

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6312**  
**BILL NUMBER: SB 59**

**NOTE PREPARED:** Nov 17, 2003  
**BILL AMENDED:**

**SUBJECT:** Tax Credits.

**FIRST AUTHOR:** Sen. Simpson  
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
 **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides that the Homestead Credit and the Property Tax Replacement Credit do not apply to taxes on the part of the assessed value of a homestead that is over \$300,000. The bill also establishes an income tax credit for an individual in a specified income range for the lesser of \$375 or the amount by which the property taxes on the individual's homestead exceed a percentage of the individual's adjusted gross income.

**Effective Date:** January 1, 2004 (retroactive); July 1, 2004.

**Explanation of State Expenditures:** The bill caps the assessed value to which the Homestead Credit and Property Tax Replacement Credit apply, and establishes a new Property Tax Circuit Breaker Credit under the state Adjusted Gross Income (AGI) Tax. The net fiscal impact of these provisions beginning in FY 2004 is presented in the table below.

<b>Fiscal Year</b>	<b>AV Cap Saving</b>	<b>Circuit Breaker Cost</b>	<b>Net Impact</b>
<b>2004</b>	\$15.5 M	\$0	\$15.5 M
<b>2005</b>	47.3 M	(47.2 M)	0.1 M
<b>2006</b>	49.8 M	(47.2 M)	2.5 M
<b>2007</b>	53.0 M	(47.2 M)	5.8 M

*Assessed Value Cap:* The bill caps the assessed value to which the Homestead Credit and Property Tax Replacement Credit apply.

Homestead Credit: Under current statute, the Homestead Credit is equal to 20% of a taxpayer's net property tax liability for operating levies on the principal residence without regard to the assessed value of the property. The bill provides that the Homestead Credit does not apply to assessed value exceeding \$300,000 beginning in 2004.

Property Tax Replacement Credit: Under current statute, the state pays Property Tax Replacement Credits (PTRC) to each local taxing unit equal to 20% of the local unit's operating tax levies attributable to real property and nonbusiness personal property. Also, under current statute, the state pays for additional PTRC equal to 60% of the school general fund gross levy. The bill eliminates payment of PTRC on that part of the levy attributable to homestead assessed values exceeding \$300,000 beginning in 2004.

The estimated calendar year and fiscal year impact of the assessed value cap is presented in the table below.

Calendar Year	AV Cap Saving	Fiscal Year	AV Cap Saving
2004	\$46.5 M	2004	\$15.5 M
2005	49.0 M	2005	47.3 M
2006	51.4 M	2006	49.8 M
2007	56.3 M	2007	53.0 M

*Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the circuit breaker credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities for certain homeowners whose AGI is less than \$47,000. The revenue loss due to this bill is estimated to total approximately \$47.2 M annually beginning in FY 2005.

*Background:* The bill establishes a refundable circuit breaker credit against the Adjusted Gross Income (AGI) Tax liability for property taxes paid on a homestead. The credit is a function of both the taxpayer's AGI and the property tax paid on the taxpayer's homestead during a taxable year. To qualify for the circuit breaker credit, an individual taxpayer must meet the following criteria:

- (1) the taxpayer's AGI is less than \$47,000 for the taxable year;
- (2) the taxpayer must have paid property tax during the taxable year on a homestead the taxpayer owned or bought under a contract that required the buyer to pay property taxes on the homestead; and
- (3) the taxpayer does not claim the current AGI Tax deduction for residential home property taxes.

The circuit breaker credit is equal to the lesser of either: (1) \$375; or (2) the computed circuit breaker credit equal to [Taxpayer's Property Tax - (Taxpayer's AGI\*Circuit Breaker Percentage)]. The circuit breaker

percentages depending on taxpayer AGI are listed in the table below.

<b>Adjusted Gross Income (AGI)</b>	<b>Circuit Breaker Percentage</b>
Less than \$5,000	3.5%
\$5,000 to less than \$10,000	4.0%
\$10,000 to less than \$25,000	4.5%
\$25,000 to less than \$47,000	5.0%

Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund. Since the circuit breaker credit is effective beginning in tax year 2004, the fiscal impact would begin in FY 2005.

**Explanation of Local Expenditures:** Under current statute, counties that adopt the County Option Income Tax (COIT) are authorized to provide up to an additional 8% in Homestead Credits paid from COIT revenues. Counties that use COIT to pay additional Homestead Credits could potentially realize savings on homesteads with an assessed value exceeding \$300,000. Currently, there are 10 counties that have local Homestead Credits.

**Explanation of Local Revenues:**

**State Agencies Affected:**

**Local Agencies Affected:** Counties using COIT to provide Homestead Credits.

**Information Sources:** OFMA Income Tax Database, 2000.

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