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FISCAL IMPACT STATEMENT

LS 6779 **NOTE PREPARED:** Jan 15, 2007
BILL NUMBER: HB 1539 **BILL AMENDED:**

SUBJECT: Replacement of property tax with transfer tax.

FIRST AUTHOR: Rep. Brown T **BILL STATUS:** As Introduced
FIRST SPONSOR:

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

Summary of Legislation: This bill provides that property may not be assessed for taxation after 2010. It establishes the Real Estate Transfer Tax on all transfers of a real property interest for valuable consideration. The bill imposes the Real Estate Transfer Tax at the rate of 10% of the consideration paid for the conveyance. It also specifies exemptions from the real estate transfer tax. The bill establishes the County Real Estate Transfer Tax Fund. It also requires distributions from the fund to the civil taxing units and school corporations located in the county proportional to their 2010 property tax levies.

Effective Date: July 1, 2007.

Explanation of State Expenditures: Starting in CY 2011 the state would no longer pay Property Tax Replacement Credits or the Homestead Credits. These credits, as estimated under current law, are expected to amount to $2.575 billion in CY 2011.

The Department of Local Government Finance (DLGF) would have substantially reduced costs as the Department's assessment oversight function would no longer be needed. The Indiana Board of Tax Review (IBTR) would cease to function after appeals of assessments through the March 1, 2008, assessment date are adjudicated. The DLGF's budget appropriation was $5.35 M in FY 2007, and the IBTR's appropriation was $1.76 M.

The Department of State Revenue will incur some additional administrative expenses associated with the development of the Real Estate Transfer Tax form. The increased cost will be funded within current appropriation levels.
This bill establishes a study committee called the Interim Study Committee on Property Tax Elimination, but

does not specify the membership. The committee is to prepare legislation for the 2010 session of the General Assembly to bring all laws in conflict with this proposal into conformity. The committee is to operate under the policies governing study committees adopted by the Legislative Council. Legislative Council resolutions in the past have established budgets for interim study committees in amounts between $9,500 and $16,500 per interim depending on the size of the committee. The interim committee could meet during FY 2008 and FY 2009.

Explanation of State Revenues:

Explanation of Local Expenditures: The collection, administration, and enforcement of this fee will cause additional expenses for County Auditors. These expenses will be offset by the elimination of the assessment process.

Explanation of Local Revenues: This bill repeals real property taxes starting with taxes due and payable after December 31, 2010. Under current law the total amount of real property taxes expected to be levied by all civil taxing units and school corporations in CY 2011 is estimated to be $10.0 billion; this bill would reduce the revenues of those civil taxing units and school corporations by that amount.

Starting in CY 2011 County Auditors would collect the Real Estate Transfer Tax at the rate of 10% of the total consideration actually paid or required to be paid for the conveyance of real property. The tax would be paid by the seller of the property. Certain types of transfers, including those under $100, would be excluded. The Real Estate Transfer Tax is estimated to generate $3.5 billion in revenue in CY 2011.

The money collected from the Real Estate Transfer Tax will accumulate in a County Real Estate Transfer Fund administered by the County Auditor. County Auditor will distribute monthly to all civil taxing units and school corporations (hereafter called "units") an amount computed in the following manner:

> For each unit the Auditor will compute a fraction equal to the amount of the unit's share of property taxes due and payable in CY 2010, divided by the total of all property taxes in that calendar year for all units.
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> If a unit did not levy a tax in CY 2010 that unit will receive a distribution equal to the total amount to be distributed times a fraction composed by dividing the unit's budget in CY 2010 year by the total budgets of all units in the county for in CY 2010. If such units exist the total amount to be distributed to other units will first be reduced by the amount computed in this paragraph.
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> The remaining amount will be distributed to each unit that imposed taxes in CY 2010 by multiplying the remaining amount by the fraction computed above for units that imposed taxes.

Background: The estimate of $3.5 billion as the statewide total for the transfer tax for CY 2011 is based on the analysis of 248,000 sales disclosures for CY 2005 from all 92 Indiana counties. Applying the exemptions provided in this bill reduced the total to 160,612 sales with a total sales price for CY 2005 of $26.9 billion. The total sales price is estimated to increase by 4.6% per year, resulting in an estimate of the total sales price for CY 2011 as $35 billion and the 10% transfer tax as $3.5 billion.

Estimation Issues: There is a large variation in the completeness of sales disclosure forms as provided by the counties; in addition, the transfer tax would also be subject to the usual fluctuations in the number of sales per year, which can change by more than 10% year-to-year.

State Agencies Affected: Department of State Revenue, Department of Local Government Finance

Local Agencies Affected: All Local Units

Information Sources: County Assessor's Sales Disclosure Forms

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