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**FISCAL IMPACT STATEMENT**

**LS 6879**

**BILL NUMBER: SB 460**

**NOTE PREPARED: Jan 8, 2004**

**BILL AMENDED:**

**SUBJECT:** World War II Veteran Property Tax Deduction.

**FIRST AUTHOR:** Sen. Meeks C

**Fas Introduced**

**BILL STATUS:**

**FUNDS AFFECTED:**  GENERAL  
 DEDICATED  
 FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides that World War II veterans are eligible for a property tax deduction in the same manner as World War I veterans.

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

**Explanation of State Expenditures:**

**Explanation of State Revenues:** The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The revenue reduction is estimated at about \$7,000 in CY 2004 decreasing to \$5,000 in CY 2007.

The reduction in net taxes for those claiming the deduction would lead to reductions in state payments from the Property Tax Replacement Fund for property tax replacement credits (PTRC) and homestead credits for CY 2004 only. These reductions in CY 2004 will be approximately \$1.88 M for PTRC and \$606,000 for homestead credits. In CY 2005 and later, there will be reductions in homestead credits amounting to approximately \$402,000 in CY 2005 and \$351,000 in CY 2006.

These reductions will amount to approximately \$830,000 in savings to the Property Tax Relief Fund in FY 2004, \$1.79 M in FY 2005, and \$385,000 in FY 2006.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Under current law, World War I veterans may receive an assessed value

(AV) deduction on their principal residence equal to \$9,000. In order to qualify, the assessed value of a veteran's home may not exceed \$163,000. The "65 or over" deduction may not be taken in combination with this deduction.

This bill would allow a veteran of World War II who received a discharge other than dishonorable to receive the \$9,000 deduction against the AV of their principal residence. The \$163,000 AV limit on the residence would continue to apply to a veteran's home. This deduction would apply to real property taxes payable starting in CY 2004. Qualifying veterans whose residences have an AV of \$144,000 or less would lose the \$6,000 "over-65" deduction for a net increase in deductions of \$3,000; qualifying veterans whose residences have an AV between \$144,001 and \$163,000 would have a net increase in deductions of \$9,000.

According to the U.S. Veterans Administration, there were 89,000 World War II veterans residing in Indiana in CY 2003, expected to decline to 57,000 in CY 2007. Using Indiana Income Tax data, it is estimated that 63.3% of taxpayers over 65 own their home, 85.9% of those homeowners have houses valued under the \$163,000 AV cap, and 47.4% have homes valued under the \$144,000 AV cap.

The total amount of the WWII veterans deduction is estimated first. The 89,000 WWII veterans are multiplied by 63.3% to estimate the number of WWII veterans who own homes. The product of 56,400 WWII veteran homeowners is then multiplied by 85.9% to estimate the number of those WWII veteran homeowners that would qualify for the deduction under the \$163,000 AV cap. A \$9,000 deduction for each of the 48,400 resulting qualified WWII veterans would yield a total WWII veteran homeowner deduction estimated at \$436 M AV.

However, the impact of this new deduction is reduced by the elimination of the elderly property tax deductions currently claimed by some of the WWII veterans. This amount is estimated by multiplying the 56,400 WWII veteran homeowners by 47.4% to estimate the number of WWII veterans who currently receive the elderly deduction under the \$25,000 income cap and the \$144,000 AV cap. This results in an estimate of about 26,700 WWII veteran homeowners that currently receive the elderly property tax deduction. At \$6,000 AV each, the elimination of this deduction would amount to about \$160 M.

Qualifying WWII veterans will therefore gain deductions worth \$436 M while losing deductions worth \$160 M for a net gain of \$276 M in deductions. This is expected to decline to \$200 M by CY 2007 as the number of World War II veterans declines.

The additional deductions would have different effects in CY 2004 as compared to CY 2005 and later. In CY 2004 the net additional deductions could lead to a reduction in local revenue by up to \$7.1 M if everyone applied for the deduction by April 30, 2004. This is due to the fact that tax rates would have already been set for CY 2004. The reduction in local revenue includes the reduced PTRC and Homestead Credit payments and taxpayers savings. The net savings to taxpayers is estimated at \$4.6 M.

In CY 2005, the deductions would cause an estimated \$0.0018 increase in the statewide average net tax rate and a tax shift of about \$4.94 M.

Total local revenues in CY 2005 and later, except for cumulative funds, would remain unchanged. Cumulative funds would be reduced, starting in CY 2004, by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Table 1 shows estimated deductions, change in the statewide average net tax rate, and the tax shift for CY

2004 to CY 2007.

<b>Table 1 - Deductions, Tax Rate Change, and Tax Shifts: CY 2004 - CY 2007.</b>				
	<b>CY 2004</b>	<b>CY 2005</b>	<b>CY 2006</b>	<b>CY 2007</b>
<b>Deduction Total</b>	\$275.5 M	\$249.4 M	\$224.1 M	\$199.9 M
<b>Net Tax Rate Change</b>	none	.0018	.0015	.0013
<b>Net Tax Shift</b>	\$ 7.1 M local revenue loss	\$4.94 M	\$4.31 M	\$3.97 M

**State Agencies Affected:** State Fairgrounds and Department of Forestry; Department of Local Government Finance.

**Local Agencies Affected:** County Auditors and County Treasurers; Local units with cumulative funds; In CY 2004 local units funded by real property tax revenues.

**Information Sources:** U.S. Department of Veterans Affairs, Office of the Actuary; U.S. Dept. of Commerce, Bureau of the Census; Local Government Database; OFMA Income Tax Database, Tax Year 2001; OFMA Pre-Reassessment Property Tax Database.

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