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FISCAL IMPACT STATEMENT

LS 6685

BILL NUMBER: HB 1055

NOTE PREPARED: Feb 17, 2004

BILL AMENDED: Feb 16, 2004

SUBJECT: Various tax matters.

FIRST AUTHOR: Rep. Mays

FIRST SPONSOR: Sen. Borst

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Township Reassessments:* For a petition to the Department of Local Government Finance (DLGF) seeking an order to reassess real property in a township, this bill establishes the minimum number of petitioners required without reference to township population.

Reassessment Fund: The bill prohibits a county council from reducing the levy established by the department of local government finance for a property reassessment fund.

Abatement Processing: This bill delays the transfer of certain tax abatement duties from the department of local government finance to county auditors.

Equalization: The bill eliminates the limitation that equalization authority of the county property tax assessment board of appeals (PTABOA) applies only to the assessments made with respect to the last preceding assessment date. It also directs the county assessor to conduct equalization duties in a year other than a general reassessment year under rules of the DLGF.

Equalization Studies: The bill allows the DLGF to contract for assistance with equalization studies and school assessment ratio studies.

Property Tax Data: This bill provides for withholding of part of a county's property tax replacement fund money distributable in 2004 for failure of local officials to provide certain 2003 property tax information to the state

Local Option Income Tax Distributions: This bill specifies that distributions of local income tax revenue are based on proportionate property tax levies payable in the year that immediately precedes the distribution.

Solid Waste Management District Levies: The bill allows the DLGF to adjust certain solid waste management district levies for taxes payable in 2004.

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 Exemptions: This bill grants a youth baseball and softball organization an additional period in which to file an application for a property tax exemption.

Veterans Deductions: The bill provides that a person who was not able to apply the unused balance of certain property tax deductions (partially or totally disabled veterans, WWI veterans, and surviving spouse of WWI veterans) as a credit against a person's motor vehicle excise tax liability in 2004 may carry that credit forward to 2005.

County Land Valuation Commissions: This bill repeals the county land valuation commission and provisions involving the PTABOA and the DLGF in the setting of land values.

Tax Rates: The bill adjusts certain rounding factors so that property tax rates are rounded to six places.

Effective Date: (Amended) July 1, 2003 (retroactive); January 1, 2004 (retroactive); Upon passage; July 1, 2004.

Explanation of State Expenditures: (Revised) *Abatement Processing:* During the 2003 legislative session (P.L. 245-2003 and P.L. 256-2003), the responsibility for certain property tax abatements was transferred from the DLGF to county auditors, effective for taxes payable in 2005. The proposal allows an extension by providing that the transfer of duties affects taxes payable in 2006. This provision will have no impact on the DLGF as they will continue with the tasks for one more year.

The DLGF may adopt temporary rules to implement the above. If the DLGF elects to adopt temporary rules, the DLGF could experience an increase in administrative expenses. However, the DLGF should be able to absorb any additional expenses given its current budget and resources.

Equalization Studies: This provision would allow the DLGF to contract with an outside source for assistance with statewide equalization studies and the School Assessment Ratio Study.

Explanation of State Revenues: (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: (Revised) *Township Reassessments:* Under current law, a petition may be filed to have all of the real property in a township reassessed in years without a general election. The petition must be filed by a minimum percentage of the property owners in the township. The percentage varies with the population of the township and whether or not it contains a municipality. Under this provision, a minimum of ten property owners or the owners of property with at least 1% of the township's total assessed value could file the petition. This bill would allow a lesser number of taxpayers to sign a petition that begins the process.

Abatement Processing: Counties would receive a one-year extension before they would have to assume responsibilities for processing property tax abatements. This provision could delay some expenses to counties for one year.

Explanation of Local Revenues: (Revised) *Equalization:* Under current law, the county property tax assessment board of appeals (PTABOA) may equalize assessments for the immediately preceding assessment date only. This bill would remove this limitation.

Current law requires the county assessor to equalize assessments between the townships in the county after a general reassessment. This bill would require the county assessor to equalize after a general reassessment and in other years under DLGF rules regarding reassessment equalization and annual adjustments.

Property Tax Data: Under current law, the county assessor and the county auditor must remit property tax assessment and billing data for each parcel and each personal property tax return to the Legislative Services Agency and to the DLGF. The state must withhold the property tax replacement credit payments attributable to the county reassessment fund from any county that does not remit all of the required data. The bill stipulates that the county auditor must remit the tax billing data within the later of (1) March 1 or (2) 30 days of mailing tax statements.

For failure to remit 2003 tax data, this provision would increase the penalty to 2% of the total state PTRC and homestead credit payments for all funds in all units in the county for one half of the payments in 2004. If a county fails to comply with the data requirements, the loss in revenue would be much greater under this provision than under current law.

Local Option Income Tax Distributions: The bill also clarifies that the term "levy" as it pertains to local option income tax distribution formulas refers to the previous year's abstract levy. This clarification should have no fiscal impact.

Solid Waste Management District Levies: This provision allows the DLGF to set the tax rates for counties who participate in a multi-county solid waste management district for taxes payable in 2004 in cases where one of the participating counties has not sent the DLGF their assessed valuation for the taxing district. The DLGF could certify the tax rates for the other participating counties who had completed their assessed valuations based on the portion of the individual county's certified assessed value in 2002 relative to the total certified assessed value of all the counties that participated in the district for that same year.

Veterans Deductions: Under current law, veterans deductions are first applied to real property. Any unused amount of veterans deduction may then be applied to personal property. If any unused deduction still exists, the individual may receive a credit against motor vehicle excise taxes at the rate of \$2.00 per \$100 of unused deduction.

This bill would allow a taxpayer whose property assessment for taxes paid in 2004 was not determined in time to calculate the allowable excise tax credit in 2004 to claim the 2004 credit in 2005 in addition to any 2005 credit to which the taxpayer is entitled.

Property Tax Exemptions: The bill provides a taxpayer, that is a nonprofit corporation, can file for a refund of their CY 2003 property taxes if:

1. The property is owned, occupied, and used to provide youths an opportunity to play baseball or softball prior to the 2002 reassessment.
2. The property tax liability exceeds \$20,000.
3. The owner would have qualified for an exemption if it had been filed in a timely manner.
4. An exemption was granted for 2004.

The bill would probably apply to few taxpayers. It would apply to the Southport Little League that failed to renew its exemption and was charged \$21,000 in taxes for CY 2003. Since property tax refunds are paid from current property tax collections, the provision would cause a loss in revenue for the taxing units where the property is located. The impact on any one taxing unit would probably be minor. The following table shows the impact on the taxing units that would be affected by the Southport Little League refund.

<u>Unit</u>	<u>2003 Levy</u>	<u>2004 Refund/ Reduction in 2004 Rev.</u>
State Unit	\$955,224	(\$51)
Marion County	163,403,261	(8,660)
Perry Township	6,701,223	(355)
Southport Civil City	155,929	(8)
M.S.D. Perry Township School Corporation	43,921,630	(2,328)
Indianapolis-Marion County Public Library	32,136,015	(1,703)
Indianapolis Sanitation (Liquid)	26,459	(1)
Indianapolis Sanitation (Solid)	22,983,703	(1,218)
Marion County Health and Hospital	76,157,416	(4,036)
Indianapolis Consolidated County	49,816,386	(2,640)
Total	\$396,257,246	(\$21,000)

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Counties and Townships; Certain taxing units in Marion County.

Information Sources: Local Government Database; Diana Boylls, External Affairs Representative, Communications and Public Affairs, DLGF.

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