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

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

## FISCAL IMPACT STATEMENT

**LS 6789** — **NOTE PREPARED:** Feb 17, 2003
**BILL NUMBER:** HB 1474 — **BILL AMENDED:** Feb 13, 2003

**SUBJECT:** Property Tax Deductions for Veterans.

**FIRST AUTHOR:** Rep. Kersey — **BILL STATUS:** As Passed - House
**FIRST SPONSOR:** Sen. Hershman

**FUNDS AFFECTED:**
- GENERAL
- X DEDICATED
- FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill extends the disabled veteran property tax deductions to veterans who served in actual combat or other equally hazardous duty, regardless of time, or any foreign war, insurrection, or expedition that is recognized by a service or campaign medal of the United States.

The bill also increases the maximum assessed value for eligibility to claim the following property tax deductions:

A) For individuals who are at least 65 years of age from $69,000 to $144,000.
B) For veterans who are either totally disabled or at least 62 years of age and having a disability of at least 10% from $54,000 to $113,000.
C) For WWI veterans from $78,000 to $163,000.
D) For rehabilitated residential real property, the pre-rehabilitation assessed value to (1) $38,000 for a single family dwelling, (2) $50,000 for a two family dwelling, and (3) $19,000 per unit in a structure containing more than two dwellings.

**Effective Date:** July 1, 2003.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** *Veterans Deduction*: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The revenue reduction would be minimal. For illustration purposes only, if this bill were to generate an additional 10% in veterans deductions, the state revenue loss would be estimated at about $1,300 per year.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) *Veterans Deduction*: There are two different property tax deductions available to disabled veterans under current law. A veteran who satisfies the requirements for both deductions may receive both deductions. The deductions are:

> 1) The partially disabled veterans deduction is equal to $12,000 assessed value (AV) and is available to veterans with wartime service who were honorably discharged and received at least a 10% service-connected disability.
>
> 2) The disabled veterans deduction is equal to $6,000 AV and is available to veterans who served at least 90 days, were honorably discharged, and who are totally disabled or are at least 62 years old with at least a 10% disability. This disability need not be service-connected. The AV of the property may not exceed $54,000.

Under this bill, (1) in addition to war-time service for the partially disabled veterans deduction and (2) in lieu of the 90 day minimum service for the disabled veterans deduction, the deduction would be allowed if the veteran's service was during actual combat or equally hazardous duty, regardless of time, as long as the service was recognized by the military by the award of a service or campaign medal.

According to the Indiana Department of Veterans Affairs (IDVA), service in Korea, Vietnam, and Operation Desert Storm are all considered to be war-time service for veterans' benefits purposes and currently qualify for property tax deduction purposes. Service in Beirut, Grenada, and Panama, however, are not considered war-time and do not currently qualify for property tax deduction purposes, but would qualify under this proposal. The IDVA estimates that there would be very few additional deductions allowed under this provision because the number of Indiana veterans who served only during non-wartime combat or hazardous duty is very small.

In 2001 Pay 2002, the total amount of AV deducted for all veterans deductions was $407.9 M. The actual increase is unknown, but for illustration purposes only, if this bill would generate an additional 10% in veterans' deductions, the additional deduction would be $41 M AV. Additional deductions 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. A $41 M reduction in AV would cause a $0.0003 increase in the statewide average net tax rate. Total local revenues, except for cumulative funds, would remain unchanged. Cumulative fund revenue would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

*Deduction AV Limits*:
Summary Statement: The cost estimates and the estimates of property tax shifts that were calculated for HEA 1001-2002(ss) assumed that total deductions and total levies would remain unchanged. The changes made by this bill to deduction qualifications are in line with the predicted impact of HEA 1001-2002(ss).

Under current law, Indiana allows various property tax deductions for taxpayers who meet certain requirements. There are four such deductions - the "Over 65" deduction, the disabled veteran deduction, the WWI veteran deduction, and the rehabilitated residential property deduction all have an assessed value limitation. That is, the assessed value of the taxpayer's property must be under a specified amount in order to qualify for the deduction.

The elderly deduction is a $6,000 deduction available to taxpayers who are 65 years old or older with a gross income under $25,000 and with a home assessed value under $69,000. The total amount of this deduction for taxes paid in CY 2002 was $611.6 M.

The disabled veteran deduction discussed above has a $54,000 assessed value limitation. The World War I veteran deduction is a $9,000 deduction available to WWI veterans whose home's assessed value may not exceed $78,000.

The rehabilitated residential property deduction can amount to up to $9,000 and is available tor property where the assessed valued has increased because it has had significant repairs, replacements, or improvements. The
assessed value limit is $18,000 for a single family dwelling, $24,000 for a two family dwelling, or $9,000 per unit for any other multi-family dwelling.

As a result of the current real property reassessment, the statewide total gross assessed value of residential property is expected to rise by 108%. Under current law, an average home with a market value of $100,000 might have had an assessed value of about $48,000. The home's new assessed value will be $100,000. Because of the change in valuation method, a substantial number of taxpayers who qualified for the deduction through CY 2002 may not qualify beginning with property taxes paid in CY 2003. This bill would restore eligibility to most of these taxpayers beginning with property taxes paid in CY 2004.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** County Auditors.

**Information Sources:** Mr. Jon Brinkley, Indiana Department of Veterans Affairs, 232-3910; Local Government Database.

**Fiscal Analyst:** Bob Sigalow, 317-232-9859