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FISCAL IMPACT STATEMENT

LS 6685 | **NOTE PREPARED:** Jan 17, 2004
BILL NUMBER: HB 1055 | **BILL AMENDED:** Jan 15, 2004

SUBJECT: Neighborhood Assessment Factor and other tax matters.

FIRST AUTHOR: Rep. Mays | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

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

Summary of Legislation: (Amended) *Neighborhood Assessment Factors:* This bill directs the Department of Local Government Finance (DLGF) to amend its Real Property Assessment Guidelines to prevent the delineation of neighborhoods using different standards and to prevent assessment disparities between adjoining comparable residential real properties in adjoining neighborhoods.

Internal Revenue Code Update: The bill provides that references to the Internal Revenue Code in Indiana law refer to the federal law as in effect on January 1, 2004. The bill also indicates that the law that requires certain bonus depreciation allowed for federal income tax purposes to be added back for state tax purposes applies to the special depreciation allowance for 50-percent bonus depreciation property. The bill also requires that "Section 179 property" deductions in excess of $25,000 per year that are allowed for federal income tax purposes be added back for state tax purposes.

Property Tax Filings: The bill authorizes a property tax refund for a religious institution with respect to a missed exemption in 2002. The bill also authorizes a taxpayer to file an amended personal property tax return to claim certain exemptions for property taxes first due and payable in 2002.

Effective Date: (Amended) January 1, 2001 (retroactive); January 1, 2004 (retroactive); Upon passage.

Explanation of State Expenditures: *Neighborhood Assessment Factors:* The DLGF must amend its Real Property Assessment Guidelines to change the manner in which a neighborhood is defined and delineated for purposes of the assessment of residential real property, including the application of a neighborhood factor for the assessment of residential real property improvements. Except for the above rule change, the bill provides that the DLGF may not adopt rules for the appraisal of real property in a general reassessment after

July 1 of the year before the year in which the general reassessment is scheduled to begin. If rules for the appraisal of real property in a general reassessment are timely adopted and are then disapproved by the Attorney General, the DLGF may modify the rules to cure the defect that resulted in disapproval by the Attorney General and may then take actions necessary to obtain approval of the rules.

The DLGF will experience additional administrative expenses associated with rule-making, providing training on the rule change, and additional printing and postage costs needed to mail the rule changes to local units.

Explanation of State Revenues: *Neighborhood Assessment Factors:* A change in assessment standards could result in a change in assessed valuation. The state levies a small tax rate for State Fair and State Forestry. Any change in the assessed value base will change the property tax revenue generated for these two funds. The revenue change resulting from the proposal is indeterminable.

(Revised) *Internal Revenue Code Update:* This bill updates the reference to the Internal Revenue Code (IRC) to incorporate all the federal changes made up to January 1, 2004. These changes will only impact tax years beginning January 1, 2004. The update would include changes resulting from the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P. L. 108-27) and the Military Family Tax Relief Act of 2003 (P. L. 108-121).

The provisions of P. L. 108-27 are not expected to result in a fiscal impact. The bill requires that in determining taxable Indiana Adjusted Gross Income (AGI), taxpayers add back: (1) the bonus first-year depreciation allowance increased from 30% to 50% under P.L. 108-27; and (2) the amount deducted above $25,000 for Section 179 (small business) property expensing limit on which was increased from $25,000 to $100,000 under P. L. 108-27.

One provision of P. L. 108-121 could potentially result in a minimal fiscal impact. P. L. 108-121 creates an above-the-line deduction for travel expenses of National Guard troops and reservists, provided the travel exceeds 100 miles and requires an overnight stay. The deductible expenses may not exceed the general federal per diem rate applicable to the particular locality.

Explanation of Local Expenditures: *Neighborhood Assessment Factors:* Assessing officials must use the modified neighborhood standards for determining assessments after December 31, 2004. This provision could have a minor impact on local expenditures to the extent that local officials might have to attend training pertaining to the rule change.

Explanation of Local Revenues: *Neighborhood Assessment Factors:* If the overall impact of the new assessment practices changes the total assessed value, the rate will be affected accordingly with the levy remaining unchanged. The revenue for cumulative funds would be changed by the product of the fund rate multiplied by the change in the assessed valuation amount applicable to that fund.

(Revised) *Property Tax Filings:* This bill provides that under certain circumstances, a religious institution may retroactively file for a property tax exemption on real property for property taxes payable in 2002. The exemption application would be subject to review and action by the county property tax assessment board of appeals and the Department of Local Government Finance; and is subject to appeal. If an exemption application is approved, the religious institution may file a claim with the county auditor for a refund for the payment of property taxes first due and payable in 2002 with respect to the exempt property. One taxpayer in Evansville has been identified as meeting the conditions of this provision. The provision would exempt about $12,000 in tax liability. No interest is payable on the refund. Refunds of property taxes reduce the current year property tax revenue for taxing units that provide services to the property.

Another provision in the bill would allow a taxpayer in Marion County to file an amended business personal property tax return for taxes paid in 2002 in order to claim an industrial waste control facility exemption, an industrial air purification exemption, and an interstate commerce exemption for finished goods inventory to be shipped out of state. The taxpayer would also be permitted to file an application for an abatement deduction for taxes paid in 2002. The taxpayer would receive a credit against taxes due in 2004 and later years until the credit is exhausted. The county auditor could, however, refund the remaining credit at any time. One taxpayer has been identified as meeting the conditions of this provision. The credits and refunds allowed by this provision would reduce current year and future property tax revenue for taxing units that provide services to the property. This analysis will be updated when additional information regarding the amount of credits and/or refund is received.

State Agencies Affected: Department of Local Government Finance and the Office of the Attorney General.

Local Agencies Affected: Counties and Townships.

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