



Legislative Update Special Session



Indiana's Leading Voice for Industry

107 Years of Combined Legislative Experience on Staff

One American Square, Suite 2400, Indianapolis, IN 46282, Phone: 317-632-2474,
Toll-free at 800-462-7762, Fax: 317-231-2320, Web site: www.imaweb.com

June 7, 2002

Restructuring Legislation Lives to Pass House

IMA engineered a major compromise to the Special Session bill, **House Bill 1001** - Rep. Bauer (D-South Bend). The content of the bill is described below. Developments Tuesday night and Wednesday saw Ways and Means Committee Chair Bauer make major changes of the sort he has never made before to accommodate the need for tax restructuring. On Wednesday, IMA and a number of our allies hurriedly formed a coalition supporting Bauer's amendment to make the major changes. That amendment passed with 87 votes. After Bauer made some additional technical changes at IMA's request on Thursday, the bill passed with the bare minimum 51 votes. It was, indeed, caught up in the politics of the upcoming election; but through our lobbying efforts, we were able to bring enough votes to the table to ensure passage.

The bill now goes to the Senate where another mammoth effort will be made. We do believe that this bill, as it is now written, is the best tax restructuring bill that has actually had life in the last year.

It should be noted that the Democrat leadership in the House set aside a large number of debilitating amendments. Several amendments had been filed which would have significantly liberalized the bill and were unrelated to its real purposes. The unrelated sections would have turned the bill into an omnibus spending wish list.

TAX RESTRUCTURING PROVISIONS - SS1001

Reassessment Mitigation

- Cuts school levies by 40 percent. (General Fund 32 percent, Transportation Fund 40 percent)

Business Tax Restructuring

- Creates a refundable Investment Tax Credit applicable to the Indiana income tax equal to 30 percent of personal property tax paid for the first year of an investment and 20 percent on the second year.
- Increases the R&D Income Tax Credit from 5 to 10 percent. Repeals the current apportionment language and makes the credit permanent.

Revenues

- Increases the sales tax to 6 percent.
- Repeals the Supplemental Net Income Tax. Creates a single Adjusted Gross Income Tax applied to "C" corporations at a higher rate of 8.5 percent. (The combined AGI/SNIT rate is currently 7.75 percent).
- \$37,500 AV PPTRC in 2003, becomes an income tax credit in 2004 on inventory only.
- Eliminates the current PPTRC on personal property taxes.
- Increases the cigarette tax to by 39.5 cents.
- Strengthens current Financial Institutions Tax.
- Utilities have a Gross Rate increase from 1.2 to 1.6 percent.
- Addback reinstated for a period of three years. (Work in Progress)

Other Provisions

- Delays implementation of reassessment for one year.
- Repeals revised personal property tax rules and revert to the former rules minus the 30 percent depreciation floor.
- Expands the interstate commerce exemption for inventory to raw materials and work in process. Remaining inventory is phased out over four years beginning in CY 2005.