LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7992 **DATE PREPARED:** Feb 20, 2001
BILL NUMBER: HB 1003 **BILL AMENDED:** Feb 20, 2001

SUBJECT: State and Local Finance.

FISCAL ANALYST: Bob Sigalow
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FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) *Welfare*: This bill establishes the Family and Children's Property Tax Relief Fund. It specifies that the fund will be used to provide a credit in 2003 against property taxes imposed for a county's Family and Children's Fund. The bill provides that in 2003, $100,000,000 shall be transferred from the Build Indiana Fund Lottery and Gaming Surplus Account to the Family and Children's Property Tax Relief Fund.

This bill provides that in 2003 a taxpayer is entitled to a credit against the taxpayer's net Family and Children's Fund property tax liability in an amount equal to the taxpayer's net Family and Children's Fund property tax liability for the year multiplied by a percentage determined for the taxpayer's county for the year by the Budget Agency, after review by the State Budget Committee.

This bill establishes a local match account for each county. It provides that a county may transfer any local revenue, other than property tax revenue, to the county's local match account. The bill provides that in 2003 the amounts in a county's local match account are used to match distributions of state money for the credit against Family and Children's Fund property taxes. The bill provides that the match must be on a one-to-one basis and it provides counties with the option of imposing an additional 0.25% percent County Adjusted Gross Income Tax (CAGIT) rate or County Option Income Tax (COIT) rate for purposes of funding the county matching portion of the credit against the Family and Children's Fund property taxes. The bill provides that such an additional rate may not be imposed after June 30, 2003. It provides that if such an additional rate is imposed, it applies to individuals and to the apportioned net income of corporate taxpayers.

Local Property Tax Relief: This bill provides counties with the option of using County Adjusted Gross Income Tax and County Option Income Tax revenue for three types of property tax relief: (1) property tax replacement credits; (2) homestead credits; and (3) property tax reductions for low income homeowners. It provides counties with the option of imposing an additional 0.25% percent CAGIT rate or COIT rate for purposes of funding these property tax relief options. The bill adjusts the maximum combined CAGIT and CEDIT rates and the maximum combined COIT and CEDIT rates to account for the additional CAGIT and

COIT rates that may be imposed for property tax relief purposes.

Maximum Levies: This bill provides that the maximum property tax levy increase will be lowered from 10% to 8% and the minimum property tax levy increase reduced from 5% to 4% only in 2002 and 2003.

Personal Property: For tax years beginning after 2001, the bill provides a credit against state tax liability for property taxes paid on personal property. This bill specifies that the credit is equal to the amount of property taxes paid on personal property that has an assessed valuation of not more than $37,500. It repeals the existing personal property tax reduction credit.

Earned Income Tax Credit: This bill extends the earned income tax credit through 2003. (Under current law, the credit will expire December 31, 2001.)

Riverboat Revenue: This bill allows local units to use riverboat revenue for property tax relief.

Effective Date: Upon passage; July 1, 2001; January 1, 2002.

Explanation of State Expenditures: (Revised) *Welfare:* This bill creates the state Family and Children's Property Tax Relief Fund. The fund would provide counties with a one-to-one state match to provide a credit against the net levies for the county Family and Children's Fund in CY 2003. The state would deposit $100 M from the Lottery and Gaming Surplus Account (LGSA) into the fund on April 1, 2003.

The State Budget Agency and the State Tax Board would determine the percent of the credit in each county based on the amount of money (with county match dollars) available to each county from the Family and Children's Property Tax Relief Fund. The Auditor of State would make distributions from the fund at the same time and in the same manner as Homestead Credits are distributed.

LGSA Background: Under the current statute, surplus Lottery revenue is first transferred to the Teachers' Retirement Fund (TRF) and the Pension Relief Fund (PRF). Once these transfers are made, surplus Lottery revenue is then distributed to the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund.

The LGSA also receives surplus gaming revenues (revenues from the Riverboat Wagering Tax, the Parimutuel Wagering Tax, and the Charity Gaming Excise Tax). A statutorily determined amount of revenue in the LGSA is transferred each year to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. (Beginning with FY 2002 and continuing each year thereafter this amount is equal to approximately $236.2 M.) The remaining money in the LGSA is then transferred to the State and Local Capital Projects Account (SLCPA). The table below outlines the actual and estimated Lottery and gaming revenue for FY 2000 to FY 2003, along with the required statutory distributions.

Surplus Lottery and Gaming Revenue & Distributions (Millions)*

Revenues & Distributions	FY 2000 (Actual)	FY 2001 (Projected)	FY 2002 (Projected)	FY 2003 (Projected)
Surplus Lottery Revenue	$173.3	$155.0	$155.0	$155.0
TRF Transfer	($30.0)	($30.0)	($30.0)	($30.0)
PRF Transfer	($30.0)	($30.0)	($30.0)	($30.0)
Surplus Lottery Revenue to the LGSA	$113.3	$95.0	$95.0	$95.0
Surplus Gaming Revenue to the LGSA	$252.5	$274.2	$283.7	$283.7
Interest	$18.1	$24.5	$25.0	$25.0
Total Revenue to LGSA	$383.9	$393.7	$403.7	$403.7
MVETRA Transfer	($219.8)	($234.7)	($236.2)	($236.2)
SLCPA Transfer	($164.1)	($159.0)	($167.5)	($167.5)

*Updated as of 1/25/01.

The balance of the BIF as of June 30, 2000, was $342.1 M.

After the $100 M transfer to the Family and Children's Property Tax Relief Fund, it is estimated that $67.5 M would be available for state and local capital projects in FY 2003. No other years would be affected.

Local Property Tax Relief: If, as explained in local revenues, a county chooses to provide property tax relief by reducing civil unit property tax levies, then there would be a reduction in the state's expense for property tax replacement credit (PTRC) and homestead credit. PTRC and homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any reduction in these expenditures would ultimately benefit the state General Fund.

Riverboat Revenue: If, as explained in local revenues, a local unit chooses to use riverboat revenues to replace property taxes, then there would be a reduction in the state's expense for PTRC and homestead credit.

Maximum Levies: If local unit levy growth is reduced by this bill, then there would be a reduction in the state's expense for PTRC. The reduction would be equal to 20% of the levy reduction. PTRC is paid from the Property Tax Replacement Fund, which is supplemented by the state General Fund. Based on the reduction in maximum levies explained below in local revenues, the state could save approximately $4.4 M in CY 2002, $8.5 M in CY 2003, $8.9 M in CY 2004, $9.4 M in CY 2005, and $9.9 M in CY 2006 in PTRC expenses.

Since property tax bills would be reduced by this bill, the amount needed to fund the state homestead credit would also be reduced. It is estimated that the homestead credit cost would be reduced by $319,000 in CY 2002, $651,000 in CY 2003, $685,000 M in CY 2004, $722,000 in CY 2005, and $760,000 M in CY 2006.

The total reduction in expenditures for the state under this provision is estimated at $2.4 M in FY 2002, $6.9 M in FY 2003, $9.4 M in FY 2004, $9.8 M in FY 2005, and $10.4 M in FY 2006. The estimated expenditure reduction assumes that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual state expenditure reduction under the proposal may be slightly less than the above amounts.

Personal Property: Under current law, the state pays a property tax credit equal to the net tax liability on the first $12,500 of assessed value of a taxpayer's tangible personal property. This credit is commonly referred to as the Personal Property Tax Replacement Credit (PPTRC). Because of a change in the definition of assessed value that will take effect with the 2001 payable 2002 tax year, the current credit for $12,500 AV will be based on $37,500 AV instead. <u>This scheduled change does not affect final tax bills or state costs in any way</u>. For clarity, references to assessed valuation will be in 2000 terms.

The current credit is a property tax credit which reduces the net property tax payment of personal property tax payers. Each taxpayer is entitled to one credit for up to $12,500 AV on *each* tax statement. A taxpayer receives one tax statement for each taxing district in which the taxpayer owns property. There are multiple taxing districts within each county. In CY 2000, the first year for which the credit was available, the state paid $181.4 M in credits.

This bill would change the property tax credit into an income tax credit beginning with the credit for property taxes paid in CY 2002. The new credit would limit each taxpayer to *one credit* for up to $12,500 AV within the state. The taxpayer's assessed value within multiple districts in the state could be combined to reach the $12,500 AV statewide limit. Since this bill would allow credit for up to $12,500 AV statewide per taxpayer, it would reduce the credit amount to which a taxpayer is entitled if the taxpayer is currently receiving PPTRC on a total of more than $12,500 AV in multiple taxing districts within the state. The consolidation of the $12,500 AV statewide limit on a statewide basis would reduce the amount that the state pays for the credit.

The income tax credit may be taken against the taxpayer's liability under the Corporate Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. If the amount of the credit exceeds the taxpayer's liability, they may carry forward the excess in subsequent years, but they may not claim a refund.

This analysis assumes that the next reassessment of real property will be effective with property tax paid in CY 2003. The real property reassessment will affect property tax rates which are applied to both real and personal property values.

State expenses would be reduced by the repeal of the current property tax credit. Likewise, state revenues would be reduced by implementation of the income tax credit. The following table lists the estimated overall change in the state's cost for the credit.

Estimated Net Cost of Personal Property Tax Replacement Credit (In Millions)			
	Current Cost (Expense Reduction)	**Cost under Proposal (Revenue Reduction/Expense)**	**Net Cost Reduction**
FY 2002	190.4	94.3 (½ year)	96.1
FY 2003	162.1	159.9	2.2
FY 2004	133.1	109.6	23.5
FY 2005	135.8	111.8	24.0

The large net cost reduction in FY 2002 results from a change in the timing of the state's expenditures for the credits due to the change from a property tax credit to an income tax credit. As a property tax credit, the state pays the credit in equal installments in June and December in the year in which the property tax is paid. Under this proposal, the state's expense for an income tax credit would occur in the last 2 quarters of the fiscal year when a taxpayer files their income tax return. Under current law, half of the CY 2002 property tax credit will be paid in June 2002 (FY 2002) and the other half in December 2002 (FY 2003). Under this proposal, the CY 2002 income tax credit expense or revenue reduction would not occur until approximately April 2003, or in the last two quarters of FY 2003. With the repeal of the property tax credit effective December 31, 2001, there would only be a six month expenditure in FY 2002 for the December payment of the CY 2001 property tax credit. The impact of the income tax credit for CY 2002 will not occur until FY 2003.

The small net cost reduction in FY 2003 is also affected by the change in the timing of the state's expenditures. Because of the effect that reassessment will have on tax rates, the estimated annual cost of the credit will be reduced by about 30% beginning in CY 2003. Under the current statute, the FY 2003 expense would include six months of the CY 2002 higher pre-reassessment cost and six months of the lower assessment cost of CY 2003. Under this proposal, the FY 2003 expense or revenue reduction would include a full twelve months at the higher CY 2002 pre-reassessment cost. The expenditure reductions due to reassessment will not occur until FY 2004 under the income tax proposal. However the state will still see a minimal reduction in expenditures for FY 2003.

Explanation of State Revenues: (Revised) *Earned Income Tax Credit*: This bill extends the earned income tax credit through 2003. Under current law, the credit will expire December 31, 2001. *The estimated revenue loss from this credit is approximately $17.4 M annually.* The Earned Income Tax Credit is available to individuals who have the following: (1) at least one qualifying child; (2) income from all sources of not more than $12,000; and (3) at least 80% of total income from earned income. The amount of this refundable credit is equal to $12,000 minus the taxpayer's total Indiana income.

The DOR reported that preliminary estimates for the 1999 tax year showed approximately $16 M in Earned Income Credits claimed, with $12.7 M being refundable.

This extension would affect revenue collections in FY 2003 and FY 2004 as this proposal is effective January 1, 2002, through December 31, 2003. Individual Adjusted Gross Income Tax revenue is deposited in the General Fund.

Secondary impact: The refundable portion of the Earned Income Tax Credit qualifies as Maintenance of Effort (MOE) expenditures and currently contributes toward the state's annual MOE requirement under the Temporary Assistance to Needy Families (TANF) program. *The refundable portion of the earned income credit is estimated to range from $12.7 M to $13.8 M .*

Explanation of Local Expenditures: (Revised) Welfare: This bill creates a Local Match Account for each county within the state Family and Children's Property Tax Relief Fund. Counties may deposit any local revenue other than property taxes into the account. The money in the account would be used for the one-to-one state match to provide a credit against the net levies for the county Family and Children's Fund in CY 2003. The amount that each county deposits into the account depends on local action.

Explanation of Local Revenues: (Revised) *Local Property Tax Relief*: This bill would allow county income tax councils to pass an ordinance to use County Adjusted Gross Income Tax (CAGIT) or County Option Income Tax (COIT) revenue to provide property tax relief in the county. The property tax relief could include (1) additional property tax replacement credits against civil unit tax levies, (2) additional homestead credits, (3) property tax reductions for low income homeowners, and (4) to provide local matching funds for the state credit against Family and Children's Fund levies also contained in the bill.

In order to qualify for the low income homeowner relief, the taxpayer's income may not exceed $25,000. The maximum tax reduction allowed may not reduce the net tax due to an amount that is less than 2% of the taxpayer's income.

The bill would allow counties to impose an additional rate up to 0.25% on CAGIT or COIT to provide money for the relief described by items (1) - (3) above. In addition, the bill would allow counties to impose another rate up to 0.25% on CAGIT or COIT to provide funds to match the state money available to provide a credit against the net levies for the county Family and Children's Fund in CY 2003. The amount raised by the additional local option rates depends on the additional rates (if any) set by each county. The additional rate for the Family and Children's Fund relief could be imposed only until June 30, 2003.

Under current law, the COIT plus County Economic Development Income Tax (CEDIT) rate limit is 1%. Current law also places a limit on CAGIT plus CEDIT rates at 1.25%. Under this proposal, the limit for a county that adopts an ordinance to provide property tax relief from CAGIT or COIT revenues would be raised by 0.25% if the county provides relief types (1) - (3). The limit would also be raised by 0.25% if the county provides relief type (4). A county that provides all types of relief could receive a total 0.50% increase in the rate limit.

For counties that provide all types of relief, the potential new limits under the bill through June 2003 would be 1.50% for COIT plus CEDIT and 1.75% for CAGIT plus CEDIT. After June 30, 2003, the potential new limits under the bill would be 1.25% for COIT plus CEDIT and 1.50% for CAGIT plus CEDIT.

The bill provides that if a county imposes an additional CAGIT or COIT tax rate to provide money to match the state money available to provide a credit against the net levies for the county Family and Children's Fund in CY 2003, then the additional rate would apply to county-apportioned corporate income, as well as individual income.

The amount of tax relief realized by property taxpayers under this proposal will depend on local action.

Riverboat Revenue: Current law prohibits the use of local riverboat revenue for the reduction of maximum or actual property tax levies. This provision would allow the revenue to be used to reduce *actual* levies at the discretion of the taxing unit. The unit's *maximum* levy could not be reduced. This means that a unit which chooses to use riverboat revenues to replace property taxes in a year would not be required to use the revenue in this way in a future year if they choose not to.

The following tables contain the direct distributions made to Indiana counties, municipalities, and towns from the Riverboat Admission Tax (Table A) and the Riverboat Wagering Tax (Table B) in FY 2000.

TABLE A: FY 2000 Riverboat Admissions Tax Distributions to Local Units

LOCAL UNIT	DISTRIBUTION
Dearborn County	$7,466,989
East Chicago	5,426,295
Evansville	2,039,968
Gary	6,623,385
Hammond	5,810,174
Harrison County	8,446,028
Lake County	17,859,853
LaPorte County	3,765,163
Lawrenceburg	7,466,989
Michigan City	3,765,163
Ohio County*	3,334,770
Rising Sun*	3,334,770
Vanderburgh County	2,039,968
TOTAL	**$77,379,515**

* 50% of the total Admission Tax distributions to Ohio County and the city of Rising Sun are shared with Ripley County, Switzerland County, and fourteen municipalities within Dearborn, Ripley, and Switzerland Counties.

TABLE B: FY 2000 Riverboat Wagering Tax Distributions to Local Units

LOCAL UNIT	DISTRIBUTION
East Chicago	$11,667,854
Evansville	4,880,172
Gary	12,551,339
Hammond	11,755,768
Harrison County	8,311,584
Lawrenceburg	16,474,535
Michigan City	8,670,722
Rising Sun	7,726,066
TOTAL	**$82,038,040**

Maximum Levies: Currently, civil taxing units receive maximum levy increases equal to their three-year average assessed value growth quotient, with a minimum of 5% and a maximum of 10%. This proposal would change the 5% minimum to 4% and change the 10% maximum to 8% for CY 2002 and CY 2003 only. This would cause the growth in local civil units' levies and tax rates to slow in 2002 and 2003. These lower levies would be the basis for levies in 2004 and thereafter. The amount by which the levy growth slows is dependent upon (1) the unit's actual three-year AV growth quotient, and (2) whether the unit sets the tax levy at the maximum permissible levy.

Under current law, the statewide total maximum levy for civil units (not including schools) is estimated at $2,383 M in CY 2002 and $2,510 M in CY 2003. Under this proposal, the statewide total civil unit maximum levy is estimated at $2,360 M in CY 2002 and $2,467 M in CY 2003. The maximum levy reduction under this provision would amount to approximately **$22 M in CY 2002, $42 M in CY 2003, $45 M in CY 2004, $47 M in CY 2005, and $49 M in CY 2006**.

These maximum levy reductions would equate to actual levy reductions if it is assumed that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual levy reduction under the proposal may be slightly less than the above amounts.

Welfare: The Family and Children's Fund credits provided under this bill would directly reduce net property tax bills while not affecting the total amount of money collected (local taxes + state credits including local match) for the fund.

State Agencies Affected: State Board of Tax Commissioners; Department of State Revenue; State Budget Agency; Auditor of State.

Local Agencies Affected: All civil taxing units; County auditors; County assessors.

Information Sources: Family and Social Services Administration; State Board of Tax Commissioners, Property Tax Analysis; Property tax return data; Local Government Database; Rob Whaley, Tax Policy Analyst, Department of State Revenue, (317) 232-2104; DOR's 1997 & 1998 individual income tax data.