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FISCAL IMPACT STATEMENT

LS 6685

BILL NUMBER: HB 1055

NOTE PREPARED: Feb 23, 2004

BILL AMENDED: Feb 19, 2004

SUBJECT: Various tax matters.

FIRST AUTHOR: Rep. Mays

FIRST SPONSOR: Sen. Borst

BILL STATUS: As Passed Senate

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: *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 DLGF for a property reassessment fund.

Abatement Processing: This bill delays the transfer of certain tax abatement duties from the DLGF 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 alters the amounts of Property Tax Replacement Fund money withheld from a county for failure of local officials to provide certain information to the state, and provides for withholding of money distributable in 2004 based on failure to provide certain information in 2003.

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.

CEDIT Revenue in Randolph County: The bill provides that the Randolph County Council may impose a county economic development income tax at a rate of 0.25% to finance the construction, acquisition, renovation, and equipping of the county courthouse.

Deadline for Inventory Tax Exemption: The bill extends the deadline for a county to adopt an ordinance exempting inventory from property taxes.

School Referendum: The bill requires the DLGF to adjust the amount of the referendum levy for a school corporation that passed a property tax referendum in 2003.

Qualification of Assessing Personnel: This bill requires the county assessor to perform the duties of a trustee-assessor related to the assessment of real property if the trustee-assessor fails to attain a required assessor-appraiser certification. The bill allows the county fiscal body to adjust appropriations to reflect the change in duties. It prohibits a trustee-assessor who has not attained a "Level II" assessor-appraiser certification from seeking another term until the certification is obtained. It allows a person who fills a vacancy in the office of trustee-appraiser when the remaining length of the term is less than two years to have two years after appointment or selection to obtain a "Level II" certification.

Approval of Appointed Library Board Levies: The bill requires specifies which fiscal body is to review the proposed budget and tax levy of an appointed library board that intends to increase its property tax levy by more than 5%.

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

Explanation of State Expenditures: *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.

Approval of Appointed Library Board Levies: If the review by an elected fiscal body reduces library levies below the maximum levy, the state would realize a savings equal to 20% of the portion of the reduction attributable to real property. This savings would come from a reduction in the payment of PTRC. In addition, the state is responsible for Homestead Credits equal to 20% of the net levy. Any levy reduction would also reduce the state's Homestead Credit liability.

Explanation of State Revenues: *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: *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.

Qualification of Assessing Personnel: County assessors must perform the duties of a trustee-assessors related to the assessment of real property if the trustee-assessor fails to attain a required assessor-appraiser certification. (This provision applies only if the assessor or trustee-assessor is elected to a new term of office that begins after June 30, 2004.) County assessors must perform township duties until the township assessing official is qualified. In the 1,008 townships in the state, 168 have elected assessors and 840 have trustee-assessors. About 460 townships have staff certified at Level II. The bill prohibits a trustee-assessor who has not attained a "Level II" assessor-appraiser certification from seeking another term until the certification is

obtained. It allows a person who fills a vacancy in the office of trustee-appraiser when the remaining length of the term is less than two years to have two years after appointment or selection to obtain a "Level II" certification.

The above provisions could shift expenditures and funding from the township level to the county level. The county fiscal body can adjust appropriations to reflect the change in duties. The specific impact will vary from unit to unit. Costs for reassessment are paid from the county reassessment fund.

Background Information: Assessors are currently required to maintain either Level I or Level II certification. The DLGF certifies the assessors. Assessing officials must earn 30 hours of education within a 4-year period to be certified as a Level I assessor. Officials must complete 45 hours of education within a 4-year period to be certified as a Level II assessor. The DLGF offers training and certification at no cost to the assessor. Education may also be earned at training offered by approved entities. Participants in the training offered by the DLGF are responsible for travel and associated costs which may be paid by the sponsoring governmental unit.

The next reassessment will begin in 2007 and must be completed by March 1, 2009. This reassessment will be the basis for taxes payable in 2010.

Explanation of Local Revenues: 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. This provision would increase the penalty to equal 2% of the total state PTRC and homestead credit payments for all funds in all units in the county. 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. 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.

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.

Unit	2003 Levy	2004 Refund/ Reduction in 2004 Rev.
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)

CEDIT Revenue for Randolph County: The bill does not increase the CEDIT rate of Randolph County. The bill allows the county to use CEDIT revenue to finance, construct, acquire, renovate, and equip the county courthouse, and to finance the former county hospital for additional office space.

Background: P.L. 291-2001 allowed the Randolph County Council to impose an additional 0.25% CEDIT rate in order to finance, construct, acquire, renovate, and equip the county courthouse, the former county hospital (for additional office space), and other additional projects specified under current law. Following the passage of P.L. 291-2001, the Randolph County Council raised their CEDIT rate from 0.25% to 0.5%.

P.L. 224-2003 removed the provision that allowed Randolph County to use additional CEDIT revenue generated by the rate increase allowed under P.L. 291-2001 for courthouse repairs.

Currently, Randolph County imposes CEDIT at a 0.5% rate and County Adjusted Gross Income Tax (CAGIT) at 1.0% for a combined rate of 1.5%. The Randolph County CY2004 CEDIT certified distribution is \$1,646,035. The County's CY2004 CAGIT certified distribution is \$3,085,744.

Local Option Inventory Elimination: Under current law, each county may adopt an ordinance that would provide a 100% inventory deduction for taxes paid in CY 2004, CY 2005, and CY 2006. A statewide deduction will take effect with taxes paid in CY 2007.

Counties that wish to adopt the optional inventory deduction for taxes paid in CY 2006 must pass an ordinance adopting the deduction by March 30, 2004. This bill extend the adoption deadline until December 15, 2004. (The adoption deadline in 2002 and 2003 was December 31.)

This provision would give counties additional time to consider whether to provide a 100% inventory deduction for property tax paid in CY 2006.

School Referendum: The bill requires the referendum levy for a school corporation that passed a property tax referendum in 2003 to be equal to the rate in the referendum times the current year's assessed valuation. During calendar year 2003, two schools, MSD of Washing Township and Southwest Allen School Corporation, passed referendums to increase their property tax levies. The bill could increase the referendum levy for the two schools. The increase would depend on the growth in assessed valuation growth. The section expires on January 1, 2022.

Approval of Appointed Library Board Levies: Under current law, fiscal bodies of cities, towns, and counties must review and adopt budgets and tax levies for taxing units that (a) are not comprised of a majority of officials who are elected to serve on the governing bodies and (b) are proposing an increase in the tax levy that is greater than 5%. This provision does not currently apply to library boards. The fiscal bodies that review and adopt the budgets are currently prohibited from reducing the proposed tax levy to an amount that is less than the maximum levy.

Under this proposal, any budget proposed by an appointed library governing body would have to be reviewed by an elected fiscal body. There are 239 library boards.

The added review and the provision that would allow the elected bodies to reduce the appointed bodies' levies below the maximum levy could slow the growth of, or reduce, some levies. A reduction of the property tax levy would mean a reduction of revenues for the taxing unit.

State Agencies Affected: Department of Local Government Finance; Indiana State Budget Agency.

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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