%
Tax Cap Credit Received								
Property A	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Property B	\$163	\$0	\$0	\$0	\$0	\$0	\$13	\$88
Property C	\$400	\$58	\$92	\$126	\$161	\$195	\$229	\$315
Net Tax Bill								
Property A	\$1,188	974	\$995	\$1,017	\$1,038	\$1,059	\$1,081	\$1,134
Property B	\$1,500	\$1,363	\$1,393	\$1,423	\$1,453	\$1,483	\$1,500	\$1,500
Property C	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
(Amounts in thousands of dollars)								

SOURCE: Office of Fiscal and Management Analysis.

Table 8 shows the interaction between abatement savings and the relief from the 3% tax cap. As highlighted in gold, no actual savings from the abatement were received for properties during which a tax cap credit was received. For instance, the entire savings associated with the abated AV amount for Property C was consumed by the tax cap. Property B (\$3.50/\$100 AV) received some actual abatement savings until the sixth year of

the seven-year schedule (50% AV abated) when the net tax bill exceeded the cap. It should also be noted that a portion of that abatement savings is consumed by the tax cap during the first five years (highlighted in blue). The initial net tax for Property A is below the three percent tax cap during the entire seven-year period. Therefore, that property received the full benefit of the abatement.

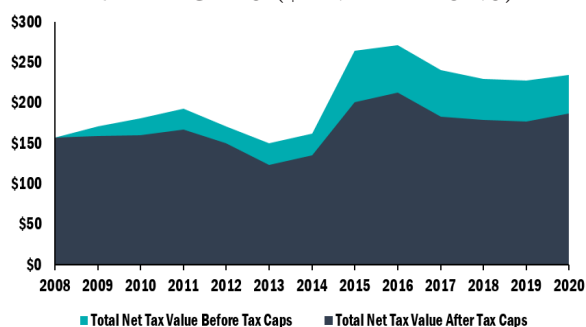
TABLE 8.
HYPOTHETICAL PROPERTIES' ABATEMENT SAVINGS

	Without Abatement	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
		Abatement Percentage						
		100%	90%	80%	70%	60%	50%	25%
Actual Savings from Abatement								
Property A	\$0	\$214	\$192	\$171	\$150	\$128	\$107	\$53
Property B	\$0	\$137	\$107	\$77	\$47	\$17	\$0	\$0
Property C	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Abatement Savings without Tax Cap								
Property A	\$0	\$214	\$192	\$171	\$150	\$128	\$107	\$53
Property B	\$0	\$299	\$269	\$239	\$209	\$180	\$150	\$75
Property C	\$0	\$342	\$308	\$274	\$239	\$205	\$171	\$86
Abatement Savings Consumed by the Tax Cap								
Property A	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Property B	\$0	\$163	\$163	\$163	\$163	\$163	\$150	\$75
Property C	\$0	\$342	\$308	\$274	\$239	\$205	\$171	\$86
(Amounts in thousands of dollars)								

SOURCE: Office of Fiscal and Management Analysis.

Figure 3 illustrates the trend in total net tax value of the abatements before and after property tax caps are applied between 2008 and 2020. As shown, the total value of abatements peaked in 2016. Between 2016 and 2020, the value of abatements before tax caps in Indiana ranged between \$227.5 million and \$270.7 million. During that same period, property tax caps consumed between 20% and 24% of the abatement savings.

FIGURE 3.
ABATEMENT VALUES BEFORE AND AFTER TAX CAPS (\$ IN MILLIONS)



SOURCE: Parcel-level data provided by county auditors, data analysis by the Office of Fiscal and Management Analysis.

PREVIOUS RESEARCH

Theoretically, property tax abatements are part of an overall strategy to ultimately increase tax revenue, or have indirect effects by increasing economic outcomes that would not have otherwise occurred in a certain location. From a firm's perspective, location decisions are based on several factors including: transportation costs, labor force quality, labor force costs, and location costs. That is, firms seek to locate in areas that are closer to market demand, to factors of production, or to inputs (Meurers & Moenius, 2020). In essence, firms will make location decisions based on those factors that maximize their profits.

There are decades of research that examine the economic and fiscal impact of property tax abatements from the firm and governmental perspective. Research on the efficacy of property tax abatements as an incentive for firm location and governmental outcomes is mixed (Middleton & Maynard-Moody, 2001; Hicks & Faulk, 2016; Kenyon et.al., 2012, Meurers & Moenius, 2020). Part of the variation in empirically estimated outcomes and conclusions is related to data availability, the variation in the competitive advantages across localities, complexity in property tax processes across states, and differences in methodological approaches.

In a 2001 review of literature related to property tax abatements and economic development incentives, Middleton and Maynard-Moody (2001) found that methodological approaches of related studies may be broadly categorized into two groups: surveys and empirical research. Examining survey studies, Middleton and Maynard-Moody (2001) concluded that there is a "fair percentage"

of respondents who believe that incentives do affect the location decision of a firm. The importance of that decision is generally more important when a firm is determining where to locate within smaller geographic regions. In some cases, the responses varied by industry type.

Though surveys are one common approach, findings from stated preferences (e.g., surveys) have been questioned because the beneficiaries of abatements may be inclined to inflate the positive effects of location decisions. Instead, some researchers have relied upon revealed preferences (e.g., observations based on actual behavior). However, the magnitude of the effect, if any, lacks consistency across these studies. As Middleton and Maynard-Moody (2001) explains, the consistency in the magnitude of effects is based on varied data used, quality of data, and complexity of models. Though there may be inconsistencies in approaches and data, the general conclusions are fairly consistent. The effectiveness of abatements is hard to measure, but general empirical evidence suggests that property tax abatements have a small or insignificant impact on firm location, or economic development outcomes.

Combined, most of the previous empirical research shows that property tax abatements have a small impact on firms' total costs. This suggests that profit is maximized by other location factors. Some studies have concluded that factors other than property taxes are more heavily considered in firm location decisions (Gold, 1979; Nunn, 1994; Kenyon et.al., 2012). For instance, Kenyon et.al. (2012) estimate that three-quarters of manufacturing costs were inputs purchased by suppliers, while less than 0.5% of costs were property taxes. Those

estimates are based on averages from one industry between 2004 and 2009. It is possible that variation across inputs (e.g., suppliers and consumers) could render greater offsetting impacts from property taxes and other location factors.

Though there may be some cost variation across the multiple inputs and industries, property taxes are typically the final cost considered (Ady, 1997; Anderson & Wassmer, 2001; Fouts, 2014). That is, the impact of property taxes is included in the location decision process only after several other factors are determined (Ady, 1997; Anderson & Wassmer, 2001). Ady (1997) describes the site selection process in three stages. With the exception of rendering a location uncompetitive in the early stages, property taxes are generally not considered until larger regions have been narrowed down to between three and five communities. The final communities are often in close proximity of each other (Anderson & Wassmer, 2001).

Property tax abatements may be effective in a firm's location decision when input costs other than property taxes are similar across communities. In that case, higher property taxes could be a determining factor in the final location decision. For instance, Hicks and Faulk (2016) examine property tax abatements in Indiana and find a correlation between abatements and effective property tax rate on existing households and businesses in a county. They were unable to determine whether abatements are correlated with higher taxes or abatements result in higher taxes. In a recent study, Mast (2020) examines tax breaks and firm location decisions more generally. He finds that tax breaks typically lower the tax rate on mobile firms but may lead to

under-provision of public services. Also, nearby competing localities are more likely to also offer tax breaks for mobile firms.

Abatements may offset the differences in property tax costs between similar communities, inducing a firm to locate in a community in which it would not have otherwise located. However, there are some researchers who have debated whether or not competition between communities reduces the effectiveness associated with the purpose of providing the abatements. According to estimates by Meurers and Moenius (2020), the location of a community may impact the effectiveness of a place-based incentive like property tax abatements. Studying manufacturing firm location decisions across U.S. over a 26 year period, they find public investments and local tax burden have a greater impact on communities farther away from economic centers.

There is a body of research that examines how the proliferation of property tax abatements has increased competition between local communities (Kenyon et.al., 2012; Wassmer, 2009; Cheng et. al 2020. Anderson and Wassman (1995) showed local communities began to imitate or increase bids of other communities as a result of the increase in property tax abatements in the Detroit area. From their findings, they conclude that instead of using abatements to compensate for the relative location cost differential between communities, communities are using property taxes to compete with other communities. In addition, some researchers have found that the expansion of property tax abatements increases generosity at the detriment of some localities, primarily low income areas (Wassmer, 1994; Brynes, Marvel,

and Sridhar; 1999; Cassel and Turner, 2010). As local governments continue to compete, the amount of the abatement escalates and abatements tend to be applied for longer durations. Researchers generally draw the conclusion that as abatements expand, areas that are in most need of offsetting other input costs will be at the greatest disadvantage.

Researchers continue to study place-based economic development programs and their associated tax incentives. Property tax abatements are among, and sometimes mixed within, various place-based programs. Slattery and Zidar (2020) examine two studies that estimate the amount spent by state and local governments on tax incentives. They compare estimates by Bartik (2017) to estimates by Slattery (2019). From that comparison, they find a range of tax incentive spending between \$30 billion to \$45 billion by state and local governments. Slattery and Zidar (2020) explain further that Bartik's (2017) estimate for local property tax abatement spending is approximately 30% of total tax incentive spending nationwide.

Bartik (2017) finds that, while there has been an expansion in the use of property tax abatements over the past several decades, job creation programs are becoming relatively more important as an incentive strategy. Bartik (2017) also finds that some states began to broaden their tax incentive programs to focus more on export-based firms more generally. Meurers and Moenius (2020) examined the impact of various factors on firms' location decisions. They find that tax burden does discourage economic activity. However, public investment (i.e., construction and other capital

outlays), which are partly independent from local government taxation, does increase the attractiveness of a location to a firm. These recent studies are consistent with the notion that business location attractiveness continues to evolve. Hicks' (2016) research using data from Indiana concurs. He finds that there has been a shift from people following employment to employment following people (or human capital).

ANALYSIS

LSA expanded its previous analysis by constructing a different dataset to compare abatement savings relative to other business expenses. The sample is drawn from several data sources. The basis is private business establishments from the Quarterly Census of Employment and Wages from years 2012 to 2019. The establishments were matched to parcels through GIS. The property tax data was retrieved from the OFMA property tax database. This technique allowed LSA to combine business employment, wages, real property AV, and property taxes. Next, business expenses were imputed using an Input-output model. An IMPLAN model was built for Indiana for purposes of understanding the cost of business purchases and total business output in relation to labor income. The model provided ratios of labor income to the following: intermediate inputs to production, proprietor income, overall taxes and fees on production and imports, and other property income. This analysis was conducted for 536 industrial classifications. Using the ratios developed from the model, LSA used reported wages for each establishment

and estimated the other business purchases and expenses. The final data set contains actual employment, property taxes, and estimated business expenses and other income. The process to associate establishments with parcels forced LSA to make two assumptions. The match linked multiple businesses to single parcels. For example, the process associated multiple independent medical providers and a hospital to one parcel. Each business has distinct employment, wages, and imputed business costs. However, the tax on the real property assigned to each business was identical. To avoid overstating the property tax, all the measures computed for the individual businesses were summarized for each parcel. Each parcel was assigned a predominant industrial category based on the industrial sector with the greatest employment. Because the real property tax was assigned to the parcel and some parcels contain multiple businesses, LSA assumed the tax savings from abatements would be capitalized in the rent and shared indirectly with all businesses at that location.

The match process was unable to match all establishments to a parcel. It successfully associated 80% of businesses. Those matches comprise 27% of real property abatements. A description

of the sample and how abatements compare to business costs follows.

The share of real property tax abatements claimed by industry between 2012 and 2019 is shown in Figure 4. Manufacturing firms claimed more real property abatements (41%) than businesses in any other industry. Wholesale trade firms received the second largest share (16%) of real property abatements. The remaining abatements claimed between 2012 and 2019 were distributed across 10 industry categories.

Figure 5 shows the real property tax abatement savings received by industry during the same time period. Examining the amount of tax savings accounts for the portion of the abatement that is consumed by property tax caps. The tax savings from real property abatements is slightly less concentrated in manufacturing (37%) than in the number of claims received. Wholesale and retail trade firms received a slightly larger share in tax savings from abatements (17%) than in the share of claims reported. While only receiving approximately 6% of the abatement claims, the transportation and warehousing industry received approximately 14% of all industry real property abatement savings between 2012 and 2019.

FIGURE 4.
REAL PROPERTY: SHARE OF TOTAL
ABATEMENTS BY INDUSTRY
(2012-2019)

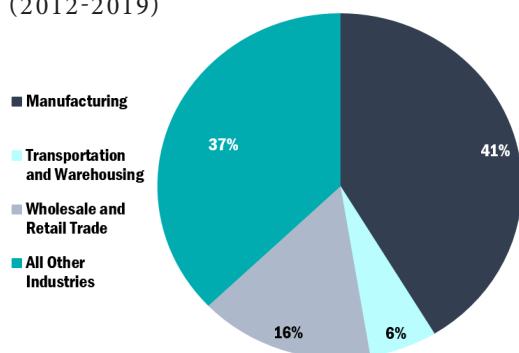
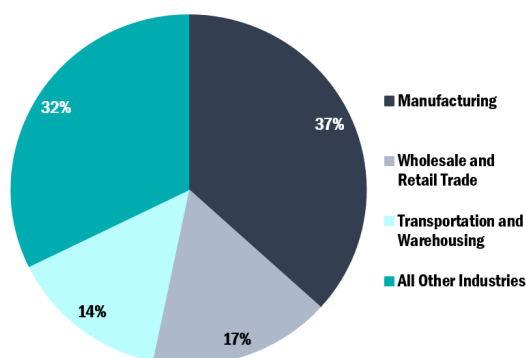


FIGURE 5.
REAL PROPERTY: SHARE OF TOTAL
ABATEMENTS AFTER TAX CAP (2012-2019)



SOURCE: Parcel-level data provided by county auditors, Bureau of Labor Statistics, data analysis by the Office of Fiscal and Management Analysis.

FIGURE 6.
PERSONAL PROPERTY: SHARE OF
TOTAL ABATEMENTS BY INDUSTRY
(2012-2019)

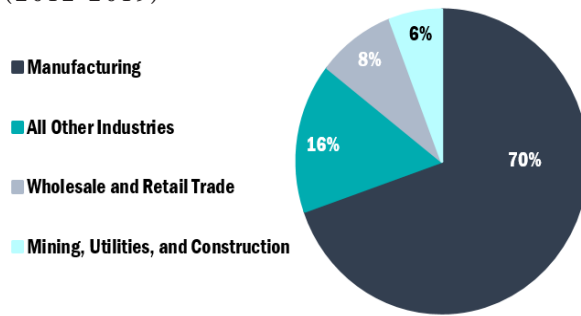
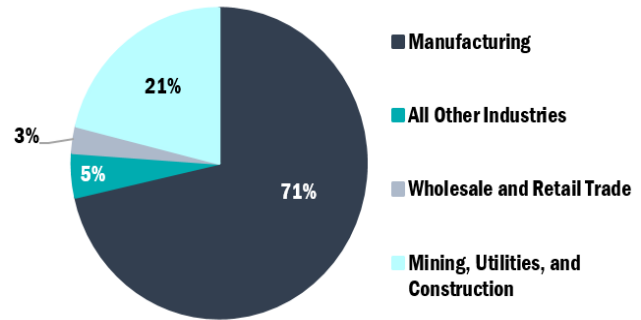


FIGURE 7.
PERSONAL PROPERTY: SHARE OF TOTAL
ABATEMENTS AFTER TAX CAP (2012-2019)



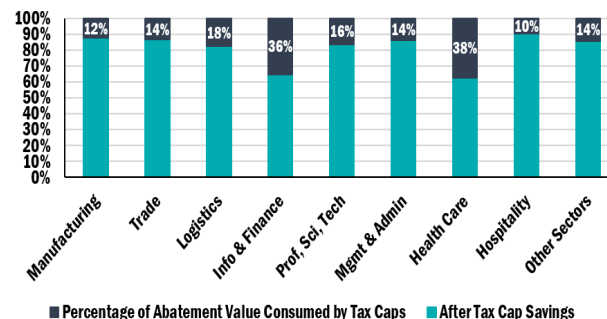
SOURCE: Parcel-level data provided by county auditors, data analysis by the Office of Fiscal and Management Analysis

The distribution of personal property abatements is different. Manufacturing still receives more than any other industrial sector. Manufacturers account for 70% of all personal property abatements and received 71% of the total tax savings after tax caps. However, utilities receive about 6% of the abatements, but those abatements account for 21% of the total tax savings after tax caps.

Before examining the relative savings provided by abatements to total business costs, LSA examined the differences in abatements before and after the tax caps by industrial sector. Figure 8 shows the impact property tax caps have on the relative value of tax abatements. The property tax caps mean that, even without an abatement, some firms would have seen a reduction in property taxes paid relative to tax estimates based on the tax rates in a given tax district. Abatements given in areas with high nominal tax rates will see a significant portion of the abatement value consumed by property tax caps, potentially making abatements in such areas less attractive than a similar abatement in an area where property tax caps have a smaller impact.

The designating bodies of taxing units which experience significant losses to tax caps might also be more skeptical of the need to abate development since, in

FIGURE 8.
PROPERTY TAX CAPS ON
ABATEMENT VALUE



SOURCE: Parcel-level data provided by county auditors, Bureau of Labor Statistics, data analysis by the Office of Fiscal and Management Analysis.

these districts, an increase in tax base could translate to increased property tax revenue. In districts that are minimally affected by property tax caps, an increase in the tax base will result in a decrease in the tax rate, not a significant increase in tax revenue. While a taxing unit that loses a significant amount of potential revenue to tax caps needs to spur development in order to build its GAV, using abatements to do so means that it will forego revenue in the short term.

Figure 8 also indicates that some firms will seek to make significant investments in areas with high property taxes. Finance and health care firms, for example, are likely to locate in city centers despite the fact that they will usually face higher property taxes than elsewhere.

To understand the influence abatements have on business decisions, the property tax savings should be compared to a business' cost. Analyzing the value of the incentive by itself is insufficient. It should be examined relative to the total cost of doing business, or a component of business costs. In LSA's previous analysis, the savings from abatements to labor costs was compared to wages. Table 9 shows the savings from abatements after tax caps compared to wages paid by industrial sector. To provide context to the savings, Table 9 also shows wages relative to total industrial output. A savings of 0.2% relative to wages is potentially more beneficial if wages are 22% of total output as opposed to 11% of total output.

Wages are a useful metric to examine when assessing the potential impact of a development on a community because wages are the means by which secondary and tertiary impacts of economic activity are captured in the surrounding community. For example, wages paid

to employees will be captured in local income taxes. Additionally, money paid to workers may drive demand for food, beverages, fuel, and consumer goods that may be purchased from other local businesses. Jobs, especially those with high wages, may also bring workers to the local area, spurring demand for local housing, and thereby sustaining the tax base of local taxing units.

At least as far back as the 1950s, researchers understood both the appeal and shortcomings of estimating the net impact a hypothetical new employer would have on the surrounding community (American Society of Planning Officials, 1951). The degree to which wages paid will translate into secondary and tertiary economic activity, and tax revenue in a given locality will depend on many variables. At the state level, an increase in total wages paid will increase personal income tax revenue and will apply upward pressure to hourly wages.

TABLE 9.
WAGES COMPARED TO REAL PROPERTY ABATEMENTS AND
TOTAL INDUSTRIAL OUTPUT

Sector	Abatements/ Wages	Wages/Total Industrial Output
Agriculture	0.26%	2.19%
Mining, Utilities, and Construction	0.25%	22.77%
Manufacturing	0.23%	11.44%
Wholesale and Retail Trade	0.62%	20.53%
Transportation and Warehousing	0.98%	22.53%
Information, Finance, and Real Estate	0.56%	15.44%
Professional, Scientific, and Technical	0.46%	40.46%
Management of Companies, Admin., and Remediation	0.46%	38.27%
Education	2.41%	37.82%
Health Care and Social Assistance	0.31%	51.24%
Food Services, Accommodation, and Entertainment	1.43%	27.63%
Other Services	0.57%	33.15%
Average Across All Sectors	0.38%	14.46%

SOURCE: Parcel-level data provided by county auditors, Bureau of Labor Statistics, and IMPLAN, data analysis by the Office of Fiscal and Management Analysis.

TABLE 10.
VALUE OF REAL PROPERTY ABATEMENTS RELATIVE TO CERTAIN
ESTIMATED BUSINESS COSTS

Sector	Intermediate Inputs	Other Property Income	Estimated Taxes on Production and Imports
Agriculture	0.008%	0.043%	3.179%
Mining, Utilities, and Construction	0.091%	0.349%	1.166%
Manufacturing	0.035%	0.200%	4.917%
Wholesale and Retail Trade	0.305%	0.468%	1.520%
Transportation and Warehousing	0.384%	1.877%	14.856%
Information, Finance, and Real Estate	0.178%	0.284%	2.213%
Professional, Scientific, and Technical	0.421%	3.732%	5.451%
Management of Companies, Admin., and Remediation	0.448%	1.055%	8.968%
Education	2.189%	9.877%	14.908%
Health Care and Social Assistance	0.392%	3.543%	15.769%
Food Services, Accommodation, and Entertainment	0.963%	2.207%	3.656%
Other Services	0.439%	1.172%	3.744%
Average Across All Sectors	0.080%	0.380%	3.462%

SOURCE: Parcel-level data provided by county auditors, Bureau of Labor Statistics, and IMPLAN, data analysis by the Office of Fiscal and Management Analysis.

When attempting to establish the relative value of tax abatements to a business, wages (labor compensation) is one type of business expenditure and component of industrial output. It is useful to compare abatements against other business metrics. Table 10 shows real property abatement relative to other components of industrial output. Comparing abatements against major expenses such as intermediate inputs shows that, in terms of total operating expenses, the value of an abatement is fairly low. Intermediate inputs are goods and services used to produce other goods and services. Intermediate inputs do not include capital investments or labor. But because profit margins vary between firms and sectors, the value of an abatement relative to other property income may be significant. Other property income is income generated from non-operating activities, and it includes corporate profits, consumption of fixed capital, and

income from dividends, royalties, and interest (IMPLAN, 2020). Likewise, when comparing the value of the abatement to a firm's estimated taxes on production and imports, the abatement may significantly reduce total taxes paid. The extent to which these savings motivate a firm to choose one location over another is debatable, but this table shows how significantly abatements can potentially affect a firm's bottom line.

CONCLUSION

In Indiana, the authority to grant abatements rests with local governmental units with an objective to attract businesses, create jobs, and increase the wages of Indiana residents. The designating bodies have certain flexibility in defining the terms of an abatement, which allows the designating bodies to craft an abatement specific to a project. The flexibility also allows designating bodies to compete with each other using

abatements.

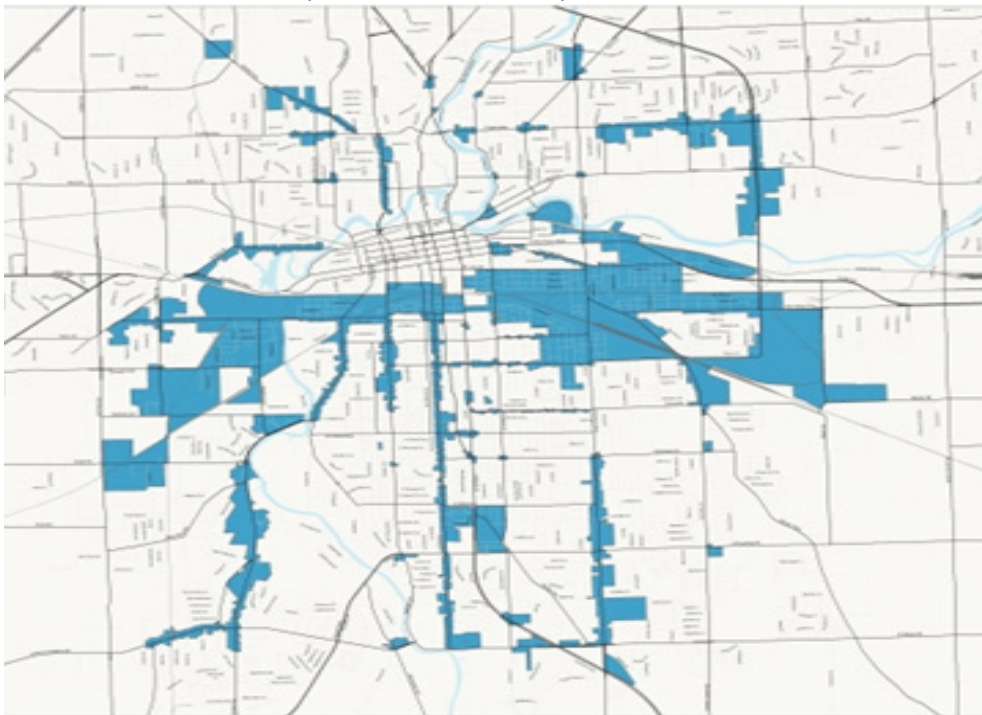
LSA found the attributes of Indiana's property tax system also affect the value of abatements. LSA developed scenarios illustrating how a higher local property tax rate makes the value of an abatement increase, while property tax caps reduce the value. The actual savings from an abatement is reduced to the extent that a property receives a tax cap credit. During 2015 to 2020, property tax caps consumed between 20% and 24% of the savings provided by abatements.

The exact discount necessary to influence a business' decision to invest or locate in a region is unknown. To better understand the potential influence of abatements, LSA estimated the value of abatement savings relative to the costs of

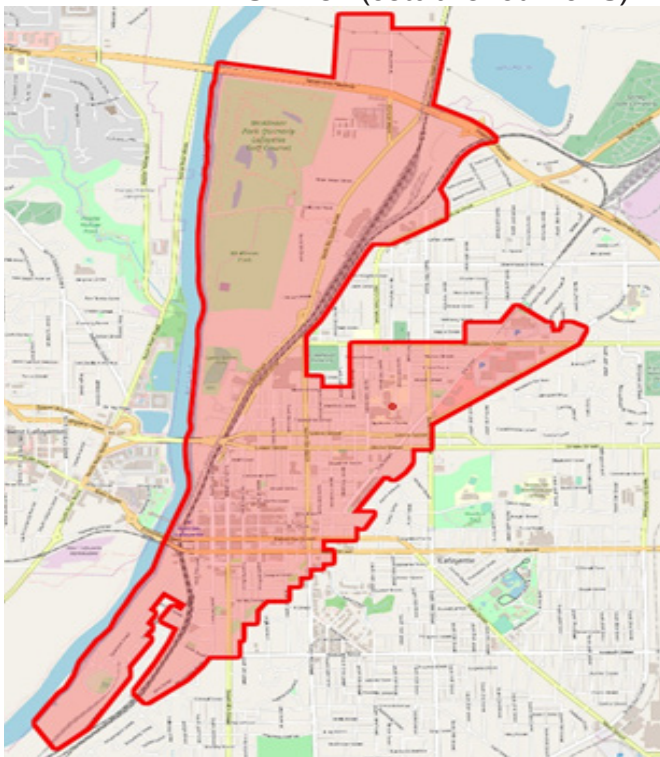
doing business, and output by industrial sector. Comparing abatements against major expenses such as intermediate inputs shows that, in terms of total operating expenses, the value of an abatement is fairly low. LSA observed variation across sectors, which implies it could be more influential to certain types of industries. The general conclusion from long-standing and advancing research is that there may be a small, if any, effect of property tax abatements on business location decisions. The effectiveness may be associated with the terms of the abatement, competition between localities with similar attributes, the property tax system within which they are granted, and the discount provided relative to a business' total costs.

ENTREPRENEUR AND ENTERPRISE DISTRICTS (MAPS)

FORT WAYNE SEED (established 2018)



LAFAYETTE X-DISTRICT (established 2018)



TAX INCENTIVE REVIEW STATUTE (IC 2-5-3.2-1)

Chapter 3.2. Review, Analysis and Tax Incentives

Sec. 1. (a) As used in this section, “tax incentive” means a benefit provided through a state or local tax that is intended to alter, reward, or subsidize a particular action or behavior by the tax incentive recipient, including a benefit intended to encourage economic development. The term includes the following:

- (1) An exemption, deduction, credit, preferential rate, or other tax benefit that:
 - (A) reduces the amount of a tax that would otherwise be due to the state;
 - (B) results in a tax refund in excess of any tax due; or
 - (C) reduces the amount of property taxes that would otherwise be due to a political subdivision of the state.

- (2) The dedication of revenue by a political subdivision to provide improvements or to retire bonds issued to pay for improvements in an economic or sports development area, a community revitalization area, an enterprise zone, a tax increment financing district, or any other similar area or district.

(b) The general assembly intends that each tax incentive effectuate the purposes for which it was enacted and that the cost of tax incentives should be included more readily in the biennial budgeting process. To provide the general assembly with the information it needs to make informed policy choices about the efficacy of each tax incentive, the legislative services agency shall conduct a regular review, analysis, and evaluation of all tax incentives according to a schedule developed by the legislative services agency.

(c) The legislative services agency shall conduct a systematic and comprehensive review, analysis, and evaluation of each tax incentive scheduled for review. The review, analysis, and evaluation must include information about each tax incentive that is necessary to achieve the goals described in subsection (b), which may include any of the following:

- (1) The basic attributes and policy goals of the tax incentive, including the statutory and programmatic goals of the tax incentive, the economic parameters of the tax incentive, the original scope and purpose of the tax incentive, and how the scope or purpose has changed over time.

- (2) The tax incentive’s equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purposes of the legislation enacting the tax incentive.

- (3) The types of activities on which the tax incentive is based and how effective the tax incentive has been in promoting these targeted activities and in assisting recipients of the tax incentive.

- (4) The count of the following:

- (A) Applicants for the tax incentive.
- (B) Applicants that qualify for the tax incentive.
- (C) Qualified applicants that, if applicable, are approved to receive the tax incentive.

- (D) Taxpayers that actually claim the tax incentive.

- (E) Taxpayers that actually receive the tax incentive.

- (5) The dollar amount of the tax incentive benefits that has been actually claimed by all taxpayers over time, including the following:

- (A) The dollar amount of the tax incentive, listed by the North American Industrial Classification System (NAICS) Code associated with the tax incentive recipients, if an NAICS Code is available.

- (B) The dollar amount of income tax credits that can be carried forward for

the next five (5) state fiscal years.

(6) An estimate of the economic impact of the tax incentive, including the following:

(A) A return on investment calculation for the tax incentive. For purposes of this clause, “return on investment calculation” means analyzing the cost to the state or political subdivision of providing the tax incentive, analyzing the benefits realized by the state or political subdivision from providing the tax incentive.

(B) A cost-benefit comparison of the state and local revenue foregone and property taxes shifted to other taxpayers as a result of allowing the tax incentive, compared to tax revenue generated by the taxpayer receiving the incentive, including direct taxes applied to the taxpayer and taxes applied to the taxpayer’s employees.

(C) An estimate of the number of jobs that were the direct result of the tax incentive.

(D) For any tax incentive that is reviewed or approved by the Indiana economic development corporation, a statement by the chief executive officer of the Indiana economic development corporation as to whether the statutory and programmatic goals of the tax incentive are being met, with obstacles to these goals identified, if possible.

(7) The methodology and assumptions used in carrying out the reviews, analyses, and evaluations required under this subsection.

(8) The estimated cost to the state to administer the tax incentive.

(9) An estimate of the extent to which benefits of the tax incentive remained in Indiana or flowed outside Indiana.

(10) Whether the effectiveness of the tax incentive could be determined more definitively if the general assembly were to clarify or modify the tax incentive’s goals and intended purpose.

(11) Whether measuring the economic impact is significantly limited due to data constraints and whether any changes in statute would facilitate data collection in a way that would allow for better review, analysis, or evaluation.

(12) An estimate of the indirect economic benefit or activity stimulated by the tax incentive.

(13) Any additional review, analysis, or evaluation that the legislative services agency considers advisable, including comparisons with tax incentives offered by other states if those comparisons would add value to the review, analysis, and evaluation.

The legislative services agency may request a state or local official or a state agency, a political subdivision, a body corporate and politic, or a county or municipal redevelopment commission to furnish information necessary to complete the tax incentive review, analysis, and evaluation required by this section. An official or entity presented with a request from the legislative services agency under this subsection shall cooperate with the legislative services agency in providing the requested information. An official or entity may require that the legislative services agency adhere to the provider’s rules, if any, that concern the confidential nature of the information.

(d) The legislative services agency shall, before October 1 of each year, submit a report to the legislative council, in an electronic format under IC 5-14-6, and to the interim study committee on fiscal policy established by IC 2-5-1.3-4 containing the results of the legislative services agency’s review, analysis, and evaluation. The report must include at least the following:

(1) A detailed description of the review, analysis, and evaluation for each tax incentive reviewed.

(2) Information to be used by the general assembly to determine whether a reviewed tax incentive should be continued, modified, or terminated, the basis for the recommendation, and the expected impact of the recommendation on the state's economy.

(3) Information to be used by the general assembly to better align a reviewed tax incentive with the original intent of the legislation that enacted the tax incentive.

The report required by this subsection must not disclose any proprietary or otherwise confidential taxpayer information.

(e) The interim study committee on fiscal policy shall do the following:

(1) Hold at least one (1) public hearing after September 30 and before November 1 of each year at which:

(A) the legislative services agency presents the review, analysis, and evaluation of tax incentives; and

(B) the interim study committee receives information concerning tax incentives.

(2) Submit to the legislative council, in an electronic format under IC 5-14-6, any recommendations made by the interim study committee that are related to the legislative services agency's review, analysis, and evaluation of tax incentives prepared under this section.

(f) The general assembly shall use the legislative services agency's report under this section and the interim study committee on fiscal policy's recommendations under this section to determine whether a particular tax incentive:

(1) is successful;

(2) is provided at a cost that can be accommodated by the state's biennial budget; and

(3) should be continued, amended, or repealed.

(g) The legislative services agency shall establish and maintain a system for making available to the public information about the amount and effectiveness of tax incentives.

(h) The legislative services agency shall develop and publish on the general assembly's Internet web site a multi-year schedule that lists all tax incentives and indicates the year when the report will be published for each tax incentive reviewed. The legislative services agency may revise the schedule as long as the legislative services agency provides for a systematic review, analysis, and evaluation of all tax incentives and that each tax incentive is reviewed at least once every seven (7) years.

(i) This section expires December 31, 2025.

TAX INCENTIVE AND INCENTIVE PROGRAM DESCRIPTIONS

Corporate Income Tax/Individual Income Tax	
Tax Provision	Description
Adoption Tax Credit (Reviewed in 2018)	10% of the federal adoption tax credit claimed for the year. The maximum credit equals \$1,000 per eligible child.
Coal Gasification Technology Investment Credit (Reviewed in 2018)	10% of the first \$500 million in qualified investment in an integrated coal gasification power plant (7% if the investment is in a fluidized-bed combustion unit) and 5% of the qualified investment exceeding \$500 million (3% if the investment is in a fluidized-bed combustion unit). Credits are approved by the IEDC Board.
Community Revitalization Enhancement District Credit (Reviewed in 2016)	Percent of qualified investments made in these areas as approved by the IEDC Board.
Earned Income Tax Credit (Reviewed in 2015)	A refundable tax credit for certain families that have a modified adjusted gross income less than \$45,800. The credit amount depends on the number of qualifying children and family income. The maximum credit for 2017 was \$514.
Economic Development for a Growing Economy (EDGE) Credit (Reviewed in 2017)	Incremental income tax withholdings of new or retained employees as approved by the IEDC Board.
Enterprise Zone Employee Income Deduction (Reviewed in 2016 and 2020)	The lesser of 50% of earnings or \$7,500 if the individual lives and works within an enterprise zone.
Enterprise Zone Employment Expense Credit (Reviewed in 2016 and 2020)	Allowed for increased employment expenditures, equal to the lesser of 10% multiplied by the increased wages or \$1,500 multiplied by the number of qualified employees.
Headquarters Relocation Credit (Reviewed in 2017)	Up to 50% of the costs incurred by an eligible business to relocate its headquarters, division or subdivision principal office, or research center to Indiana. Businesses relocating that receive at least \$4 million in venture capital in the six months preceding the move may qualify.
Hoosier Business Investment Credit (Reviewed in 2017)	Up to 10% of qualified nonlogistics business investments directly related to expanding the workforce in Indiana, not to exceed the taxpayer's state tax liability. For logistics investments, the credit equals 25% of the additional qualified investment made during the taxable year. The total nonlogistics credit for all taxpayers is capped at \$5 million per year, while the total logistics credit for all taxpayers is capped at \$50 million per year. Credits are approved by the IEDC Board.
Indiana 529 College Savings Account Contribution Credit (Reviewed in 2015)	20% of annual contributions to an Indiana College Choice 529 investment plan savings account. The maximum credit per taxpayer is \$1,000.
Indiana Colleges and Universities Contribution Credit (Reviewed in 2015)	50% of contributions to institutions of higher education, up to \$100 (\$200 if filing a joint return).
Indiana Partnership Long-Term Care Insurance Premiums Deduction (Reviewed in 2014)	Amount of premiums paid during the year on a qualified long-term care policy.
Individual Development Account Credit (Reviewed in 2015 and 2019)	50% of the amount contributed to a fund if the contribution is not less than \$100 and not more than \$50,000.

Tax Provision	Description
Neighborhood Assistance Credit (Reviewed in 2015 and 2019)	50% of contributions to approve projects that assist economically disadvantaged areas or to employ, train, or provide technical assistance to people who reside in these areas. The maximum credit is \$25,000. Total tax credits statewide may not exceed \$2.5 million in a fiscal year.
Patent-Derived Income Deduction (Reviewed in 2017)	Up to \$5 million in income from plant or utility patents issued beginning in 2008 to businesses or organizations domiciled in Indiana.
Redevelopment Tax Credit	Awarded to taxpayers who redevelop or rehabilitate real property located within qualified redevelopment areas that are approved by the IEDC. The IEDC and a taxpayer must enter into an agreement before qualified investments are made, which determines the terms of the credit. Total credits may not exceed \$50 million in a fiscal year. This credit is effective for qualified investments beginning January 1, 2020.
Regional Development Authority Infrastructure Fund Contribution Deduction	An amount equal to the federal income tax deduction allowable for contributions or gifts to a regional development authority infrastructure fund. The deduction is effective January 1, 2018.
Research Expense Credit (Reviewed in 2017)	For certain qualified research expenses incurred.
Residential Historic Rehabilitation Credit (Reviewed in 2015 and 2019)	20% of qualified expenditures as approved by DNR for the preservation or rehabilitation of the taxpayer's principal residence. The maximum statewide credit may not exceed \$250,000 annually.
School Scholarship Contribution Credit (Reviewed in 2015)	50% of contributions to nonprofit K-12 school scholarship-granting organizations. Total tax credits may not exceed \$12.5 million in FY 2018, \$14 million in FY 2019, \$15 million in FY 2020, and \$16.5 million each fiscal year thereafter.
Venture Capital Investment Credit (Reviewed in 2017)	20% of annual qualified venture capital investment up to \$1 million. Total new credits awarded may not exceed \$12.5 million annually.
Property Tax	
Tax Provision	Description
Brownfield Revitalization Zone Deduction (Reviewed in 2018)	The designating body may grant a 3-, 6-, or 10-year abatement for real and personal property located in a brownfield revitalization zone. The deduction equals the increase in the property's AV multiplied by a percentage based on year and duration.
Certified Technology Park Deduction (Reviewed in 2017)	Personal property located in a certified technology park and used to conduct high-technology activity. The deduction equals 100% of the property's AV. The term of 2 to 10 years is determined by the county fiscal body.
Data Center Property Tax Exemption	Local governments may provide a personal property tax exemption on qualified enterprise information technology equipment to owners of a data center who invest at least \$25 million in real and personal property in the facility. The exemption is effective July 1, 2019.
Enterprise Zone and Entrepreneur and Enterprise District Investment Deduction (Reviewed in 2016 and 2020)	Qualified investments including buildings, manufacturing or production equipment, retooling, and infrastructure within an enterprise zone. The deduction equals the increase in AV of the enterprise zone property as compared to the AV in the base year. The deduction was expanded to include Entrepreneur and Enterprise Districts on July 1, 2017.
Enterprise Zone Obsolescence Deduction (Marion County) (Reviewed in 2016 and 2020)	Newly purchased real property in an enterprise zone in Marion County if an obsolescence depreciation adjustment was allowed for the property in the year preceding the year in which the owner purchased the property. The deduction equals the amount of the former owner's obsolescence adjustment multiplied by 100% in year 1, 75% in year 2, 50% in year 3, and 25% in year 4.

Tax Provision	Description
Entrepreneur and Enterprise District Personal Property Minimum Value Exemption (Reviewed in 2020)	An exclusion from the 30% valuation floor for depreciable personal property. The incentive went into effect July 1, 2017.
Entrepreneur and Enterprise District Vacant Building Abatement (Reviewed in 2020)	Commercial or industrial building that is vacant for a year or longer. The deduction equals 100% of real property taxes for the first year it is occupied and 50% in the second year. The incentive went into effect July 1, 2017.
Geothermal Energy Heating or Cooling Device Deduction (Reviewed in 2018)	Real property or mobile home equipped with geothermal heating, cooling, hot water, or electricity production. The deduction equals the device's AV.
Hydroelectric Power Device Deduction (Reviewed in 2018)	Real property or mobile home equipped with a hydroelectric power device. The deduction equals the device's AV.
Infrastructure Development Zone (Reviewed in 2017)	100% exemption in a geographic area designated as an Infrastructure Development Zone by the county executive, municipal legislative body, or the Marion County fiscal body.
Low-Income Housing Exemption (Reviewed in 2015)	All or part of real property is exempt from property taxation if (1) the improvements on the real property were constructed, rehabilitated, or acquired for the purpose of providing housing to income-eligible persons, (2) the property is subject to an extended use agreement, and (3) the property owner has entered into an agreement to make payments in lieu of taxes.
Personal Property Abatements in an Economic Revitalization Area (Reviewed in 2017 and 2020)	New manufacturing, R&D, logistical distribution, and information technology equipment located in an economic revitalization area. The local designating body determines the length of the deduction from 1 to 10 years. It may be enhanced to up to 20 years. The designating body must specify an abatement schedule.
Real Property Abatements in an Economic Revitalization Area (Reviewed in 2017 and 2020)	Improvements made to real property located in an economic revitalization area. The local designating body determines the length of the deduction from 1 to 10 years. The designating body must specify an abatement schedule.
Resource Recovery Systems Deduction (Reviewed in 2018)	Tangible property directly used to dispose of solid waste or hazardous waste by converting it into energy or other useful products. The deduction equals 95% of the system's AV. This deduction currently applies to only one property located in Marion County.
Solar-Energy Systems Deduction (Reviewed in 2018)	Real property or mobile home equipped with solar energy heating or cooling system. The deduction equals system's cost.
Solar Power Device Deduction (Reviewed in 2018)	Solar power device that is part of real property, personal property, or, in some cases, utility distributable property.
Tax Increment Financing (Reviewed in 2015 and 2019)	Special district established by local units that capture incremental property tax revenue for development purposes in the districts.
Wind-Powered Devices Deduction (Reviewed in 2018)	Real property or mobile home equipped with wind-powered equipment designed to provide mechanical energy or produce electricity. The deduction equals the device's AV.
Sales Tax	
Tax Provision	Description
Aircraft Parts (Reviewed in 2018)	Materials, parts, equipment, and engines used in the repair, maintenance, refurbishment, remodeling, or remanufacturing of an aircraft or avionics system of an aircraft.

Tax Provision	Description
Aviation Fuel (Reviewed in 2018)	Aviation gasoline, jet fuel, and fuel used as a substitute for aviation gasoline or jet fuel.
Cargo Trailers/RVs Sold to Certain Nonresidents (Reviewed in 2018)	Sales of RVs and trailers to a resident of another state that has a reciprocal exemption.
Certain Aircraft (Reviewed in 2018)	Aircraft purchased for rental or leasing if the annual amount of gross lease revenue is greater than or equal to 7.5% of the book value or net acquisition price. Any aircraft rented or leased for predominant use in public transportation. Aircraft sold to a person who is not an Indiana resident.
Certain Racing Equipment (Reviewed in 2018)	Tangible personal property that comprises any part of a professional motor racing vehicle or a two-seater Indianapolis 500-style race car, excluding tires and accessories.
Data Center Equipment Tax Exemption	A sales and use tax exemption is provided on purchases of qualifying data center equipment and energy to operators of a qualified data center for a period no to exceed 25 years for data center investments of less than \$750 million. If the investment exceeds \$750 million, then the IEDC may award an exemption for up to 50 years. The exemption is effective January 1, 2019.
Research and Development Property (Reviewed in 2017)	Tangible personal property that has not previously been used in Indiana for any purpose and is acquired for the purpose of experimental laboratory R&D for new products, new uses of existing products, or improving or testing existing products.
Other	
Tax Provision	Description
Certified Technology Park (Reviewed in 2017)	Special zones established by local units that capture state and local tax revenue for high-technology business development in the zones.
Community Revitalization Enhancement Districts (Reviewed in 2016)	Special district established by local units that may capture state and local tax revenue for development purposes in the districts.
Enterprise Zones (Reviewed in 2016 and 2020)	Special zone established by municipal units where tax incentives are provided for development in the zones.
Entrepreneur and Enterprise District Pilot Program (Reviewed in 2020)	Special district established by municipal units that may receive a grant for programs that support entrepreneurship, small business development, technology development, and innovation. The program went into effect on July 1, 2017.
Motorsports Investment District (Reviewed in 2018)	Geographic area including the Indianapolis Motor Speedway. Revenue is captured from certain incremental sales tax, individual income tax, and admissions fee revenue.
Professional Sports Development Areas (Reviewed in 2017)	Special areas established by local units that may capture state and local tax revenue for sports and convention development purposes in the areas.
Promotional Free-Play Deduction (Reviewed in 2018)	Wagering tax deduction for wagers made by casino patrons using noncashable vouchers, coupons, electronic credits, or electronic promotions provided by the casino.

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