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FISCAL IMPACT STATEMENT

LS 6211

BILL NUMBER: HB 1442

NOTE PREPARED: Feb 9, 2004

BILL AMENDED:

SUBJECT: Property Tax Deduction for Senior Citizens.

FIRST AUTHOR: Rep. Duncan

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill changes the requirements for the property tax deduction available to individuals who are at least 65 years of age to allow an individual to claim the deduction if either the assessed valuation of the individual's real property, mobile home, or manufactured home is less than \$144,000 or the combined adjusted gross income of the individual's household is less than \$25,000. (Current law requires an individual to satisfy both requirements to claim the deduction.)

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues: Increased deductions from the gross assessed value of real property reduce contributions to the State Fair and State Forestry funds. These reductions are estimated to be \$16,000 per year.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) Current law provides for a property tax deduction of the lesser of \$6,000 or one-half of the assessed value of the taxpayer's real property, mobile home, or manufactured home for taxpayers who are at least 65 years of age if the assessed value is less than \$144,000 and the combined adjusted gross income of the taxpayer's household is less than \$25,000. Starting with 2004 pay 2005 (CY 2005) this bill would allow a taxpayer who is at least 65 years of age to claim the over-65 deduction if either of these conditions were true (the combined adjusted gross income of the individual's household was less than \$25,000 **OR** the assessed valuation of the individual's real property, mobile home, or manufactured home was less than \$144,000.

The total value of this deduction for all Indiana counties for CY 2000 through CY 2003 is given in Table 1 below. The maximum deduction was increased from \$2,000 to \$6,000 in CY 2002 as a consequence of the change in assessed value from 33% of true tax value to 100% of true tax value. CY 2003 deductions are not yet available from most counties.

The number of deductions was estimated by dividing the gross value by \$2,000 for CY 2000 and CY 2001, and by \$6,000 for CY 2002. This slightly understates the number of deductions. The table includes data for the similar blind/disabled deduction since the Department of State Revenue (DOR) income tax data used to estimate the impact of this bill combines the two categories into a single exemption.

CY	Age 65 or Over		Blind or Disabled		Total
	Value	Number	Value	Number	Number
2000	\$200 M	100,210	\$64.8 M	32,407	132,617
2001	\$203 M	101,655	\$65.5 M	32,773	134,428
2002	\$612 M	101,933	\$199 M	33,194	135,127

The increases in the total value of the over-65 property tax deduction as implemented in this bill were estimated by taking CY 2001 Indiana state income tax data and estimating the tax returns for CY 2004. The effects of the expected population increases, gross income increases, effects of reassessment, and increases in property taxes due to changes in the law and expected changes in the levy were included. The assessed value of a taxpayer's principal residence was estimated from a taxpayer's real property tax deduction in the DOR 2001 income tax data using statistical estimates based on pre-reassessment auditor's data. Since the maximum income tax deduction is \$2,500, the estimate has an upper limit which is about \$230,000 in CY 2004. The estimates were then reduced by 25% (multiplied by 0.75) in order to estimate the number of over-65 deductions in CY 2004 since, on the average, over-65 deductions were 75% of the sum of over-65 and blind/disabled deductions in CY 2000 through CY 2002.

The CY 2004 estimates were then inflated by 0.0078% per year, the average increase from 1990 to 2000 for the number of Indiana residents age 65 or over (see note below). The estimates of the number and total value of the over-65 deductions under current law and under the provisions of this bill are contained in Table 2 below.

Table 3 below provides estimates of the shift of property taxes from those qualifying for the over-65 deduction under the provisions of this bill. The increase in the deductions is estimated to be \$492 M in CY 2005, increasing to \$512 M in CY 2007. The net tax rate would increase to 0.00356 in CY 2005, decreasing to 0.00338 in CY 2007. The tax shift from those claiming this deduction to other taxpayers is estimated to be \$9.8 M in CY 2005, increasing to \$10.2 M in CY 2007.

Local government units with cumulative funds will have the revenue from property taxes reduced by reductions in the assessed value of real property, but the effect cannot be estimated.

The estimate of the fiscal impact of the change in the over 65 deduction under this bill assumes that every taxpayer eligible for the over 65 deduction as amended by this bill will apply for the deduction. Applications for CY 2005 must be filed by May 11, 2004, and it is possible that some eligible taxpayers will not be informed of the deduction in time. This will reduce the CY 2004 deduction amount (and the net tax rate and tax shift for Pay 2005) by an unknown amount.

Estimation Note: The number of persons over 65 residing in Indiana increased, on the average, at a rate of 0.7757% between the 1990 U.S. Census and the 2000 U.S. Census. The number of over-65 deductions from CY 2005 to CY 2007 was therefore assumed to increase at a rate of 0.7757% per year after CY 2004.

Table 2 - Estimated Number of Deductions and Total Value of Deductions				
CY	Current Law		This Bill	
	Estimated Total Over-65 Deductions	Estimated Total Value of Over-65 Deductions	Estimated Total Over-65 Deductions	Estimated Total Value of Over-65 Deductions
2005	102,000	\$612 M	184,000	\$1.104 B
2006	103,600	\$621 M	186,900	\$1.121 B
2007	106,000	\$636 M	191,300	\$1.148 B

Table 3 - Increase in Total Deductions, Net Tax Rate, and Tax Shift			
	Estimated Deduction Increase	Increase in Net Tax Rate	Tax Shift From Over-65 to Other Taxpayers
2005	\$492 M	0.00356	\$9.8 M
2006	\$500 M	0.00356	\$10.1 M
2007	\$512 M	0.00338	\$10.2 M

State Agencies Affected: Indiana State Fair; DNR Division of Forestry.

Local Agencies Affected: Local units with cumulative funds.

Information Sources: OFMA Income Tax Database, Tax Year 2001; OFMA Pre-Reassessment Property Tax Database.

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