

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6889

BILL NUMBER: HB 1137

DATE PREPARED: Jan 6, 2002

BILL AMENDED:

SUBJECT: Payment of Gross Income Tax.

FISCAL ANALYST: Diane Powers

PHONE NUMBER: 232-9853

**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill requires, for taxable years beginning after December 31, 2002, a taxpayer that is a political subdivision to file the taxpayer's estimated Gross Income Tax returns and pay the tax to the Department of State Revenue on a monthly basis instead of a quarterly basis.

The bill requires, for a Rainy Day Fund established by a political subdivision after June 30, 2002, the fund to be established by the adoption of an ordinance or a resolution that specifies: (1) the purposes of the fund; (2) permissible expenditures from the fund; (3) the body or officers authorized to make such expenditures; (4) funding sources for the fund; and (5) any authority granted to the political subdivision's executive to suspend appropriation procedures for the fund. The bill specifies permissible sources of funding for a local Rainy Day Fund and provides that a local Rainy Day Fund is subject to the same appropriation procedures as other local funds from which additional appropriations do not require approval by the Department of Local Government Finance. It also provides that the executive of a political subdivision may suspend appropriation procedures for a local rainy day fund if given the authority do so by a local ordinance or resolution.

Effective Date: July 1, 2002; January 1, 2003.

Explanation of State Expenditures: Currently estimated Gross Income Tax payments are filed quarterly, so the Department of State Revenue will need to set up a new system to accommodate the monthly filing of returns by political subdivisions.

Explanation of State Revenues: The change in remittance of Gross Income Tax payments will not affect the total collection of revenue, just the timing in which it is deposited in the General Fund. This could have a minimal increase in interest earnings.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Local Rainy Day Funds:* Under current law, a local taxing unit may establish a local Rainy Day Fund. The unit may deposit into the fund unused and unencumbered funds up to a maximum of 10% of the unit's total budget for that year. The fund is subject to the appropriations process, and the use of the money must be consistent with the intent of the fund.

This provision would make several changes to the local Rainy Day Fund. Effective July 1, 2002, the proposal stipulates that the fund must be established by ordinance or resolution, depending on the type of unit establishing the fund. The ordinance or resolution would have to include the fund's purpose, permissible expenditures, governing body or officers, funding sources, and whether the executive may suspend appropriations procedures in an emergency. Funding could come from budget appropriation, transfer of unused and unencumbered funds, gifts, and interest earnings. There would no longer be a maximum deposit. A unit that establishes a local Rainy Day Fund prior to July 1, 2002, would have to adopt an ordinance or resolution by September 1, 2002, that specifies the funding sources of the fund. The proposal would allow the Department of Local Government Finance to consider the balance in a unit's local Rainy Day Fund if that unit appeals for an excessive levy (in excess of the unit's maximum levy limitation).

These changes would better define local Rainy Day Fund authorized uses, funding sources, and persons with decision-making authority. The bill would also expand the sources of funding and remove the maximum deposit limitation so units could deposit as much money in the fund as desired. The actual fiscal impact of this provision depends on local action.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Local taxing units.

Information Sources: Department of State Revenue.