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 6697 **NOTE PREPARED:** Dec 29, 2006
BILL NUMBER: HB 1449 **BILL AMENDED:**

SUBJECT: Civil Taxing Unit Maximum Property Tax Levy.

FIRST AUTHOR: Rep. Thompson **BILL STATUS:** As Introduced
FIRST SPONSOR:

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

Summary of Legislation: This bill eliminates the limitation on the amount of a civil taxing unit's maximum permissible property tax levy for the current year that results from imposition in the immediately preceding year of an actual levy that is lower than the maximum. It also corrects cross-references.

Effective Date: Upon passage.

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of 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.

Under this provision, subject to appropriation, state expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits would vary in CY 2008 and beyond. The amount of the increase or decrease would depend on whether affected taxing units decided to increase or decrease their levies. If this provision were to apply to taxing units in CY 2007, and all units increased their levies to the maximum permitted, then the additional state PTRC and Homestead Credits would have been approximately $6 M.

Explanation of State Revenues:

Explanation of Local Expenditures: Additional levies will be eligible for local homestead credits in the 48 counties that have adopted a county homestead credit. However, the amount of the credits for CY 2008 and beyond cannot be accurately estimated as it depends on whether affected taxing units increase or decrease their levies. If this provision were to apply to taxing units in CY 2007 and all units increased their levies to the maximum permitted, then for those 48 counties with the homestead credit, the estimated increase in local homestead credit expense would have been approximately $678,000.

Explanation of Local Revenues: Prior to 2004, civil taxing unit maximum permissible levies were calculated each year by multiplying the previous year's maximum levy by the six-year average increase in Indiana nonfarm personal income (limited to 6% with some exceptions). A taxing unit that did not use all of its maximum levy in a year never lost the unused amount from its base. Under SEA 1 (2004), the calculation for the maximum levies was changed so that the maximum levy base was equal to the previous year's actual levy rather than the maximum levy. This change removed the previously unused portion of maximum levies from the base and eliminated any "banking" of unused levy authority in the future.

SEA 260 (2006) restored the "banking" of one-half of the previous year's unused levy authority. Beginning with the calculation of 2008 maximum levies, this bill would eliminate the one-half limitation allowing local taxing units to "bank" their full unused levy authority. For example, under current law, local taxing units would be able to increase their levies for CY 2007 by a maximum of approximately $25.5 M, half the unused 2006 levy authority. Had this bill been effective for 2007, it would have restored the remaining $25.5 M to their maximum levies. Increases were estimated for 91 of 92 counties; the unused maximum levy was at least 1% of the total maximum levy in 82 out of 912 township firefighting funds and 280 out of 2,118 unit-level maximum levies.

This provision could have one of two effects, depending on the taxing unit. First, some units may currently levy their maximum amount each year even if it is not needed out of concern that they might lose any unused authority in the future. For these units, this bill could result in lower levies in years when the unit does not need the entire levy. Second, some units levy only what they need to levy. For these units, this provision could result in higher levies in years when the unit decides to take advantage of their unused authority.

In all cases, if a unit elects to use previously unused levy authority in a specific year, then taxpayers would be faced with a larger than normal increase in the tax rate in that year. However, if the unit has unused levy authority, the unit's tax rate growth might have been nominal up until the year that the unit uses the banked levy amount under this provision.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local civil taxing units.

Information Sources: Local Government Database.

Fiscal Analyst: David Lusan, 317-232-9592.