

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7303

BILL NUMBER: SB 470

NOTE PREPARED: Jan 22, 2005

BILL AMENDED:

SUBJECT: Property tax credit.

FIRST AUTHOR: Sen. Mrvan

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill establishes, subject to approval by the county fiscal body, a credit for property taxes on a homestead and any other classification of property designated by the county fiscal body in the amount by which the taxes exceed 2% of the assessed value of the property.

Effective Date: Upon passage.

Explanation of State Expenditures: This bill would have no effect on state expenses.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Beginning in CY 2006 this bill would give each county the option of providing property tax credits to owners of property whose net property tax, after all credits are applied, exceeds 2% of the property's gross assessed value (AV). The credit would equal the amount of tax that exceeds the 2% threshold. No application is required to receive the credit. The county auditor would identify the eligible properties and apply the credit. A county may grant the credits either solely to homeowners or it may grant credits to homeowners plus one or more other classes of property.

There is no funding mechanism for this credit. Property tax credits that are not funded reduce the tax collections that are distributed to local civil taxing units and school corporations. So, the entire cost of the credit would be a local revenue reduction.

An analysis of 2004 net property tax rates applicable to homesteads in each taxing district was performed to determine the number of counties and taxing districts where the credits could be triggered for homesteads. The calculation of the net tax rate begins with the district gross tax rate and then nets out PTRC, state homestead credit, and both COIT- and CEDIT-funded local homestead credits (if applicable). Home values in varying amounts up to \$5 M were tested for qualification. The gross assessed value used was reduced only by the \$35,000 standard deduction. No other deductions were applied.

Using a maximum \$5 M assessed value, the results indicated that there are 208 taxing districts (out of 1,950 total in the state) in 51 counties where the credit might apply. The following table includes the results for all of the home values tested. The last column shows the number of taxing districts where a homestead could qualify for the credit as compared to the total number of taxing districts in the affected counties.

Qualification for Homeowners Credit Equal to Tax in Excess of 2% of Gross Assessed Value		
Home Value Tested	Cumulative Number of Counties Where Credit Would Apply	Cumulative Number of Tax Districts Where Credit Would Apply / Total Tax Districts In Affected Counties
\$20,000	1	5 of 46
100,000	3	16 of 112
150,000	9	41 of 282
200,000	13	59 of 399
250,000	19	77 of 524
300,000	22	89 of 580
400,000	31	120 of 812
500,000	34	133 of 896
750,000	38	156 of 997
1,000,000	42	169 of 1,083
5,000,000	51	208 of 1,223

These calculations do not include deductions such as those for mortgage holders, elderly homeowners, or veterans. The application of deductions to gross value reduces the ratio of net tax to gross AV, thereby reducing the number of qualifying homesteads. This explains why it is possible in a single district to have, for example, \$200,000 homes that qualify but not \$150,000 homes. Changes to the net tax rate, gross assessed value, and deductions from year to year could cause an increase or reduction in qualifying homesteads (depending on the change in net tax rate relative to the change in a homestead's AV).

Non-homestead property: Assuming no deductions, property other than a homestead would qualify for the credit in a county that adopts the credit if the net tax rate applicable to that property is greater than \$2.0000 per \$100 of assessed value. The net rate begins with the district gross tax rate and then nets out PTRC, which differs for real property and business personal property.

Real property other than homesteads would qualify in 475 taxing districts in 74 counties. Business personal property would qualify in 755 taxing districts in 87 counties.

State Agencies Affected:

Local Agencies Affected: All local civil taxing units and school corporations in counties that adopt the credit; County fiscal bodies.

Information Sources: Local Government Database.

Fiscal Analyst: Bob Sigalow, 317-232-9859.