

# The Economics of the ARRA (aka Stimulus Package) in Indiana

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# ARRA Provisions

- Selected Tax Cuts
- Direct Federal Grants & Contracts
- State Formulary Expenditures
- “Quasi” Formulary Expenditures

*(All estimates made from C2ER data sharing, nothing from Indiana State Government.)*

***Personal Taxes***

|  |  |
|--|--|
| Income Tax Credit                        | \$400/worker or \$800 Couple with phase out beginning at \$75,000 per worker (\$150,00 for family) |
| Alternative Minimum Tax (AMT)            | 1 year extension to \$170,000  |
| Child Credit                             | \$1,000 per child for families making more than \$3,000, phases out at \$25,000                    |
| Expanded Earned Income Tax Credit (EITC) | Direct payment increase of \$4.7 billion   |
| College Expense Credit                   | \$2,500 per family, phases out above \$160,000 per family in income                                |
| Home Purchase Credit                     | \$8,000 for first time homebuyers this calendar year   |
| Home Energy Credit                       | 30% deduction for energy efficient improvements up to \$1,500                                      |
| Unemployment Insurance                   | Eliminates Income Tax on the first \$4,200 received in UI payments this year.                      |
| Auto Sales                               | Credit for sales tax paid on automobiles (\$600 limit)   |

## ***Business Taxes***

|                      |  |
|----------------------|--|
| Depreciation         | Extends existing depreciation purchase credit for businesses                               |
| Profit Offset        | Permits companies to use current losses to offset tax obligations in 2008 and future years |
| Government Contracts | Eliminates the 3% withholding on government contractors which insures against unpaid taxes |
| Bank Credit          | Repeals earlier legislation which subsidized bank acquisitions for insolvent banks         |
| Bonds                | Subsidizes local bonds for infrastructure  |

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**Table 2: Estimate of Effect on Indiana (Direct Tax Cuts, in \$1000s)**<sup>[1]</sup>

|                              |                    |
|------------------------------|--------------------|
| Income Tax                   | 1,160,000          |
| Child Tax Credit             | 69,600             |
| EITC (Expanded)              | 98,700             |
| College Expense Credit       | 375,000            |
| First Time Homebuyers Credit | 232,000            |
| Unemployment Insurance       | 31,500             |
| Auto Sales Credit            | 126,000            |
| <b>TOTAL</b>                 | <b>\$2,092,800</b> |

<sup>[1]</sup> These estimates make the following assumptions: Indiana will have 2.9 million employed persons making less than \$75,000 (or \$150,000 for a household) annually, 25 percent of whom will have a child and qualify for the full child tax credit, and the state will receive the national share of EITC expanded coverage, there are 170,000 households claiming the education credit, 1% of all workers will purchase their first home this year, 75,000 workers (FTE) will have a full 4,200 worth of unemployment insurance this year and Indiana residents will purchase, and pay more than \$600 in sales taxes on the state's population share of 10 million automobiles produced in 2009 (the GM estimate).

**Table 3: Indiana's Estimated Expenditure Share (\$1,000s)**

|  |                    |
|--|--------------------|
| Agriculture, Rural Development, FDA & Related Agencies         | 122,622            |
| Commerce, Justice, Science & Related Agencies                  | 312,831            |
| Defense  | 4,746              |
| Energy and Water Development                                   | 860,656            |
| Financial Services and General Government                      | 13,669             |
| Homeland Security  | 33,962             |
| Interior, Environment & Related Agencies                       | 207,253            |
| Labor, Health and Human Services, Education & Related Agencies | 1,288,874          |
| Military Construction and Veterans Affairs                     | 29,532             |
| Transportation, HUD  | 1,290,983          |
| State Fiscal Stabilization Fund                                | 1,571,130          |
| <b>TOTAL</b>   | <b>\$5,736,260</b> |

# The Bottom Line

- Hoosiers can expect > \$2.1billion in Tax Cuts (\$400 payroll and very narrow areas)
- Hoosiers should expect > \$5.7billion in other federal expenditure categories
- Another \$4-\$6 billion may flow into the region directly from ARRA

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