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FISCAL IMPACT STATEMENT

LS 6541

BILL NUMBER: SB 291

NOTE PREPARED: Jan 4, 2006

BILL AMENDED:

SUBJECT: Eligibility for property tax deduction for elderly.

FIRST AUTHOR: Sen. Young R

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill eliminates the assessed value limitation for the property tax deduction for the residence of a low income individual who is at least 65 years of age.

Effective Date: Upon passage.

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 caused by this bill would reduce the property tax revenue for these two funds by a minimal amount.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law a person 65 or over is entitled to a deduction of \$12,480 up to ½ of AV. To be eligible for the deduction, the owners' combined adjusted gross income can not exceed \$25,000 and the assessed value of the property can not exceed \$144,000. The bill would eliminate the \$144,000 maximum assessed value limitation beginning with taxes paid in 2007.

The elderly deductions for taxes paid in 2005 totaled about \$1,305.9 M. They totaled \$597.9 M in CY 2003 and \$675.3 M in CY 2004. The deduction amount was increased from \$6,000 to \$12,480 effective with taxes paid in 2005.

The elimination of the AV limitation would result in an estimated 3.4% or \$44.1 M AV increase in elderly property tax deductions. These estimates are based on 2003 Individual AGI Tax return information for taxpayers claiming: (1) no more than \$25,000 in income, (2) the AGI deduction for property taxes paid by homeowner's and (3) the income exemption for the elderly or blind. There were 150,706 of these returns that had an estimated AV of no more than \$144,000 and 5,087 returns with an imputed AV that exceeded \$144,000.

Additional deductions reduce the assessed value tax base. This 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. A \$44.1 M AV increase in elderly deductions would cause an estimated \$0.00025 increase in the statewide average net tax rate in CY 2006. This translates into a property tax shift of about \$830,000.

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 deduction amount applicable to that fund.

State Agencies Affected: State Fair Board; Department of Natural Resources.

Local Agencies Affected: All.

Information Sources: OFMA Income Tax Databases; Local Government Database.

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