



# Business Incentives and Economic Development Expenditures: An Overview of Indiana's Program Investments and Outcomes

## Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state administered incentives programs from every state, and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Indiana's full array of incentive programs and includes an analysis of the available outcome data that is used by state policy makers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of Indiana economic development landscape, we reviewed and culled data from a range of state statutes, reports and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level.

The Center for Regional Economic Competitiveness (CREC) is working with the Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states, including Indiana. These leaders will work together to identify effective ways to manage and assess economic development incentive policies and practices; improve data collection and reporting on incentive investments; and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

In fiscal year (FY) 2015, Indiana appropriated \$77 million for economic development programs. In FY 2016, the state is projected to spend \$284 million on economic development tax expenditures according to the Indiana Tax Incentive Review published by the Legislative Services Agency (LSA) in November 2014. According to the Tax Policy Center and for the purposes of this report, tax expenditures are defined as "revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures."<sup>1</sup>

## Overview of Indiana's Incentive Programs

C2ER identified 40 Indiana business incentives in 2014. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives as well as through non-tax programs such as grants, loans, business assistance, and other investment

<sup>1</sup> *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: [www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm](http://www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm).



vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.<sup>2</sup>

Indiana’s incentive programs are administered by four (4) different state agencies. The main incentive program administering agencies are the Indiana Department of Revenue (DOR), Indiana Economic Development Corporation (IEDC), Indiana Finance Authority, and the Indiana Office of Community and Rural Affairs. IEDC and DOR both administer around three quarters of Indiana’s incentive programs. (See Figure 1.)

**Figure 1: Indiana State Business Incentive Programs by Agency, 2014**

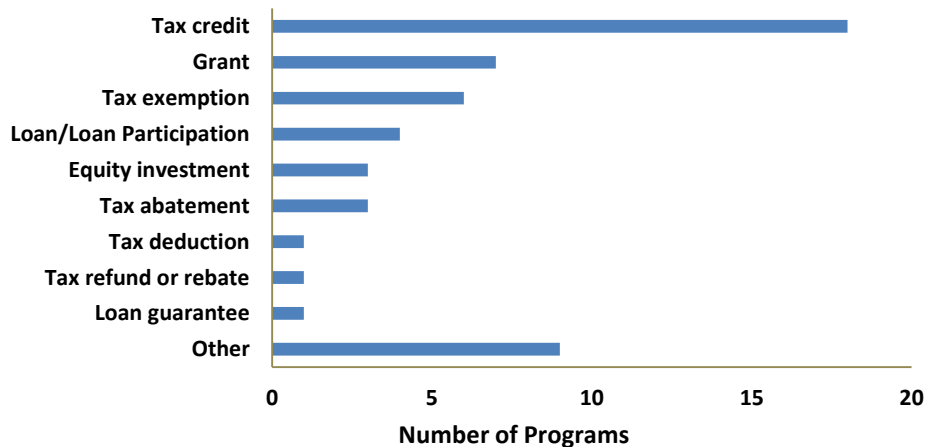
State Agency	Number of Programs
<b>Indiana Department of Revenue</b>	18
<b>Indiana Economic Development Corporation</b>	11
<b>Indiana Office of Community and Rural Affairs</b>	6
<b>Indiana Finance Authority</b>	5

Source: C2ER State Business Incentives Database

About half of Indiana’s active incentive programs offer some kind of tax-related benefit to companies for an economic development purpose. That is comparable to other states where tax incentives represent 45 percent of all state business incentive programs. Approximately a third of the state’s programs provide direct or indirect business financial assistance to companies, while about 15 percent offer direct community financing.

**Figure 2: Incentive Programs by Type\*\***

**Indiana Incentive Programs by Type (2014)**



Source: C2ER State Business Incentives Database

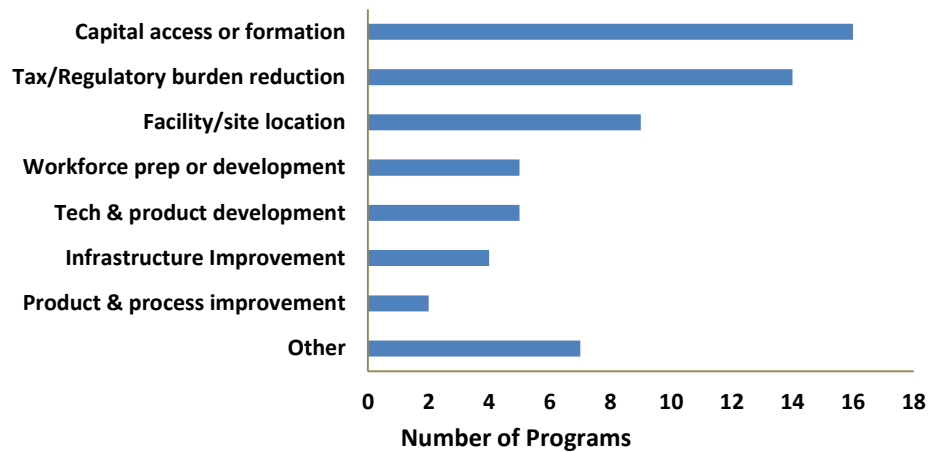
\*\* Note: Programs may appear more than once if they provide multiple incentive types.

<sup>2</sup> The C2ER State Business Incentive Database definition of business incentives may differ from the definition used by the State of Indiana.



**Figure 3: Incentive Programs by Business Need\*\***

**Indiana Incentive Programs by Business Need (2014)**



Source: C2ER State Business Incentives Database

\*\* Note: Programs may appear more than once if they are intended to address multiple business needs.

Tax credits are the most commonly offered incentives by Indiana. Other commonly offered incentive types include grants, tax exemption, loans and loan participation, and equity investment incentives. (See Figure 2.) Capital access or formation is the most common business need addressed by Indiana’s incentive programs. Facility or site location, tax and regulatory burden reduction, and workforce preparation and development are also emphasized within Indiana’s incentive portfolio. (See Figure 3.)

**Economic Development Program Expenditures**

According to the [2013 - 2015 As-Passed Budget](#), which details FY 2015 appropriated spending, the state appropriated<sup>3</sup> \$77 million for economic development in FY 2015. In the C2ER State Economic Development Expenditures Database, these expenditures are allocated to one of 15 different functional economic development areas.<sup>4</sup>

**State Economic Development Expenditures Function Areas**

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

<sup>3</sup> Appropriated budgetary data was used for all fiscal years because actual spending data was not available at a detailed level.

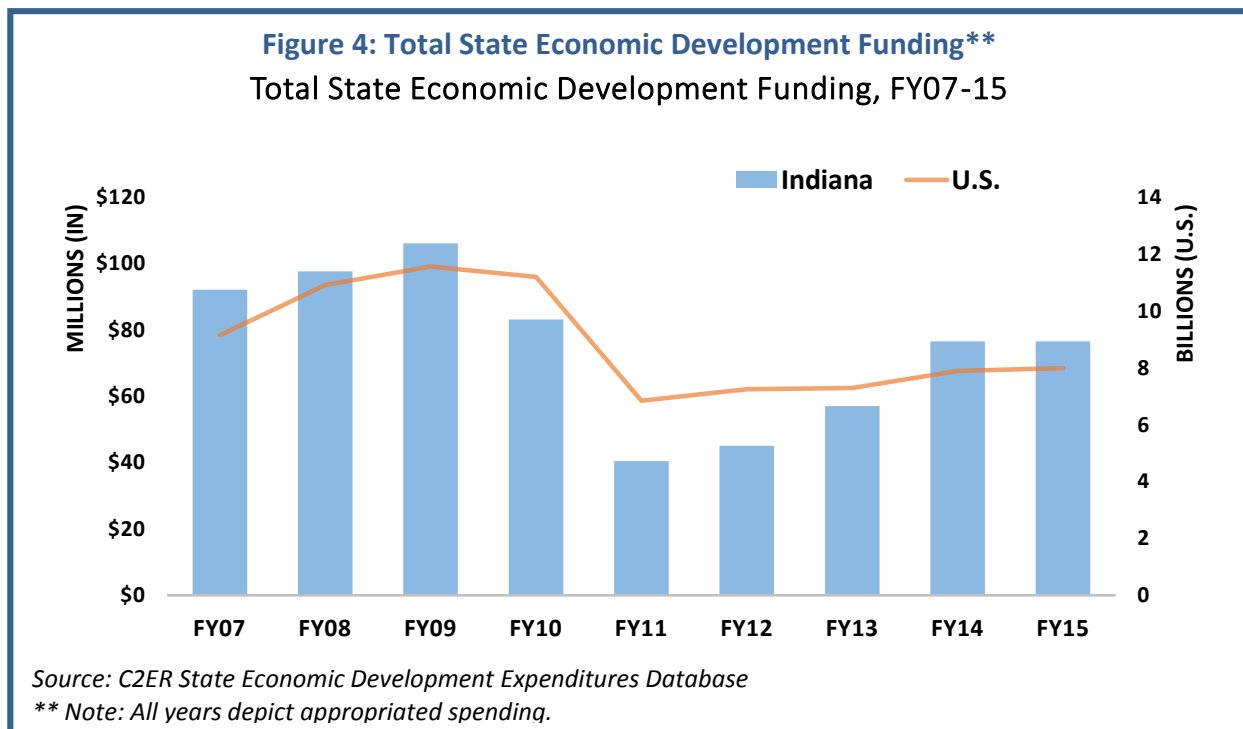
<sup>4</sup> See Glossary definitions here - [http://www.stateexpenditures.org/about/Definition\\_of\\_ED\\_Functions.pdf](http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf)

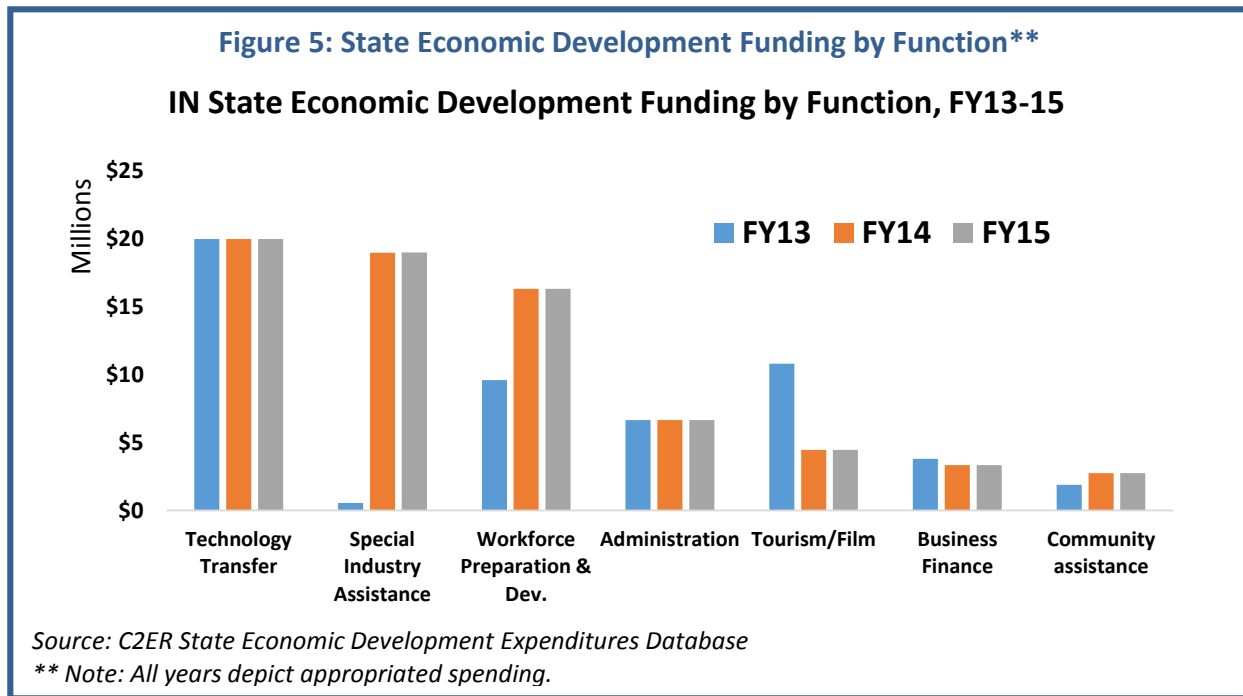


This level of economic development spending represents an average of \$449 per business, which is significantly lower than the \$972 per business median average of spending in other states for this fiscal year. IEDC and the Lieutenant Governor’s Office received the bulk of funding, with 85 percent of outlays. The rest went to the Department of Workforce Development, Department of Agriculture, Indiana State Fair Commission, and the Northwest Indiana Regional Development Authority.

Since the low point of \$40 million allocated in 2011, Indiana has increased economic development spending by around 76 percent. Despite these spending increases, Indiana’s planned economic development spending in FY 2015 remains 32 percent lower than the high of \$106 million appropriated in FY 2009. This is consistent with national trends in economic development spending. (See Figure 4). Between FY 2010 and FY2011, there was an overall drop nationally in state economic development spending, as states decreased spending following the Great Recession. While economic development expenditures have markedly increased nationally since FY 2011, they have not yet reached pre-Recession spending levels.

Compared to other states in FY 2015, the state appropriated a higher than average share of its economic development budget in the functional areas of technology transfer, administration, special industry assistance. Indiana appropriated a lower than average share of its economic development budget for business assistance, community assistance, and tourism and film. (See Figure 5.)





## Economic Development Tax Expenditures

For this report, *economic development tax expenditures* in this context represent those provisions that use the state tax system to encourage business investments that promote state economic priorities. Data available from the Indiana Incentive Tax Review report are for FY 2016 and FY 2017. In FY 2016, Indiana projected a total of approximately \$284 million in tax expenditures related to economic development.<sup>5</sup>

For FY 2016, 53 percent of Indiana’s economic development tax expenditures were projected to result from corporate income taxes that were not collected, while about 16 percent were for sales and use taxes, 9 percent for individual income taxes, and 21 percent for other tax types. The primary economic development functional goals of these tax expenditures are to encourage business assistance, community assistance, domestic recruitment, special industry assistance, technology transfer, and tourism and film in the state.

Indiana uses tax incentives to assist different industries in the state, with over half of line items directed toward specific industries. Out of these line items, the industries that are projected to account for the majority of tax expenditures in FY 2016 are the manufacturing (19 percent); professional, scientific, and technical services (30 percent); and amusement, gambling, and recreation industries (19 percent) industries.

<sup>5</sup> The [Indiana Tax Incentive Review](#) published by the Legislative Services Agency (LSA) in November 2014 was used for the analysis in this section. Data were collected by reviewing and recording all line items in the report related to economic development.



## Analysis of Available Outcome Data

In 2013, Governor Pence enhanced transparency efforts by signing Senate Bill 162, known as “the transparency bill.” The transparency bill requires the Indiana Economic Development Corporation to disclose more information about businesses that receive economic-development incentives, including projected outcomes and actual job creation. IEDC provides this information through a publicly-available database known as the [Transparency Portal](#). The Transparency Portal provides free data to the public, pulling from updates to the IEDC’s database. In addition to being searchable, the data is downloadable. Users are able to create their own search terms, download an Excel file, and then sort and manipulate the data. The Transparency Portal contains a glossary defining terms used and programs, as well as statutory citations.

Before 2012, a Pew Charitable Trusts study suggested that Indiana was not taking the basic steps necessary to assess the results of its tax incentive investments. In 2014, Indiana’s House and Senate passed legislation by wide margins to address this issue. The legislation (Act 1020 of 2014) established a regular evaluation schedule for all economic development incentives, requiring that each program be reviewed every five years to determine whether the program is meeting the state’s goals and how it can be refined. The legislation also ensures that lawmakers are directly involved in the evaluation process by holding public hearings to examine the data. In addition, the aforementioned Indiana Tax Incentive Review was developed as a result of Act 1020.

IEDC has also increased efforts to improve the transparency and availability of economic incentive contract data, including through an annual [Economic Incentives and Compliance Report](#) (EICR) provided to the legislature. This report summarizes and reports impacts resulting from the State’s incentive programs and awards. In addition to details provided by recipient, summary statistics are provided in the EICR, which are also made available on the IEDC Transparency Portal.

Other key stakeholders involved in business incentive data management and accountability include the DOR, LSA, and the Department of Local Government Finance. LSA, the General Assembly’s non-partisan legislation drafting and research arm, has taken on the role of systematically studying and reporting on various tax incentive issues as specified in HB 1020, including the development of the Indiana Tax Incentive Review. Finally, DLGF promotes, discloses, and evaluates economic development tax expenditures incurred at both the local and, where permitted, the state level.

## Conclusion

Compared to other states, amount of overall state economic development spending per Indiana business establishments is low relative to other states. One of Indiana’s key accomplishments has been the passage of Act 1020 to create a regular evaluation schedule for all economic development incentives as well as the creation of an open and accessible transparency portal intended to provide the public with accurate information on program outcomes. The state’s efforts offer the promise of improved analysis and program evaluation of economic development incentives.



## Appendix A: Full List of Indiana State Business Incentives (2014)

Program Name	Program Provider	Business need	Type
<b>Coal Combustion Product Tax Credit</b>	Indiana Department of Revenue	Product & process improvement; Tax/Regulatory burden reduction	Tax credit
<b>Research and Development Activities Sales Tax Exemption</b>	Indiana Department of Revenue	Tech & product development	Tax exemption
<b>Enterprise Zone Program</b>	Indiana Department of Revenue	Capital access or formation; Facility/site location; Professional networking; Tech & product development	Tax credit; Tax abatement; Tax deduction; Tax exemption; Tax refund or rebate
<b>Research and Development Equipment Sales Tax Exemption</b>	Indiana Department of Revenue	Tech & product development	Tax exemption
<b>Research and Development Tax Credit</b>	Indiana Department of Revenue	Tech & product development	Tax credit
<b>Motorsports Investment District</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Other
<b>Coal Gasification Technology Investment Tax Credit</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Professional Sports Development Area</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Other
<b>Hoosier Alternative Fuel Vehicle Manufacturer Tax Credit</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Aircraft parts</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Aviation fuel</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Certain aircraft</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Tax credit



<b>Certain racing equipment</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Historic Rehabilitation Credit (Corporate and Individual)</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Lower Rates for Smaller Riverboats</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Natural Gas Powered Vehicles Credit</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Patent Income Exemption</b>	Indiana Department of Revenue	Capital access or formation	Tax exemption
<b>Promotional Free Play Deduction</b>	Indiana Department of Revenue	Tax/Regulatory burden reduction	Tax deduction
<b>Capital Access Program - State Small Business Credit Initiative (CAP-SSBCI)</b>	Indiana Economic Development Corporation	Capital access or formation	Loan guarantee
<b>Industrial Recovery Tax Credit</b>	Indiana Economic Development Corporation	Facility/site location	Tax credit
<b>Economic Development for a Growing Economy (EDGE) Tax Credit</b>	Indiana Economic Development Corporation	Capital access or formation; Workforce prep or development	Tax credit
<b>Headquarters Relocation Tax Credit (HRTC)</b>	Indiana Economic Development Corporation	Facility/site location	Tax credit
<b>Hoosier Business Investment (HBI) Tax Credit</b>	Indiana Economic Development Corporation	Capital access or formation; Workforce prep or development	Tax credit
<b>Industrial Development Grant Funds (IDGF)</b>	Indiana Economic Development Corporation	Infrastructure Improvement	Grant
<b>Skills Enhancement Fund (SEF)</b>	Indiana Economic Development Corporation	Workforce prep or development	Grant





<b>Certified Technology Parks (CTP)</b>	Indiana Economic Development Corporation	Other	Other
<b>Venture Capital Investment (VCI) Tax Credit</b>	Indiana Economic Development Corporation	Capital access or formation	Tax credit
<b>Indiana Angel Network Fund</b>	Indiana Economic Development Corporation	Capital access or formation	Equity investment
<b>Small Business Development Fund</b>	Indiana Economic Development Corporation	Capital access or formation	Loan/Loan Participation
<b>Volume Cap Program</b>	Indiana Finance Authority	Capital access or formation; Product & process improvement	Other
<b>Large Bond Program</b>	Indiana Finance Authority	Capital access or formation; Facility/site location	Other
<b>Agricultural Development Loan Program</b>	Indiana Finance Authority	Capital access or formation	Loan/Loan Participation
<b>Small Bond Program</b>	Indiana Finance Authority	Capital access or formation	Other
<b>Health and Educational Facilities Bond Program</b>	Indiana Finance Authority	Business management; Capital access or formation; Facility/site location	Other; Loan/Loan Participation
<b>Microenterprise Assistance Program (MAP)</b>	Indiana Office of Community and Rural Affairs	Business management; Marketing & sales assistance; Workforce prep or development	Grant
<b>Planning Grant</b>	Indiana Office of Community and Rural Affairs	Infrastructure Improvement	Grant
<b>Community Focus Funds (CFF)</b>	Indiana Office of Community and Rural Affairs	Infrastructure Improvement	Grant



<b>Shovel Ready Program</b>	Indiana Office of Community and Rural Affairs	Facility/site location	Grant
<b>Main Street Revitalization Program</b>	Indiana Office of Community and Rural Affairs	Other	Grant
<b>Shovel Ready Program</b>	Indiana Office of Community and Rural Affairs	Facility/site location	Grant



## Appendix B: IN Economic Development Program Expenditures (FY 2015)

Function	Activity	Total State Funding
Administration	Info systems, accounting, human resources, etc.	\$6,661,161
Business Assistance	Business retention/expansion	\$291,000
Business Assistance	Other Business Assistance	\$800,000
Business Finance	Grants to businesses	\$3,330,729
Community assistance	Funding for targeted geographic zones	\$82,450
Community assistance	Grants to local/regional dev. orgs.	\$418,688
Community assistance	Technical assistance/capacity building to communities (inc. rural)	\$2,244,454
Domestic Recruitment/Out-of-State	Marketing/Prospect Dev. (Domestic)	\$250,300
Domestic Recruitment/Out-of-State	Other Domestic Recruitment/Out-of-State	\$1,500,000
International Trade and Investment	Export promotion (excl. overseas representation)	\$1,232,197
Special Industry Assistance	Agriculture/agribusiness	\$550,000
Special Industry Assistance	Biotechnology/life sciences	\$12,500,000
Special Industry Assistance	Energy & energy-related	\$298,191
Special Industry Assistance	Other Special Industry Assistance	\$647,485
Special Industry Assistance	Other Special Industry Assistance	\$5,000,000
Technology Transfer	Technology commercialization	\$20,000,000
Tourism/Film	Other Tourism/Film	\$882,829
Tourism/Film	Tourism advertising	\$1,175,804
Tourism/Film	Tourism development	\$1,200,000
Tourism/Film	Tourism promotion (exc. Advertising)	\$1,200,000
Workforce Preparation & Dev.	Customized training	\$12,500,000
Workforce Preparation & Dev.	Incumbent worker training	\$3,811,939



## Appendix C: IN Economic Development Tax Expenditures (Projected FY 2016)

Description	Total Funds
Aircraft parts	\$4,700,000
Alternative Fuel Vehicle Manufacturing Investment Credit	\$0
Aviation fuel	\$7,900,000
Certain aircraft	\$21,300,000
Certain racing equipment	\$5,500,000
Certified Technology Parks	\$2,400,000
Coal Gasification Technology Investment Credit	\$15,000,000
Community Revitalization Enhancement District Credit (Corporate and Individual)	\$1,500,000
Community Revitalization Enhancement Districts	\$5,000,000
Economic Development for a Growing Economy (EDGE) Credit (Corporate and Individual)	\$72,000,000
Enterprise Zone Employee Income Deduction	\$800,000
Enterprise Zone Employment Expense Credit (Corporate and Individual)	\$1,300,000
Enterprise Zone Investment Cost Credit (Corporate and Individual)	\$100,000
Enterprise Zone Loan Interest Credit	\$1,900,000
Headquarters Relocation Credit	\$0
Historic Rehabilitation Credit (Corporate and Individual)	\$200,000
Hoosier Business Investment Credit (Corporate and Individual)	\$8,400,000
Industrial Recovery Credit (Corporate and Individual)	\$600,000
Lower Rates for Smaller Riverboats	\$5,700,000
Motorsports Investment District	\$5,000,000
Natural Gas Powered Vehicles Credit	\$0
Patent Derived Income Deduction	\$0
Professional Sports Development Areas	\$26,800,000
Promotional Free Play Deduction	\$15,300,000
Research and Development Tax Credit	Data not available
Research and Development Property (Research and Development Equipment Sales Tax Exemption)	\$6,700,000
Research Expense Credit (Corporate and Individual) (Research and Development Activity Sales Tax Exemption)	\$72,300,000
Venture Capital Investment Credit (Corporate and Individual)	\$3,800,000