LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7853 **DATE PREPARED:** Feb 5, 2001
BILL NUMBER: HB 2127 **BILL AMENDED:**

SUBJECT: Tax Credit for Raw Materials and Parts.

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FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a credit beginning in 2002 against a taxpayer's state tax liability for property taxes paid on raw materials and parts that are to be incorporated into completed goods that will be shipped out of state. It provides that the credit is initially equal to 10% of the property taxes paid, and that the credit increases over ten years until the credit may be claimed for 100% of property taxes paid in 2011 and thereafter. The bill provides that if the credit exceeds a taxpayer's liability, the taxpayer may carry over the excess to subsequent taxable years. It also provides that a taxpayer that receives an enterprise zone inventory credit may elect to apply the raw materials tax credit against either the taxpayer's state tax liability or the taxpayer's property tax liability.

Effective Date: January 1, 2002.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a tax rate for State Fair and State Forestry. The reduction in the assessed value base explained in the Local Revenues section will reduce the property tax revenue for these two funds by approximately $22,000 per year.

This bill would provide an income tax credit for property taxes paid on inventory owned by a manufacturer or processor that will be incorporated into completed goods that will be shipped out of state. The credit would be phased in at 10% per year starting in CY 2002. The credit would reach 100% in CY 2011 and would continue at 100% thereafter. The 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. The property tax exemption referred to in the Local Revenues section would result in a zero property tax liability for this same property. Therefore, the state would have no liability for this credit.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, finished goods inventory owned by a manufacturer or processor is exempt from property taxation if the property is stored in its original package and will be shipped out of state. Certain other inventory property that is stored in an Indiana warehouse and will be shipped to another state is also currently exempt. There is an estimated $1.4 B in finished goods inventory that is currently exempt. This bill would remove the exemption for this property.

The bill adds an exemption for inventory owned by a manufacturer or processor that will be incorporated into completed goods that will be shipped out of state. The final product to be shipped out of state may be produced by the taxpayer or by a purchaser of the goods produced by the taxpayer. **It should be noted that none of the property that would receive the new exemption under this bill is the same as the property that would lose its exempt status under the bill.**

The 1999 Pay 2000 assessed value (AV) of commercial and industrial inventory is reported to be $4.3 B. Manufacturers accounted for about 48% of that amount or $2.06 B AV. Only a portion of manufacturers' inventory would be exempt under this bill, so only a portion of the $2.06 B AV would be shifted to other taxpayers. According to exemption data from the 1997 personal property tax returns, just over 78% of manufacturers' finished goods were destined out-of-state and therefore exempt. Applying this same percentage to the rest of manufacturer's inventory, it is estimated that about $1.6 B AV per year would be exempted by this bill.

The net effect of this bill on the assessed value tax base is an estimated additional exemption of $223 M AV ($1.6 B in new exemptions less $1.4 B in discontinued exemptions). Additional exemptions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. The above reduction in assessed value would cause a $0.0040 to $0.0110 increase in the statewide average net property tax rate in CY 2003 for an estimated net tax burden shift of $12 M to 21 M.

Total local civil unit revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: Local Assessing Officials.

Information Sources: State Board of Tax Commissioners; Local Government Database.