LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6797 | **NOTE PREPARED:** Jan 14, 2004
BILL NUMBER: HB 1374 | **BILL AMENDED:**

SUBJECT: Deferral of Property Tax Payments.

FIRST AUTHOR: Rep. Thompson | **BILL STATUS:** As Introduced
FIRST SPONSOR:

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

Summary of Legislation: This bill allows a taxpayer who meets income, net worth, and either age or disability requirements to defer payment of the taxpayer's property tax liability on the taxpayer's principal place of residence (excluding amounts for which the taxpayer would have been eligible for a credit if the taxpayer had filed for it) until the taxpayer dies, sells the property, or otherwise becomes ineligible to defer the taxes. The bill requires a county to deposit money collected from deferred taxes in a county tax deferral revolving fund. The bill also provides for replacement of deferred taxes through distributions from the state and transfers from a county tax deferral revolving fund. This bill makes an appropriation.

Effective Date: July 1, 2004.

Explanation of State Expenditures: This bill allows a taxpayer to defer the payment of real property taxes starting in CY 2005 until the taxpayer either dies, sells the property, or becomes otherwise ineligible for the program under the following conditions: (1) The taxpayer must have a net worth of less than $150,000 (not including the residence and its furnishings), (2) an annual income less than $30,000 (unless the taxpayer lives in an area where the income limit for federal housing assistance for a household of the same size is more than $30,000, in which case the federal income limit is used), and (3) be either 65 or permanently and totally disabled.

The county is required to deposit money collected as payment for deferred taxes into a county tax deferral revolving fund. This fund is to be used for the sole purpose of replacing revenues lost to the county through the deferral of property taxes. If the amount in the fund is less than the revenues lost by the deferral of taxes in any year, the state will, under this bill, transfer funds from the General Fund sufficient to make up this difference. The transfers will occur at the same times as transfers from the Property Tax Replacement Fund.

Data for estimating the net worth of Indiana taxpayers over 65 or disabled are not currently available; however, according to the AARP, in 1998 75% of U.S. residents between 62 to 74 had an average net worth of about $153,000. If this is also true for Indiana taxpayers who meet the over-65 or disabled and the income tests of this bill, then their average net worth is $153,000 less the value of the equity in the property whose taxes are being deferred. The average assessed value for this property is $85,000 which makes the average net worth of taxpayers who meet the over-65 or disabled and the income tests to be $153,000 less $85,000, or $68,000. This suggests that more than 75% of those meeting the over-65 or disabled test and the income test will also meet the net worth test. Since this proportion cannot be more accurately estimated, this note assumes that all taxpayers over 65 or disabled and with incomes of $30,000 or less also have a net worth of $150,000 or less.

The deferred payment of property taxes would become available for taxes due and payable in CY 2005. The number of taxpayers over 65 or blind/disabled and with an income of $30,000 or less (168,000) was estimated from state income tax data for CY 2001 adjusted to represent CY 2005 values. The total property taxes estimated to be paid under current law by those taxpayers is estimated to be $145 M. The number of taxpayers is expected to increase to 171,000 in CY 2006 (with property taxes totaling $147 M) and to 175,000 in CY 2007 (with property taxes totaling $150 M).

Income to the county tax deferral revolving funds would come from deferred taxes paid after a taxpayer sells the property or one year after the taxpayer dies. The deferral program will also reduce the likelihood that a taxpayer receiving the deferral will sell the eligible property since the cost of maintaining ownership will decline. The principal source of payments of deferred taxes would be due to the death of the taxpayer; however, the number of deaths per year will be small and payments will be delayed by up to one year. Since there are no good statistics on the probable death rates for taxpayers eligible under this bill, it is assumed that there will be essentially little to no income in the county tax deferral revolving funds for CY 2005 - CY 2007.

The fiscal impact of this bill is therefore based on the assumption that there will be no payments of deferred taxes to the county tax deferral revolving funds, and that the entire amount of the deferral would come out of the state General Fund. This would amount to $49.2 M in FY 2006, $150 M in FY 2007, and $159 M in FY 2008. This amount will be reduced by any funds deposited in the local accounts upon the transfer of the eligible property.

Explanation of State Revenues:

Explanation of Local Expenditures: The process of qualifying taxpayers for the deferral program and the operation of the county tax deferral revolving funds would impose costs on local government units, but these costs cannot be estimated.

Explanation of Local Revenues:

State Agencies Affected: Department of Local Government Finance, Department of Revenue.

Local Agencies Affected: County auditors and county treasurers.

Information Sources: OFMA 2001 Income Tax Database; OFMA Property Tax Database; AARP.

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