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**FISCAL IMPACT STATEMENT**

**LS 6611**

**BILL NUMBER: HB 1298**

**NOTE PREPARED: Jan 23, 2006**

**BILL AMENDED:**

**SUBJECT:** Property Tax Deductions.

**FIRST AUTHOR:** Rep. McClain

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**  GENERAL  
 DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill establishes a property tax deduction for residential rental property. This bill provides that the deduction is equal to the lesser of: (1) \$35,000; or (2) one-half of the assessed value of the residential rental property and the land containing the residential rental property.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** The new deduction for rental property in this proposal would cause tax shifts to all property. Subject to appropriation, these shifts could result in an overall increase of PTRC/Homestead Credit expenses estimated at \$2.0 M in FY 2007 (partial year) and \$6.1 M per year beginning in FY 2008.

*Background:* The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. The total amount of Property Tax Replacement Credits and Homestead Credits is limited to \$2,028.5 M for FY 2007. If the total amount to be distributed exceeds the appropriation, then the distribution is proportionately reduced.

**Explanation of State Revenues:** The state levies a small 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 reduction in state revenue under this bill is estimated at \$146,000 in FY 2007 and \$293,000 per year beginning in FY

2008.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Beginning with taxes payable in 2007 under this proposal, each property containing at least one principal rental dwelling would be eligible for a property tax deduction equal to the lesser of \$35,000 AV or 50% of the gross AV of the property.

An examination of 2003 parcel-level data suggests that the total of all rental deductions could be as high as \$12.2 B. This estimate includes all dwellings that are not homesteads, even if they are not rentals (i.e., vacation homes). So, this estimate reflects the maximum potential impact of this deduction.

A reduction of the assessed value base causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. The \$12.2 B reduction in AV would cause an estimated 7.1% increase in the statewide average net tax rate, causing a shift to other taxpayers of about \$230 M per year beginning in CY 2007.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the AV reduction amount applicable to that fund.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** County and township assessors; County auditors.

**Information Sources:** Dataset: SF3, Tables: H7 and H30, U.S. Census Bureau; Local Government Database; 2002 and 2003 parcel-level county auditor property tax data.

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