LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7775 **NOTE PREPARED:** Feb 6, 2003
BILL NUMBER: SB 456 **BILL AMENDED:**

SUBJECT: Personal Property Assessments.

FIRST AUTHOR: Sen. Kenley **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill establishes an alternative property tax valuation method for certain personal property subject to abnormal obsolescence.

Effective Date: July 1, 2003.

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Tax shifts from business personal property to other property cause the state's expense for regular PTRC and Homestead Credits to increase. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund. Therefore, any increase in PTRC or Homestead Credit payments would ultimately impact the state General Fund. The increased state expense is estimated at $300,000 to $3.9 M in FY 2004 (partial year) and $900,000 to $11.8 M in FY 2005. See *Explanation of Local Revenues* for an explanation of the range.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any change in the assessed value base will similarly change the property tax revenue for these two funds. The annual revenue reduction under this bill is estimated at $25,000 to $57,000 beginning in CY 2004.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current Department of Local Government Finance rules, business personal property taxpayers may claim an adjustment for abnormal obsolescence of depreciable personal property. Abnormal obsolescence occurs as a result of factors over which the taxpayer has no control and is unanticipated, unexpected, and could not be reasonably foreseen. Normal obsolescence, the expected gradual decline of value, is accounted for in the depreciation schedule for depreciable personal property.

Beginning with taxes paid in 2004, this bill would allow a taxpayer to elect to value personal property at the lesser of (1) the value under the current rule for personal property assessments or (2) the true tax value under generally accepted appraisal methods using the real property rule definition of “true tax value”. The real property rule defines true tax value as the market value in use of a property for its current use. This definition would account for all obsolescence, normal and abnormal.

For taxes paid in 2000 (the last full year of data available), a total of 67 current taxpayers claimed $89.5 M AV in abnormal obsolescence. Beginning with taxes paid in 2001 or 2002, a small number of these taxpayers have claimed larger adjustments for abnormal obsolescence than in the past. Some of these claims are currently under appeal. The abnormal obsolescence claims already reduce the property’s valuation by a substantial amount, thereby limiting the impact of this bill. These taxpayers claimed about $34.6 M in obsolescence adjustments for 2000 taxes but claimed $984 M AV as abnormal obsolescence for taxes paid in 2002.

In addition to the above known taxpayers, there would most likely be a limited number of additional taxpayers that would elect to be valued under the definition of true tax value that would be allowed under this bill. It is estimated that this bill could result in a total statewide AV reduction of $1.2 B.

As currently filed by these taxpayers, and assuming that these abnormal obsolescence claims are fully allowed, then the overall loss in assessed value due to this bill is estimated at $200 M. This loss in AV would lead to a statewide tax shift of about $5.2 M per year from the taxpayers using the market value method to all other taxpayers.

Based on an estimate that, on average, two-thirds of the amount currently claimed for abnormal obsolescence will be upheld and removed from the tax base without this bill, then the loss in AV under this bill is estimated at about $530 M. This loss in AV would lead to a tax shift of about $29 M per year from the taxpayers using the market value method to all other taxpayers.

It should be noted that since some taxpayers have already claimed the obsolescence adjustments that are under review, the assessed value used to calculate 2001 and 2002 tax rates has already been reduced and taxes have already been shifted to other taxpayers. So the actual shift compared with current taxes would be the lower estimate of $5.2 M.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by $250,000 to $3.2 M per year, depending on the outcome of the adjudication on abnormal obsolescence claims.

State Agencies Affected: Department of Local Government Finance; State Fair Board; Department of Natural Resources.

Local Agencies Affected: Local assessors and taxing units in Lake and Porter Counties.

Information Sources: Department of Local Government Finance; Local Government Database.

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