

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

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FISCAL IMPACT STATEMENT

LS 6683

BILL NUMBER: HB 1475

NOTE PREPARED: Dec 27, 2002

BILL AMENDED:

SUBJECT: Local Option Sales Tax for Property Tax Replacement.

FIRST AUTHOR: Rep. Kersey

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that a county council or city-county council may adopt and impose a local option sales tax of up to 0.5% on retail transactions in the county. The bill provides that the revenue from the tax shall be used for property tax replacement credits for civil taxing units in the county.

Effective Date: July 1, 2003.

Explanation of State Expenditures: *Department of State Revenue:* Local option sales tax revenue would be submitted and processed through the Department of State Revenue. The impact on the Department will depend on the size and number of counties which adopt the tax.

The Department would also be responsible for the distribution of certified amounts to adopting counties. Each calendar year, counties would receive a certified distribution in the amount that the Department estimates (upon recommendation of the State Budget Agency) will be generated in that county from the local option sales tax during the previous fiscal year. The distribution would be made in two installments, with 50% being distributed by May 1 and the remainder distributed by November 1. The bill provides that the certified distributions be treated as property tax replacement credits. The Department's current resources would be sufficient to absorb any associated costs.

State Budget Agency: The State Budget Agency may incur additional administrative expenses in estimating the certified distribution made to counties adopting a local option sales tax. Any increase in administrative costs is expected to be covered using existing staff and resources.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill allows counties to adopt and impose a countywide local option sales tax of up to 0.5% on taxable retail sales. According to the state's most recent revenue forecast, if all the state's 92 counties were to adopt the tax at the maximum rate of 0.5%, they would share in tax revenues of approximately \$410.7 M in FY 2004 and \$430.8 M in FY 2005. This estimate is based on the Technical Committee's FY 2004 and FY 2005 forecast (December 18, 2002).

Revenue generated in the counties that implement a local option sales tax would be allocated as property tax replacement credits among the civil taxing units within the counties that adopt the tax. School corporations and solid waste management districts that are ineligible for CAGIT distributions would not be eligible to receive these credits. It is estimated that if all of the state's counties adopted the tax at the maximum rate of 0.5%, the state's total civil unit net property tax levy could be reduced by approximately 15% each year of the coming biennium. The state's total net property tax levy (not including schools) is estimated to be approximately \$2,761 M payable in CY 2004 and \$2,909 M payable in CY 2005. Total net levies for all solid waste management districts totaled about \$11 M statewide in 2002. If a district with a property tax levy is ineligible to receive CAGIT distributions, then that district's portion of the \$11 M statewide levy would not be eligible for replacement under this proposal.

The yearly certified distribution would be made in two installments, with 50% being distributed by May 1 and the remaining amount by November 1. County auditors in the adopting counties are required to allocate the certified distribution as property tax replacement credits among the civil taxing units in proportion to each unit's share of the total amount of property taxes collected in the county. The civil taxing units would be required to treat any property tax credits received during a particular year as a result of this bill as part of its property tax levy for budgetary purposes and for purposes of the units' maximum permissible property tax levy limits. If a civil tax unit were at its maximum levy before the imposition of the local option sales tax, any additional revenue would have to be used to reduce the property tax levy. For units under the maximum levy, all or part of the additional sales tax revenue could be used as additional revenue without an adjustment to the unit property tax replacement levy as long as the unit's property tax levy plus replacement revenue does not exceed the maximum permissible levy.

County-level information for the local option sales tax is available from the Office of Fiscal and Management Analysis.

State Agencies Affected: Budget Agency; Department of State Revenue; Treasurer of State; Auditor of State; State Board of Tax Commissioners; Department of Local Government Finance.

Local Agencies Affected: County fiscal bodies; County Treasurers; County Auditors.

Information Sources: *December 18, 2002, Revenue Forecast Update.*

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