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FISCAL IMPACT STATEMENT

LS 7936 — **NOTE PREPARED:** Apr 4, 2005
BILL NUMBER: SB 496 — **BILL AMENDED:** Mar 31, 2005

SUBJECT: Taxation and Bonding.

FIRST AUTHOR: Sen. Kenley — **BILL STATUS:** CR Adopted - 2nd House
FIRST SPONSOR: Rep. Espich

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

Summary of Legislation: (Amended) *Annual AV Adjustments Delay:* This bill delays for one year the annual adjustment of the assessed value of real property.

Maximum Levy Restoration: This bill authorizes a civil taxing unit to adopt a resolution or an ordinance to restore its maximum property tax levy to reverse the effect of the 2004 legislation that eliminated unused maximum levy capacity from the determination of the following year's maximum levy. The restoration would be phased in over three years, beginning with property taxes paid in CY 2006.

Local Homestead Tax Credits: This bill establishes, subject to approval by the county fiscal body, a credit for property taxes on a homestead in the amount by which the taxes exceed 2% of the assessed value of the homestead. It authorizes the county to borrow money to fund the credit, subject to repayment over not more than five years by the county and political subdivisions in the county.

Local Riverboat Revenue: This bill authorizes the use of various revenues associated with riverboat gaming to reduce a unit's levy for a particular year without reducing the unit's maximum levy. It standardizes the provisions authorizing the use of riverboat gaming revenue for property tax relief.

Local Property Tax Credits Funded by Appeal Settlements: This bill provides that the part of the money received from certain property tax settlements that is attributable to taxes imposed by a political subdivision may be used to provide property tax credits in the political subdivision to taxpayers other than taxpayers that paid the settlement.

State Rainy Day Fund: The bill provides that the amount deposited in the Counter-Cyclical Revenue and Economic Stabilization Fund is calculated on the General Fund revenue deposited in the state General Fund or the Property Tax Replacement Fund. The bill allows money in the Counter-Cyclical Revenue and Economic Stabilization Fund to be transferred to the Property Tax Replacement Fund under certain circumstances. It also increases the maximum amount that may be retained in the Counter-Cyclical Revenue and Economic Stabilization Fund from 7% to 10% of total state General Fund revenues.

State Expenditure Limits: The bill revises the formula for determining the state spending cap to be 99% of available general revenue. The bill voids general appropriations whenever total appropriations exceed 99% of available general revenue and voids the appropriations made by a major budget bill whenever the bill or its conference committee report fails to include certain disclosures concerning the amount of spending being proposed by the General Assembly. The bill also requires the Budget Agency to prepare a revenue forecast and repeals the current laws concerning the state spending growth quotient.

New Markets Tax Credit: This bill establishes the state New Markets Tax Credit for a taxpayer that qualifies for a federal New Markets Tax Credit.

CRED Tax Credit: The bill reduces the income tax incremental amount that the state is required to pay to a community revitalization enhancement district (CRED) or certified technology park (CTP) by the amount of the economic development for a growing economy tax credits granted to businesses operating in the CRED or CTP. It allows a taxpayer to carry over an unused CRED tax credit for only nine taxable years. The bill also defines gross retail incremental amount and income tax incremental amount in the law governing CTP's. It provides reporting standards for a business in a CRED.

CRED and PSCDA Establishment Requirements: This bill requires notice to be given to taxing units affected by the creation of a CRED or professional sports development area.

EDGE Credits: This bill authorizes the Indiana Economic Development Corporation (IEDC) to determine the amount of local incentives required for approval of an EDGE credit for job retention. It provides that the unused portion of an EDGE credit is not refundable but may be carried over for two years. The bill extends the $5,000,000 statewide annual cap on EDGE credits for job retention through the 2006 and 2007 state fiscal years. It also requires an applicant for an EDGE credit to agree to maintain operations for at least two years after the last year in which a credit or carryover is claimed (instead of a period twice as long as the term of the tax credit). The bill requires consideration of the extent to which the granting of an EDGE credit would reduce the amount available to fund the purposes of a CRED or CTP.

Hoosier Business Investment (HBI) Tax Credit: This bill changes the amount of the Hoosier Business Investment Tax Credit from 30% to 10% of the qualified investment and deletes the provision stating that the amount of the credit claimed in a taxable year may not exceed the lesser of the taxpayer's state tax liability growth or 30% of the qualified investment. It repeals the definition of state tax liability growth. The bill also deletes the requirement that an applicant for the credit must have conducted business in Indiana for at least one year before the date of the application. This bill provides that the credit may be carried over for a maximum of five years (instead of nine years).

Limitation on Use of Multiple Tax Credits: This bill limits a taxpayer from using more than one state tax liability credit for the same project.

Inventory Deduction and CEDIT Homestead Credit: This bill extends until June 1, 2005, the time in which an ordinance may be adopted in a county to provide: (1) a property tax deduction for inventory assessed in 2005; and (2) a homestead credit funded from County Economic Development Income Tax (CEDIT) revenues to eliminate the effects of the inventory deduction on homesteads.

Local Borrowing: The bill establishes additional criteria for Department of Local Government Finance (DLGF) approval of bonds and leases. It requires political subdivisions to report certain information concerning new bond issues and leases to the DLGF and to make annual reports to DLGF concerning outstanding bonds and leases. It also requires DLGF to compile information from the reports in a data base and to post information from the reports on the Internet.

Appeal Notifications: This bill provides that if the county auditor determines in an appeal of a property assessment that the assessed value of the items appealed constitutes at least 1% of a taxing unit's total assessed value for the preceding year: (1) the county auditor must provide notice to the affected taxing unit; and (2) the affected taxing unit, although not a party to the appeal, may participate in the hearing.

Report on Local Government Finances: This bill requires DLGF to prepare and post on the Internet an annual report on the each political subdivision's per capita spending.

Library Budgets and Levies: The bill requires, for a public library whose board is not comprised of a majority of elected members, operating budget and tax levy review by the fiscal body of the municipality, township, or county in which the library is located if the library proposes a levy increase of more than 5%.

Property Tax Deferrals: This bill allows the deferral of any part of the property taxes that: (1) exceed a minimum required payment; and (2) are imposed on the residence of an individual who qualifies for the age 65 and over property tax deduction or the blind or disabled property tax deduction (or the individual's surviving spouse).

100% Levy Collections Limit: The bill excludes from the levy excess of a civil taxing unit or school corporation current collections of delinquent property taxes that were first due and payable after 2003.

Effective Date: (Amended) March 30, 2004 (retroactive); January 1, 2005 (retroactive); March 31, 2005 (retroactive); Upon passage; June 15, 2005; July 1, 2005; January 1, 2006.

Explanation of State Expenditures:

Summary of Est. Effects on State PTRC and Homestead Credit Expenditures			
Provision	**FY 2006**	**FY 2007**	**FY 2008**
Annual AV Adjustments Delay	($15.9 M)	($31.7 M)	$ 0
Maximum Levy Restoration	5.8 M	23.3 M	41.1 M
Local Homestead Tax Credits	Poss. Reduc.	Poss. Reduc.	Poss. Reduc.
Local Riverboat Revenue	Poss. Reduc.	Poss. Reduc.	Poss. Reduc.
Local Property Tax Credits Funded by Appeal Settlements	0	0	0
Total	**($10.1 M)**	**($8.4 M)**	**$41.1 M**

(Revised) *Annual AV Adjustments Delay:* Under current law, annual adjustments to real property assessed values will begin with March 1, 2005, assessments for taxes payable in 2006. The DLGF has adopted a rule establishing a system for annually adjusting the assessed value of real property to account for changes in value in those years since a general reassessment of property last took effect. This bill would delay the implementation of the adjustments by one year, from taxes paid in 2006 to taxes paid in 2007.

Under current law, the additional PTRC and Homestead Credit payments that are attributable to the annual adjustments are estimated at $47.7 M in CY 2006. The delay under this provision would result in state savings of that amount in CY 2006. The savings related to this provision would amount to an estimated $15.9 M in FY 2006 and $31.7 M in FY 2007. There would be no change in state expenditures after FY 2007.

(Revised) *Maximum Levy Restoration:* The state pays a 20% Property Tax Replacement Credit (PTRC) on the amount of levy that is within a civil unit's maximum levy limit that is attributable to property other than business personal property. Likewise, the state pays a 20% Homestead Credit on the net tax due (after PTRC) of levies that are within the limit and attributable to homesteads.

If all affected units utilize the entire maximum levy increase that would be allowed under this provision, state expenditures for PTRC and Homestead Credits could increase by as much as $5.8 M in FY 2006 (partial year), $23.3 M in FY 2007, and $41.1 M in FY 2008. The actual change in state expenditures could be less than these estimates depending on the actual amount of property tax levies imposed locally.

(Revised) *Local Homestead Tax Credits:* State expenses for PTRC and Homestead Credits could be reduced under this provision of the bill. The reduction is possible because the levy allowed under this provision would already be part of the current maximum levy and it would be used to retire debt (PTRC and homestead credits are not paid on levies used to retire debt). The amount of state expense reduction would depend on the amount of the repayment levies, if any, in a year. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if balances are not available in the PTRF.

Local Riverboat Revenue: If local riverboat money is used to reduce property taxes, the state's expenses for PTRC and Homestead Credits will be reduced due to this provision. PTRC and Homestead Credits are paid from the PTRF. These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

(Revised) Local Property Tax Credits Funded by Appeal Settlements: This provision will not affect the state's expense for PTRC or Homestead Credits. The bill reduces the base on which PTRC and Homestead Credits are paid by the amount that taxing units would have deposited into their levy excess funds if they had not opted to provide credits with the settlement money.

(Revised) *State Rainy Day Fund Balance:* This bill makes three changes relating to the Rainy Day Fund (RDF) balance.

(1) The bill changes the definition of "General Fund revenue to include all general purpose tax revenue and other unrestricted general purpose tax revenue, including federal revenue-sharing monies credited to the General Fund (GF) *and* the PTRF. Currently, the definition only includes monies deposited in the General Fund.

This definitional change also affects the formula which directs the transfer of GF revenue into the RDF in years where there has been growth in adjusted personal income that exceeds 2%. The amount transferred will now be based on the amount of revenue deposited in both the GF and PTRF. This will increase the amount transferred to the RDF and allow the RDF to accumulate larger balances. This will allow the state to incorporate the significant increase in tax revenue which will be deposited in the PTRF effective with P.L. 192-2002(ss).

(2) The bill increases from 7% to 10% the maximum allowable balance in the RDF as a percentage of the total GF and PTRF balances. Current law allows for excess transfers to PTRF from the RDF if the RDF balance exceeds 7% at the end of a given state fiscal year. The change in the percentage threshold also would allow the RDF to accumulate larger balances.

(3) The bill also changes the formula which allows transfers from the RDF in years where there has been a negative growth of 2% to include transfers to the GF and PTRF. The amount appropriated to each fund is proportional to the amount needed to balance each fund.

The maximum fiscal year-end Rainy Day Fund balance for FY 2004, along with the current and proposed maximum balances for FY 2005 through FY 2007 (estimated based on the December 14, 2004, *Revenue Forecast*) are presented in the following table.

Fiscal Year	Rainy Day Fund Max Balance @ 7 % of GF (Millions)	Rainy Day Fund Max Balance @ 10%of GF & PTRF (Millions)
2004	$500.1 *	$1,062.0
2005	$537.9	$1,136.4
2006	$555.1	$1,178.9
2007	$582.7	$1,240.9
* Actual Fund Balance as of 6/30/2004 was $242.2 M.		

(Revised) *State Expenditure Limits:* This bill establishes an appropriation limit for General Fund and Property Tax Replacement Fund expenditures. The appropriation limit is to be based on revenue projections made by the Budget Agency. The bill limits these appropriations to 99% of the state revenue and voids any appropriation that exceeds this limit. The General Assembly may authorize an appropriation that exceeds the appropriation limit if it meets the following conditions: (1) if the appropriation bill is an emergency appropriation that contains a statement with the amount of the appropriation and an explanation of the circumstances that created the need for a supplemental appropriation; and (2) the bill is adopted by a 2/3 majority of the members of both the House and Senate.

The bill repeals the expenditure limits set out in P.L. 192-2002(ss) for fiscal years beginning after June 30, 2007. P.L. 192-2002(ss) established a maximum annual percentage change for state government expenditures to be based on the percentage change in Indiana Nonfarm Personal Income over the previous six calendar years or 6%, beginning in FY 2006. The annual increase in the expenditure limit for FY 2004 and FY 2005 was set at 3.5%.

This bill applies the expenditure limits to appropriations beginning in FY 2008.

Budget Bills: The bill also voids appropriation bills if a bill contains appropriations, including increases that total at least $100 M, *and* the last version of the bill (or conference committee report) available and voted on by each legislator does not contain the following information on the first or second page of the bill or in the bill's digest or synopsis:

> (1) a materially accurate and complete explanation indicating the amount of surplus or deficit resulting from subtracting the total of all general appropriations made by the bill from the revenue forecast for the fiscal year;
> (2) a materially accurate and complete explanation indicating the percentage of state revenue for each fiscal year affected by the appropriations made in the bill.

State Budget Agency: The bill requires the State Budget Agency (SBA) to compute an estimate of state revenue before December 31 of the even-numbered year immediately preceding the beginning of each budget period and may revise this estimate no later than 15 days before the General Assembly adjourns sine die. SBA is also required to revise the revenue estimate by December 31 of the odd-numbered year. The bill specifies the format of the revenue forecast along with the particular revenue sources which must be included. SBA is required to submit in electronic format the revenue estimate for each fiscal year along with supporting data and calculations necessary to verify the estimates. SBA currently staffs the Revenue Technical Committee which produces the current state revenue forecast, so this statutory requirement will not have an impact on SBA.

The SBA is also required to compute the amount of the General Fund and Property Tax Replacement Fund appropriations each time that a budget bill or the bill's conference committee report is being considered for final action and not later than 30 days after the adjournment sine die of the General Assembly. While the General Assembly is in session, the SBA must submit this information electronically in a format and on a schedule that allows bills and conference committee reports to be printed without delay with the required information above.

Background - Rainy Day Fund: The Rainy Day Fund was established in 1982 (P.L. 182-1982) with the first transfers to the Fund being in FY 1985. The purpose of the Fund is to allow the state to collect and maintain general purpose tax revenue during periods of economic expansion for use during periods of economic

recessions. Two major functions of the Fund are to provide resources for use when the state needs to adjust its expenditures due to revenue shortfalls, and to restrict resources available to the General Fund in expansionary years, which controls expenditure growth.

P.L. 224-2003 (Budget Bill) provided that if the budget director determines that there are insufficient funds in the General Fund any time during the fiscal year to meet its statutory obligations, the Budget Agency (with approval of the Governor and after review by the Budget Committee) may transfer amounts necessary from the Rainy Day Fund to the GF to maintain a positive balance in the GF. No funds were transferred under this provision in FY 2003, and $44.3 M were transferred in FY 2004. The Fund balance as of June 30, 2004, was $242.2 M.

<u>Expenditure Limits:</u> According to the December 14, 2004, *Reserve Statement*, FY 2005 budgeted appropriations are $11,505.8 M and the expenditure limit would have been estimated to be $11,199.2 M (based on 99% of FY 2005 revenue of $11,312.3 M). If the bill applied to FY 2005, then appropriations would have had to be reduced by about $306.6 M.

The December 14, 2004, revenue forecast projects a 3.8% increase in General Fund and Property Tax Replacement Fund revenue for FY 2006, and a 5.3% increase for FY 2007. There is no official forecast of revenue collections for FY 2008 and beyond.

(Revised) *New Markets Tax Credit:* The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs in order to implement the New Markets Tax Credit (NMTC). The DOR's current level of resources should be sufficient to implement these changes. The administrative expenses incurred by the DOR should also be limited by the fact that the foremost eligibility requirement for this credit is that the taxpayer qualify for the federal NMTC as determined by the Internal Revenue Service.

The bill also requires the Department of Tourism and Community Development (DTCD) to establish a program to certify qualified equity investments as eligible for this credit. The DTCD should be able to cover the increase in administrative expenses through the use of existing staff and resources.

CRED and PSCDA Establishment Requirements: <u>DOR</u>: The bill requires an advisory commission on industrial development that designates a Community Revitalization Enhancement District (CRED) to report to the DOR (in addition to reporting the employers, streets, and street numbers in a CRED as required by current statute): (1) the federal identification number of each business in the CRED; (2) the street address of each employer in the CRED; and (3) the name, telephone number, and email address (if available) of a contact person for each employer in the CRED. The bill also requires businesses operating in a CRED to report, in the manner prescribed by the DOR, information that it determines necessary to calculate the increment sales and income taxes for the CRED.

<u>Budget Committee</u>: The bill increases from 10 to 60 days the period of time that the Budget Committee has to review and make recommendations on allocation of state income and sales taxes in proposed Professional Sports and Convention Development Areas (PSCDAs).

Inventory Deduction: The DLGF would be permitted to adopt interim rules in the manner provided for the adoption of emergency rules to govern the determination of deductions, the processing of personal property tax returns, and the calculation of the assessed valuation (AV) of each taxpayer in cases in which the personal

property is eligible for a deduction as the result of the adoption of an ordinance after March 30, 2004, and the taxpayer did not take the deduction on the taxpayer's personal property tax return.

(Revised) *Local Borrowing:* This bill provides that bonds and leases issued by political subdivisions with an original term of at least 5 years are subject to approval by the DLGF only if they are payable from property tax revenues.

The bill establishes additional criteria for DLGF approval. The DLGF may approve or disapprove the proposed bond issue or lease agreement; or approve an alternative financing arrangement after consideration of specified factors. The DLGF must render a decision not later than three months after the date it receives a request for approval. If a decision is not rendered within that time, the bond issue or lease agreement is considered approved unless the DLGF takes a three-month extension. The DLGF must mail notice of the extension to the executive officer of the political subdivision at least ten days before the end of the original three-month period. If a decision is not rendered within the extension period, the issue is considered approved.

A political subdivision that issues bonds or enters into a lease after December 31, 2005, would be required to supply the DLGF with information concerning the bond issue or lease within 20 days after the issuance or execution. The DLGF may establish a procedure that permits a political subdivision to transfer the information in a uniform format through a secure connection over the Internet or through other electronic means. Each political subdivision that has any outstanding bonds or leases must submit a report to the DLGF before March 1of 2006 and each year thereafter that includes a summary of all its outstanding bonds and leases as of January 1 of that year. The report must include certain information required by the DLGF. The DLGF must compile an electronic data base that includes the information and after December 31, 2006, post the information at least annually on the Internet. The DLGF may adopt rules to implement the above.

Appeal Notifications: Under current law, the Indiana Board of Tax Review (IBTR) must mail a notice of an IBTR hearing to the taxpayer, the DLGF, township assessor, county assessor, and county auditor. The notice must include the date of the hearing. This bill would require that the notice also include the action taken by the DLGF or the county property tax assessment board of appeals (PTABOA) and a statement that an affected taxing unit may attend the hearing, offer testimony, and file a brief in the proceeding. An affected taxing unit would not, however, be a party to the appeal. An affected unit is one in which the AV of the appealed items constitutes at least 1% of the unit's total gross certified AV for the preceding assessment date, as determined by the county auditor.

(Revised) *Report on Local Government Finances.* Not later than May 1 of each year, the DLGF's Division of Data Analysis would be required to prepare an annual report of per capita expenditures for each political subdivision for the preceding year. The Division would have to post the report on the DLGF website, file it with the Governor, and file it in an electronic format with the General Assembly. The DLGF would incur additional administrative expenses associated with the report.

Explanation of State Revenues: (Revised) *New Markets Tax Credit:* This bill allows a taxpayer that qualifies for the federal NMTC to receive a credit against the taxpayer's Indiana tax liability incurred under the Adjusted Gross Income Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. The bill limits the amount of credits that may be approved in any given state fiscal year to not more than $1 M.

The bill allows this credit for any qualified investment made on or after January 1, 2005. Therefore, collections from the Adjusted Gross Income Tax, the Financial Institutions Tax, and the Insurance Premiums Tax could

be affected in FY 2005 and beyond.

Background: In 2003-2004 there were two entities that were awarded allocations from the U.S. Department of the Treasury from the NMTC program. The total allocation for 2003-2004 was $75 M. In 2002, there were two entities that qualified for the federal NMTC in Indiana. The allocation for these entities totaled $6 M. These allocations represent the amount of investments that were designated as qualifying for the credit. Section 45D of the Internal Revenue Code (IRC) limits the total amount of designated investments to $2 billion nationwide in 2005, and $3.5 billion nationwide in 2006 and 2007.

Qualifications for the Federal Credit: Section 45D of the IRC allows the federal NMTC for a taxpayer who holds a qualified equity investment on the credit allowance date. A qualified equity investment means any equity investment in a qualified community development entity if:

(A) the investment is a cash investment;
(B) substantially used by the qualified community development entity to make qualified low-income community investments; and,
(C) such investment is designated for the purposes of this code section by the qualified community development entity.

A qualified community development entity is defined as any domestic corporation or partnership with the primary mission of serving, or providing investment capital for, low-income communities or persons. The entity must maintain accountability to residents of these low-income communities through representation on any governing board of the entity. These qualified community development entities are also required under the IRC to be certified by the Treasury Secretary.

Formula for Determining the Credit: The bill sets forth the following formula for determining the amount of the credit:

Step (1): Determine the amount of the qualified equity investment that is:
(A) held by the taxpayer on the credit allowance date in the taxable year; and
(B) certified as a certified equity investment by the DTCD.
Step (2): Multiply the Step (1) amount by the applicable percentage for the credit allowance date.
Step (3): Multiply the Step (2) amount by:
(A) the tax credit adjustment factor approved by the DTCD; or
(B) 0.85, if clause (A) does not apply.

The applicable percentages, as defined in the bill, equal 1% for the first 3 credit allowance dates and 2% for the remainder of the credit allowance dates.

The credit allowance date is the date on which the investment is initially made and the six annual anniversary dates immediately following the date of the initial investment. Therefore, this credit is allowed for 7 years and the bill also allows the taxpayer to carry any excess credit forward for not more than 3 subsequent taxable years.

Revenue from the Adjusted Gross Income Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is deposited in the General Fund and the Property Tax Replacement Fund.

CRED Tax Credit: The bill limits carry forward of the CRED Tax Credit to nine years following the year the credit is approved. This change applies to carry forward of the credit beginning in 2005, regardless of when the tax credit was first accrued. This could potentially reduce the amount of credits approved that are ultimately taken against a taxpayer's tax liability. However, the extent of this impact is indeterminable. Through November 2004, approximately $11.6 M in CRED Tax Credits have been approved. The extent to which these tax credits will be carried over is unknown.

Under current statute, a taxpayer who makes a qualified investment for the redevelopment or rehabilitation of property located within a CRED is entitled to this credit. The credit is based on 25% of the qualified investment. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Indiana Economic Development Corporation (IEDC). The credit may be used to reduce the taxpayer's tax liability against the Adjusted Gross Income Tax, CAGIT, COIT, CEDIT, the Insurance Premiums Tax, and the Financial Institutions Tax. The taxpayer may carry any excess credit over to the immediately following years, but is not entitled to a carryback or refund of any unused credit. A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district. Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

EDGE Credits: The bill makes the following changes relating to EDGE Credits.

(1) The bill extends to FY 2006 and FY 2007, the $5 M annual aggregate credit limit for EDGE Credits for job retention. Current statute places this limit on credits approved during FY 2004 and FY 2005.

(2) The bill provides that EDGE credits approved by the IEDC after June 30, 2005: (a) are not refundable; (b) may not be carried back; and (c) may be carried forward for only two taxable years. Under current statute, EDGE credits approved for a taxpayer for a particular taxable year that exceed the taxpayer's state tax liability, are refundable. The precise impact of this change is indeterminable as data on refunds of EDGE credits is unavailable. However, the change presumably could reduce the impact of future EDGE credits to the extent that a taxpayer fails to exhaust the credits in three years.

(3) The bill eliminates the minimum ratio of local incentives to EDGE credits for job retention set under current statute at $1.50 in local incentives per $3 of EDGE credits. The bill provides that the IEDC determine the local incentive match for EDGE credits for job retention. To the extent, that the IEDC requires less than a 50% incentive match, the bill could potentially result in more EDGE credits being approved for some projects than would occur under current statute. The precise impact is indeterminable and depends on IEDC action.

(4) The bill excludes EDGE credits awarded for economic development projects in CREDs and certified technology parks from the determination of incremental income taxes captured by CREDs or technology parks. Under current statute, CREDs and certified technology parks are allowed to capture incremental income taxes annually generated in these areas. Fourteen certified technology parks have been designated in Anderson, Columbus, Daviess County, Evansville, Ft. Wayne, Hammond, Indianapolis, Kokomo, Muncie, Richmond, Scottsburg, Shelbyville, Terre Haute, and West Lafayette. Currently, there are 8 CREDs. Marion and South Bend each have one CRED, and Bloomington, Ft. Wayne, and Delaware County each have two CREDs. In order to carry out this change, the bill does the following:

(a) Requires that for projects in CREDs or certified technology parks to obtain EDGE credits, the local

unit that established the CRED or technology park must adopt an ordinance granting a credit at least equal to the EDGE credit award.

(b) Requires the IEDC Board to consider the extent to which a CRED or certified technology park needs the incremental income tax attributable to a project for its purposes, when determining the total EDGE credit amount for a project.

(c) Specifies that the income tax incremental amount within a certified technology park does not include EDGE credits.

In 2003, the EDGE Board approved approximately $28.8 M in new credits for job creation to be used over a period of years. The credits were awarded for 16 projects expected to create 6,823 new jobs. The EDGE Board also approved $2.0 M in new credits for job retention, also to be used over a period of years. The credits were awarded for 2 projects expected to retain 2,450 jobs. From 1994 to 2003, EDGE credits for job creation were approved for 114 projects. During those years, approximately $132.4 M in EDGE credits for job creation were made available, with the total amount of credits certified so far equal to about $81.3 M. Approximately $38.2 M in EDGE credits for job creation were available for approved projects in tax year 2003. EDGE credits for job retention were awarded for the first time in 2003. EDGE credits may be claimed against the Adjusted Gross Income Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities.

Hoosier Business Investment (HBI) Tax Credit: The bill makes the following changes relating to HBI Credits approved by the IEDC Board after June 30, 2005.

(1) The bill lowers the percentage credit from 30% to 10% of qualified investment made by the taxpayer in the state. In 2004 (the first year for the HBI Tax Credit), the EDGE Board (under prior law) approved credits totaling about $331.7 M for 54 projects comprising about $1,106.1 M in qualified investment. Had the maximum percentage credit been 10% instead of 30% (and assuming these projects would have moved forward with the lower credit), total credits approved would be about $110.6 M. The impact of this change also will depend on actions of the IEDC Board which will now administer the HBI Tax Credit.

(2) The bill eliminates the "state tax liability growth limit on the amount of HBI credits that a taxpayer may claim during a taxable year. Since the credit is nonrefundable under current statute, the new credit limit would be the taxpayer's state tax liability. The precise impact of changing this credit limit is indeterminable. However, the change presumably would increase the impact of future credits approved for taxpayers that may otherwise have insufficient growth in net income and state tax liability to exhaust the credits under the current scheme. ("State tax liability growth is equal to a taxpayer's state tax liability in a taxable year minus the greater of: (a) the taxpayer's state tax liability in the most recent prior taxable year in which part of a credit was claimed or (b) the taxpayer's tax liability in the taxable year immediately preceding the taxable year in which the investment was made.)

(3) The bill reduces the carry forward period for unused HBI credits from nine to five years. As data on tax liabilities for 2004 credit recipients is not available, the impact of this change is indeterminable, but could reduce the impact of future HBI credits to the extent that a taxpayer fails to exhaust the credits in five years.

(4) The bill eliminates the current HBI Tax Credit requirement that an applicant must have conducted business in Indiana for at least one year prior to applying for the credit. Elimination of this requirement could expand the pool of potential applicants for the credit.

Under current statute, the IEDC Board is authorized to award the nonrefundable HBI Tax Credit for expenditures on qualified investment determined to foster job creation and higher wages in Indiana. The tax credit is equal to 30% of the qualified investment. However, the credit amount that the taxpayer may *claim* in a taxable year is equal to the lesser of: (1) 30% of the qualified investment or (2) the taxpayer's state tax liability growth. A taxpayer may claim the credit against the AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liability. The tax credit may be awarded only for qualified investment made during tax years 2004 to 2007. The credit is nonrefundable and may not be carried back. Unused tax credits may be carried over for up to nine years after the year in which the investment was made.

Limitation on Use of Multiple Tax Credits: The bill prohibits a taxpayer (including pass through entities and shareholders, partners, or members of pass through entities) from being granted more than one of the tax credits listed in (1) to (8) below for the same project. This change applies beginning in 2005, regardless of when tax credits were granted. Under the bill, any taxpayer that has been granted more than one of these tax credits for the same project must elect to apply only one of them. This provision could potentially reduce the amount of the specified tax credits obtained for economic development projects, to the extent that taxpayers are successfully obtaining multiple tax credits for a single project. The potential fiscal impact of this change, however, is indeterminable.

(1) Enterprise Zone Investment Cost Credit.
(2) Industrial Recovery (Dinosaur) Tax Credit.
(3) Military Base Recovery Tax Credit.
(4) Military Base Investment Cost Credit.
(5) Capital Investment Tax Credit.
(6) Community Revitalization Enhancement District (CRED) Tax Credit.
(7) Venture Capital Investment Tax Credit.
(8) Hoosier Business Investment Tax Credit.

(Revised) *Inventory Deduction:* Extending the deadline by which a county can adopt an ordinance to provide a property tax deduction for inventory assessed in 2005 could result in an increase in deductions for taxes paid in CY 2006. Any reduction in the AV base would decrease the property tax revenue for the State Fair and State Forestry Funds.

Explanation of Local Expenditures: (Revised) *Annual AV Adjustments Delay:* Under current law, the administration of annual AV adjustments by local assessors is estimated to cost up to $6 M, statewide. If the effective date of the adjustments is delayed, some of the additional duties that local assessors will have might be able to be delayed from 2005 to 2006. However, much of the work for March 1, 2006, adjustments will still have to be done in 2005. The delay could save some, but not all, related expenses in CY 2005.

The cost of local homestead credits would be affected by the delay. Ten Indiana counties provide local homestead credits funded with proceeds from the County Option Income Tax. The cost of the local homestead credit will increase along with the state Homestead Credit under annual adjustments. The increase in CY 2006 under current law is estimated at $3.9 M. The delay under this proposal would result in local homestead credit savings of that amount in CY 2006. The amount spent on local homestead credits reduces the amount available for distribution to the civil taxing units in the county. So, the $3.9 M savings would be distributed to local civil units.

Local Riverboat Revenue: The bill changes current statute to clarify the types of revenue comprising a

Riverboat Fund established by a local unit. Current statute simply allows a local unit to establish a Riverboat Fund if it receives revenue from Riverboat Admission or Wagering Taxes, or from a revenue-sharing agreement with a city or county that receives revenue from these two taxes. The bill specifies that a Riverboat Fund consists of money received from Riverboat Admission or Wagering Taxes, whether received directly or through a revenue-sharing agreement; and money received under an economic development agreement with a licensed riverboat owner, whether received directly or through a revenue-sharing agreement.

The bill also specifies that money in a Riverboat Fund may be used by a local unit to reduce its property tax levy for a particular year, but not reduce its maximum levy. This changes current statute relating to use of Riverboat Wagering Tax revenue by a local unit. Current statute prohibits a local unit from using Riverboat Wagering Tax revenue to reduce the property tax levy for a particular year. In addition, current statute is silent regarding the use of money received by a local unit from economic development agreements with riverboat owners. Under the bill, money from these agreements also could be used to reduce a local unit's property tax levy for a particular year. (Note: Under current statute, admission tax revenue distributed to local units and revenue-sharing money received by non-Riverboat counties and local units within these counties may be used to reduce the property tax levy for a particular year, but may not be used to reduce the maximum levy.) FY 2004 distributions of Riverboat Wagering and Riverboat Admission Taxes to local units are reported in the table below. In addition, the table reports the supplemental payment from the Property Tax Replacement Fund to replace shortages in Admission Tax distributions in FY 2003. The shortages are computed as the difference between the FY 2002 distribution level and the distribution to a local unit in a particular fiscal year.

Riverboat Admission and Wagering Tax Distributions to Local Units (in millions) - FY 2004				
Local Unit	**Supplemental Payment***	**Admission Tax**	**Wagering Tax**	**Total**
Dearborn County	$ 2.52	$ 3.89	N/A	$ 6.41
Dearborn County CVB	0.25	0.39	N/A	0.64
East Chicago	1.46	4.08	13.55	19.09
Evansville	0.37	1.54	4.76	6.67
Gary	1.83	3.51	12.27	17.61
Hammond	0.96	3.86	13.75	18.57
Harrison County	2.36	6.95	11.77	21.07
Harrison County CVB	0.12	0.35	N/A	0.47
Lake County	4.25	11.46	N/A	15.71
Lake County CVB	0.38	1.03	N/A	1.41
LaPorte County	0.86	2.67	N/A	3.52
LaPorte County CVB	0.09	0.27	N/A	0.35
Lawrenceburg	2.52	3.89	17.69	24.10
Michigan City	0.86	2.67	9.56	13.08
NW Ind. LawEnforcement Training Academy	0.04	0.11	N/A	0.16
Ohio County	0.77	1.65	N/A	2.41
Ohio County CVB	0.08	0.16	N/A	0.24
Rising Sun	0.77	1.65	6.60	9.01
Switzerland County	0.81	3.59	5.11	9.51
Switzerland County CVB	0.04	0.18	N/A	0.22
Vanderburgh County	0.37	1.54	N/A	1.91
Vanderburgh County CVB	0.04	0.15	N/A	0.19
Total	**$ 21.74**	**$ 55.59**	**$ 95.05**	**$ 172.37**

*Supplemental payment from the state Property Tax Replacement Fund to replace FY 2003 Admission Tax distribution shortages.

CVB = County Convention and Visitor's Bureau

N/A = Local units don't receive statutory distributions of Wagering Tax.

CRED and PSCDA Establishment Requirements: The bill specifies additional information and notification requirements for: (1) an advisory commission on industrial development designating a CRED; or a city or county council designating a PSCDA. The bill requires the designating entity to: (1) publish notice of the adoption and substance of the resolution designating a CRED or PSCDA; and (2) file information with each taxing unit where the CRED or PSCDA is located relating to its boundaries, its economic impact, and its tax impact. In addition, the bill requires an advisory commission designating a CRED to report to the Department of State Revenue (in addition to reporting the employers, streets, and street numbers in a CRED as required by current statute): (1) the federal identification number of each business in the CRED; (2) the street address of each employer in the CRED; and (3) the name, telephone number, and email address (if available) of a contact person for each employer in the CRED.

(Revised) *Local Borrowing and Report on Local Government Finances:* Each political subdivision that has any outstanding bonds or leases must submit a report to the DLGF before March 1of 2006 and each year thereafter that includes a summary of all the outstanding bonds or leases of the political subdivision as of January 1 of that year. A political subdivision that issues bonds or enters into a lease after December 31, 2005, must supply the DLGF with information concerning the bond issue or lease within 20 days after the issuance of the bonds or execution of the lease. A copy of the official statement and bond covenants, if any, must be supplied with this information. The DLGF may establish a procedure that permits a political subdivision to transfer the information to the DLGF in a uniform format through a secure connection over the Internet or

through other electronic means. The bill also requires that school corporations must publish the part of their annual report that covers debt in a manner consistent with these requirements.

Appeal Notifications - By County Assessors and County Auditors: Currently, the county or township assessor notifies the county auditor of all assessments under appeal. Under this proposal, the notification would be in writing. The notice would have to include the appellant's name, address, current year AV, and prior year AV. This bill also requires the county auditor to send a copy of the notice to any taxing unit in which the AV of the appealed items constitutes at least 1% of the unit's total gross certified AV for the preceding assessment date (affected unit), as determined by the county auditor. Preparation and transmission of notices would increase township and county assessor, and county auditor costs. Township and county assessor, and county auditor offices are funded through the county General Fund.

Appeal Notifications - By County Property Tax Assessment Boards of Appeals and County Auditors: Under current law, the PTABOA must give notice of the hearing date to the petitioner and the township assessor. Under the proposal, the PTABOA must also give notice to the county assessor and the county auditor. All notices would have to include the AV of the appealed item for the current year and for the preceding year and a statement that an affected taxing unit may attend the hearing, offer testimony, and file a brief in the proceeding. An affected taxing unit would not, however, be a party to the appeal.

Under current law, the PTABOA must give notice of its determination to the petitioner, the township assessor, and the county assessor. Under the proposal, the PTABOA must also notify the county auditor and any affected taxing units.

The proposal also makes the county assessor responsible for transmitting a petition for review to the Indiana Board of Tax Review not later than 10 days after the petition is filed.

Preparation and transmission of these notices will increase costs for the PTABOA , the county auditor, and the county assessor by an indeterminable amount.

Explanation of Local Revenues: (Revised) *Annual AV Adjustments Delay:* Tax shifts between and within property classes that are associated with the annual adjustments would be delayed by one year under this proposal. Total local revenues would not be affected.

(Revised) *Maximum Levy Restoration:* Maximum permissible levies are currently calculated by multiplying the previous year's actual controlled levy by the six-year average increase in Indiana nonfarm personal income. The annual increase is limited to 6%, although a taxing unit may appeal to the state's Local Government Property Tax Control Board for a larger increase in the maximum levy if the unit's AV growth is 3% greater than the statewide average growth in AV. This method began with taxes paid in 2004.

Prior to the passage of SEA 1 (2004) and HEA 1001 (2004), the income factor was applied to the previous year's maximum levy rather than the actual levy. The change in 2004 eliminated "banking of unused levy authority for future use.

Under this proposal, a civil taxing unit would be permitted to pass an ordinance or resolution that would allow the restoration of the amount lost in 2004 from the unit maximum levy or a township fire maximum levy. The restoration would not apply to school transportation or county welfare funds.

If a unit chooses to restore its maximum levy, the amount that would be added to the current maximum levy is equal to the difference between (1) the 2006 maximum levy under current law and (2) the maximum levy in 2005 recomputed as if the 2004 reductions had not occurred. This amount would be restored over a three-year period.

Assuming that each taxing unit fully utilizes its 2005 maximum levy under current law, the total 2006 maximum levy authority for civil units and township fire is estimated at $2.7 B. This bill would increase those maximum levies for 2006 by about $224 M. Increases were estimated in 315 of 913 township fire funds and 949 of 2,126 unit-level maximum levies.

Each local affected taxing unit would decide whether or not to increase its maximum levy and whether to use all or part of the increased limit. The increase would remain a part of the maximum levy base as long as the taxing unit levies that amount. However, if at any time, including 2006, a taxing unit does not use all of its levy authority, the unused amount will be lost from the base.

Under this proposal, if all maximum levies were fully utilized each year, gross property tax levies would be higher than under current law by an estimated $74.7 M in CY 2006, $149.4 M in CY 2007, and $224.2 M in CY 2008. Net levies, after PTRC and Homestead Credits are paid would be higher by an estimated $57.4 M in CY 2006, $114.3 M in CY 2007, and $171.4 M in CY 2008. The actual increase in levies could, however, be less than these estimates and would be subject to local levy decisions.

(Revised) *Local Homestead Tax Credits:* Beginning in CY 2006 (or 2004 or 2005 if tax bills for those years have not been mailed in a county), this bill would give each county the option of providing property tax credits to homeowners whose net property tax on their homestead, after all other credits are applied, exceeds 2% of the homestead's gross assessed value. 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 homesteads and apply the credit.

The county would be permitted to borrow money for a term of up to 5 years to pay for the credits. If the county borrows money in order to fund the credit, the civil taxing units and school corporations in the county would be required to repay the loan. Civil units and school corporations would be permitted to impose a property tax levy to repay the debt. This levy would be subject to the unit's maximum permissible levy limit. Also, the debt repayment would not be allowed to serve as a basis for obtaining an excessive levy. So, the bill does not grant any additional levy authority.

However, if a taxing unit receives Riverboat Admissions Tax and Wagering Tax revenues either directly or through a local agreement, that unit must use that revenue to repay the loan before imposing a levy.

If the property tax credits are granted, but not funded through a loan or other revenue source, the credits would reduce the tax collections that are distributed to local civil taxing units and school corporations with no replacement. So, if the county does not fund the credits, the entire cost of the credit would be a local revenue reduction.

An analysis of 2003 parcel-level property tax data for 43 counties was performed to estimate the cost of the optional credit. According to the data, homesteads in 9 of the 43 counties could benefit from the credit. The total for the 9 counties was estimated at $16.4 M with $15 M of the total amount in Lake County. Besides Lake, St. Joseph is the only other county in the 43 analyzed where the credit would have significance. The

following table is a summary of the estimated credits in the 43 counties.

Credit for Homestead Net Property Tax Over 2% of AV
Analysis on 43 Counties Using 2003 Net Tax

County	Total # Hmstds	Est. Credit $	Est. # Credits	County	Total # Hmstds	Est. Credit $	Est. # Credits
Adams	6,466	0	0	Johnson	25,491	0	0
Bartholomew	15,725	0	0	LaGrange	6,137	0	0
Benton	2,456	0	0	Lake	114,565	15,023,278	29,997
Blackford	4,645	926	21	Madison	33,078	1,213	19
Boone	10,208	0	0	Marion	185,990	18,710	86
Carroll	4,998	0	0	Marshall	9,953	0	0
Clay	7,251	0	0	Miami	671	0	0
Clinton	7,187	0	0	Monroe	20,955	0	0
Decatur	5,806	0	0	Montgomery	8,436	7,384	26
Dubois	9,432	0	0	Newton	3,270	0	0
Elkhart	36,990	0	0	Pike	1,506	0	0
Fayette	6,547	6,410	29	Porter	31,015	0	0
Floyd	16,471	0	0	Pulaski	3,306	0	0
Fulton	4,498	0	0	Randolph	6,707	3,796	7
Grant	15,416	77	1	St. Joseph	60,814	1,288,412	2,780
Greene	7,069	0	0	Scott	5,137	0	0
Hamilton	47,175	0	0	Tipton	4,286	0	0
Hancock	13,625	0	0	Vanderburgh	40,374	0	0
Howard	19,737	0	0	Wabash	8,070	0	0
Jay	5,294	0	0	Wells	7,509	0	0
Jefferson	7,399	0	0	White	5,603	0	0
Jennings	6,883	0	0	**Totals**	**844,151**	**16,350,207**	**32,966**
				# Counties	**43**		**9**

Local Property Tax Credits Funded by Appeal Settlements: There is currently a pending settlement of property tax assessment cases regarding U.S. Steel in Gary. It is understood that, under the settlement, the total amount that the affected Lake County taxing units would receive is about $53 M. This would include the amount actually paid by U.S. Steel plus the amount paid by the state in PTRC per the agreement.

Under current law, the settlement money is considered as ordinary property tax collections and it will be distributed to local taxing units and the school corporation just as all property tax collections are distributed. The distribution will be proportional, based on 2004 tax rates. The table following this section contains the estimated distribution of the $53 M to each unit that services the taxing district including U.S. Steel.

This provision would permit any taxing unit that receives a portion of the settlement to use its share to provide property tax credits in the year following receipt of the money to all taxpayers in the taxing unit, except U.S. Steel.

Under current law, collections of property tax that exceed 100% of a unit's certified levy in a year must be placed in the unit's levy excess fund. This money is then used to reduce the following year's tax levy. Taxing units may use part of the settlement for their current budget if property tax collections are below 100%. Only

that part of collections that exceed 100% of the total tax levy must go into the levy excess fund. All taxpayers in the taxing unit, including U.S. Steel, will benefit from the levy reduction in the following year.

There are two differences between the impact of the settlement under current law as opposed to the impact under this proposal. If, under this proposal, a taxing unit chooses to pay credits with the settlement amount, then (1) the unit may not spend any of the settlement for any other reason, and (2) U.S. Steel would not receive any benefit from the settlement money.

Estimated Distribution of $53 M U.S. Steel Property Tax Settlement

Taxing Unit	Est. Share	Taxing Unit	Est. Share
State Unit	14,000	Gary Airport	451,000
Lake County	6,680,000	Gary Redevelopment	74,000
Calumet Township	3,623,000	Gary Public Trans.	1,218,000
City of Gary	21,452,000	Lake Co. Solid Waste	150,000
Cary Comm. Schools	14,119,000	Gary Storm Water	312,000
Gary Public Library	2,090,000	Gary Redevelopment (TIF)	49,000
Gary Sanitary	2,762,000		

(Revised) *State Expenditure Limits:* Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

Inventory Deduction and CEDIT Homestead Credit: Under current law, each county was permitted to adopt an ordinance to provide a 100% inventory deduction for taxes paid in CY 2004, CY 2005, and CY 2006. This deduction will apply statewide beginning with property taxes paid in CY 2007. Counties that elected to provide the deduction for 2004, 2005, and 2006, and then all counties beginning in 2007, are permitted to use CEDIT proceeds to pay for additional homestead credits in the county in order to mitigate any shift of the tax burden from inventory property to homestead property. The county may impose an additional CEDIT rate of up to 0.25% for this purpose.

Deduction: The ability to adopt the deduction for the March 1, 2005, assessment date (for taxes paid in 2006) expired on March 30, 2004. This bill would extend the time in which a county may adopt the deduction ordinance through May 30, 2005.

Extending the deadline by which a county can adopt an ordinance to provide a property tax deduction for inventory assessed in 2005 would result in additional deductions for taxes paid in 2006 if there are any counties that elect to enact the deduction under this provision. Deductions from property taxes shift the property tax burden from the owner of the property receiving the deduction to all taxpayers.

Credit: Currently, a county may adopt an ordinance regarding the CEDIT rate for homestead credits from January 2 through March 31 in any year. This bill would change the March 31 deadline to May 30, each year.

Currently, this additional homestead credit, if adopted by the county, may be applied at a uniform credit rate

across the county or it may be allocated among the county's taxing districts on a pro rata basis using the proportion of the county's inventory valuation in the district as the basis. The allocation method, if adopted by the county, is supposed to equitably distribute the credits in counties with a non-uniform inventory distribution.

However, some counties have taxing districts with large amounts of inventory, but few homesteads. If the allocation method were employed in these counties, then the available credits in districts with a lot of inventory but few homesteads would far exceed the inventory tax shift, and possibly the total tax liability, of the homesteads in the district. Homesteads in other districts would not get an equitable share of total credits.

This bill would give the county auditor, with the approval of the imposing body, the authority to adjust each district's credit percentage under the allocation method in order to achieve equity. The total amount of local homestead credits and the CEDIT rate necessary to generate them would not be affected by this provision. This provision does not change the countywide total value of the credits.

(Revised) *Local Borrowing:* The bill establishes additional criteria for DLGF approval of property tax-based bonds and leases The impact that these provisions will have on local borrowing is indeterminable; however, the consideration of additional factors as identified in the bill could result in less borrowing.

Library Budgets and Levies: Under current law, fiscal bodies of cities, towns, and counties must review and adopt budgets and tax levies for taxing units that (a) are not comprised of a majority of officials who are elected to serve on the governing bodies and (b) are proposing an increase in the total unit tax levy that is greater than 5%. Under this provision, instead of a review trigger based on the proposed increase in the total unit tax levy, the trigger for libraries only would be based on the proposed increase in the library's operating tax levy. This measure would remove debt levies and library capital projects levies from the trigger calculation.

From 2003 to 2004, there were 22 libraries that had total levy increases over 3% but had operating levy increases under 3%. Conversely, there were 38 libraries that had operating levy increases over 3% but had total levy increases under 3%. There were 63 libraries that had both operating and total levy increases over 3% and there were 117 libraries that had both operating and total levy increases under 3%.

So, if this bill had been in effect for 2004, 22 libraries that were subject to review would not have been reviewed, 38 libraries that were not subject to review would have been reviewed, and the status of 180 libraries would not have changed.

Under current law, the reviewing body is (1) the municipal fiscal body , if the unit is totally contained in the municipality, or if the unit was originally established by the municipality; or (2) the county fiscal body if the municipality is not the appropriate body.

Under this bill, the reviewing body for library unit would be (1) the municipal fiscal body, if the unit is totally contained in the municipality; (2) the township fiscal body, if the unit is totally contained in the township and the municipality is not the appropriate body; or (3) the county fiscal body if neither the township nor the municipality is the appropriate body.

(Revised) *Property Tax Deferrals:* Under this bill, homeowners who qualify for either the Age 65 or the Blind/Disabled property tax deductions may qualify to have a portion of their property tax bills deferred until the home is sold, transferred, or the owner no longer qualifies for the deferral.

Currently, the Age 65 deduction may be claimed if (1) the homeowner is at least age 65, (2) the homeowner's adjusted gross income does not exceed $25,000, and (3) the assessed value of the residence does not exceed $144,000. The Blind/Disabled deduction may be claimed if (1) the homeowner is blind or disabled and (2) the homeowner's adjusted gross income does not exceed $17,000.

Beginning five years after that deferral, interest would begin accruing on the part of a tax payment that is deferred at the interest rate that the state charges for delinquent taxes (3% in 2005).

The amount of taxes deferred in a year, if any, would reduce the tax collections of the taxing units that serve the property. The reduction in collections would reduce revenue for local civil units and school corporations.

Deferral payments would be treated as a miscellaneous revenue by the taxing units that receive them. As such, these payments would not count as property tax collections and would not have to be deposited into the levy excess fund if tax collections exceed 100% of the levy. These payments would increase revenue for the units.

Overall, at least initially, taxing units would have a reduction in revenue. If deferral payments are ever greater than deferrals in a future year, then revenues would increase in those years.

The bill would set the base year taxes for all homeowners and would allow deferrals for taxes that are above the base year threshold plus growth. If a homeowner owned the home on March 1, 2002, then the threshold in a year would equal a combination of (1) 125% of the 2002 net tax amount plus (2) for each year after 2002, 10% of the tax amount or change in taxes from the previous year.

According to income tax return data for tax year 2002, approximately 308,000 taxpayers took an elderly or blind income tax deduction. These taxpayers took an income tax deduction for property taxes paid on homesteads in the amount of $300 M. From that data, total property taxes were estimated for this group of taxpayers in the amount of $308 M in CY 2003, $351 in CY 2004, $358 in CY 2005, and $391 M in CY 2006.

Using the total amount of Age 65 and the Blind/Disabled property tax deductions claimed for property taxes paid in 2004, it is estimated that just over 150,000 taxpayers claimed these deductions. Combining the property tax estimates that based on income tax data with the estimated number of property tax deduction claims provides an estimate of the total property taxes for taxpayers who would qualify for the deferral in the amount of $154 M in CY 2003, $175 in CY 2004, $179 in CY 2005, and $195 M in CY 2006.

The actual fiscal impact of this provision depends on the number of taxpayers who apply for a deferral, the amount deferred for each claimant, and the timing of future deferrals and repayments.

(Revised) *100% Levy Collections Limit:* Under current law, all property tax collections that exceed 100% of the certified levy are placed in the taxing unit's levy excess fund. Money in the fund is used to offset refunds and to reduce the following year's levy. This bill would exclude prior year delinquent tax collections from the collection total used to determine the current year levy excess. This could reduce the amount of money deposited into the levy excess fund which could then cause some of the levy reductions (from the levy excess fund contribution) to diminish.

State Agencies Affected: Department of Local Government Finance; Indiana Board of Tax Review; Local Government Tax Control Board; Department of Revenue; Attorney General's Office; State Budget Agency;

General Assembly; Treasurer of State; Department of Tourism and Community Development; All state agencies funded by the General Fund.

Local Agencies Affected: County auditors; County assessors; Township assessors; County property tax assessment boards of appeals; County treasurers; Local civil taxing units and school corporations.

Information Sources:
Kurt Barrow, Assessment Director, DLGF, 317-232-3777;
Local Government Database;
Indiana Department of Commerce, *2003 EDGE Annual Report*, March 31, 2004;
2003 EDGE for Retention Annual Report, March 31, 2004;
Claudia Fuentes, Department of Commerce, 317-234-0616;
U.S. Department of the Treasury, http://www.cdfifund.gov/programs/programs.asp?programID=5#2;
GF & PTRF Statement of Combined Estimated Unappropriated Reserve, December 14, 2004 - State Budget Agency;
December 14, 2004, *Revenue Forecast* - Revenue Forecast Technical Committee;
County auditor abstracts;
Income Tax Return Data;
Fiscal analysis on administrative rule #02-0297 (50 IAC 21).

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