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 7577
BILL NUMBER: HB 1605

NOTE PREPARED: Jan 31, 2007
BILL AMENDED:

SUBJECT: Local option income taxes.

FIRST AUTHOR: Rep. Cherry
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ___ **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides for the distribution of all County Adjusted Gross Income Taxes (CAGIT) and County Option Income Taxes (COIT) imposed in a county to county government, except for amounts necessary to meet a pledge of revenue made by another civil taxing unit before April 1, 2007. The bill transfers the responsibilities of the county income tax council under the COIT law and certain other laws to the county fiscal body.

The bill extends the Municipal Option Income Tax (MOIT) that applies to Lake County to all counties, reduces the maximum permissible MOIT rate, and permits the revenues from MOIT to be used for property tax relief, deposits in the municipality's rainy day fund, and other uses.

The bill also makes related changes and repeals provisions referencing the county income tax council and provisions providing an inventory tax deduction and an additional County Economic Development Income Tax (CEDIT) rate that have expired.

Effective Date: Upon passage; April 1, 2007 (retroactive); January 1, 2008.

Explanation of State Expenditures: If the amount of local option taxes used for property tax replacement credits increases, then the state's expense for PTRC and homestead credits would be reduced. Subject to appropriation, the credits explained under *Explanation of Local Revenues* would cause the state's expense to be reduced by an estimated $40 M in FY 2008 (partial year), $106 M in FY 2009, and $118 M in FY 2010. This amount would continue to increase until FY 2018 because of the phased-in COIT changes.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: ***CAGIT:*** Under current law, the revenue from the first 0.25% of the total CAGIT rate is distributed as local property tax replacement credits to all civil taxing units and school corporations in the county. The remaining revenue is distributed to civil taxing units as certified shares. A part of the certified shares is used for property tax relief and the remainder can be spent as additional income.

With one exception, this bill would require that 75% of CAGIT proceeds be used as local property tax replacement credits which would be distributed to the county taxing unit and the school corporations in the county. The remaining 25% of the revenue would be distributed as certified shares only to county taxing units. Counties could use up to 50% of the certified shares for any purpose, including property tax relief. The county would be required to deposit the remaining 50% of the certified shares into the county's rainy day fund.

The exception to the proposed CAGIT distributions would be for civil taxing units that have, before April 1, 2007, pledged CAGIT certified shares to pay debt service, lease rentals, or other obligations. These units would continue to receive the lesser of (1) the certified shares that the unit would have received under current law, or (2) the amount needed to fund the obligations.

The following table summarizes the estimated change in property tax replacement and "spendable" certified shares under this proposal. These estimates recognize that part of CAGIT certified shares must currently be used for property tax replacement. Local property tax replacement credits would increase by an estimated $162.7 M and spendable shares would decline by an estimated $211.4 M. The difference, $48.8 M, would be deposited into the county's rainy day fund.

Estimated 2008 CAGIT PTRC, Certified Shares, and Rainy Day Fund Deposits
(In Millions)

	Property Tax Replacement			Spendable Shares			
	Current	Proposed	Change	Current	Proposed	Change	RDF
Counties	33.2	65.4	32.2	116.4	48.8	-67.7	48.8
Townships	5.5	0.0	-5.5	12.8	0.0	-12.8	0.0
Cities / Towns	24.3	0.0	-24.3	101.5	0.0	-101.5	0.0
Schools	62.3	227.1	164.8	0.0	0.0	0.0	0.0
Libraries	3.1	0.0	-3.1	21.9	0.0	-21.9	0.0
Special Units	1.4	0.0	-1.4	7.5	0.0	-7.5	0.0
Total	**129.8**	**292.5**	**162.7**	**260.2**	**48.8**	**-211.4**	**48.8**

***COIT*:** Under current law a county income tax council comprised of the county, city, and town fiscal bodies has the authority to impose COIT. Under this bill, the authority would shift to just the county fiscal body.

Under current law a part of COIT revenues may be used to provide additional homestead credits in the county. With a few exceptions, the remainder of the revenue is distributed to all of the civil taxing units in the county as certified shares and may be used for any purpose.

With one exception, this bill would, over a 10 year period, phase in a distribution where the county taxing unit keeps 100% of the certified shares. The county unit would keep 10% of the certified shares in 2008, 20% in 2009, and so on until 2017 when 100% would be retained by the county. Counties could continue to fund local homestead credits before certified shares are calculated.

The exception to the proposed COIT distributions would be for civil taxing units that have, before April 1, 2007, pledged COIT certified shares to pay debt service, lease rentals, or other obligations. These units would continue to receive the lesser of (1) the certified shares that the unit would have received under current law, or (2) the amount needed to fund the obligations.

Eighty percent of the COIT revenue retained by the county would be used to provide additional property tax replacement credits to the property owners in the county. The credits would be distributed proportionately based on each taxpayer's net property tax liability for funds that qualify for state property tax replacement credits. Ten percent would be deposited into the county's rainy day fund and the remaining 10% could be used for any purpose.

The following table includes the estimated change in "spendable" certified shares, estimates for property tax replacement, and rainy day fund deposits required from COIT under this proposal. In 2008, the first year of the phase-in, spendable shares would decline by an estimated $42.5M, about $37.8 M would go to property tax replacement credits and $4.7 M would be deposited into county rainy day funds. By 2017, the final year of the phase-in, spendable shares would decline by an estimated $543.4M, about $483 M would go to property tax replacement credits and $60.4 M would be deposited into county rainy day funds.

Estimated 2008 COIT PTRC, Certified Shares, and Rainy Day Fund Deposits
(In Millions)

	Spendable Shares				
	Current	Proposed	Change	PTRC	RDF
Counties	170.2	157.9	-12.3	37.8	4.7
Townships	29.3	26.4	-2.9	0.0	0.0
Cities / Towns	156.8	141.2	-15.7	0.0	0.0
Schools	0.0	0.0	0.0	0.0	0.0
Libraries	33.3	30.0	-3.3	0.0	0.0
Special Units	82.7	74.5	-8.3	0.0	0.0
Total	**472.4**	**429.9**	**-42.5**	**37.8**	**4.7**

Estimated 2017 COIT PTRC, Certified Shares, and Rainy Day Fund Deposits
(In Millions)

	Spendable Shares				
	Current	Proposed	Change	PTRC	RDF
Counties	217.3	60.4	-156.9	483.0	60.4
Townships	37.7	0.0	-37.7	0.0	0.0
Cities / Towns	209.6	0.0	-209.6	0.0	0.0
Schools	0.0	0.0	0.0	0.0	0.0
Libraries	42.7	0.0	-42.7	0.0	0.0
Special Units	96.5	0.0	-96.5	0.0	0.0
Total	**603.7**	**60.4**	**-543.4**	**483.0**	**60.4**

***CEDIT*:** Under current law a county income tax council, comprised of the county, city, and town fiscal bodies, has the authority to impose CEDIT if the county has already adopted COIT. If the county has already adopted CAGIT, then the county council has the authority to impose CEDIT. If the county has imposed neither CAGIT nor COIT then CEDIT may be imposed by either the county income tax council or the county council. Under this bill, in all cases, only the county council would be able to impose CEDIT.

This bill would not make any changes to the current method of CEDIT distribution.

MOIT: Under current law, only municipalities in Lake County could impose MOIT through CY 2005. The maximum tax rate was 1%. The municipality's general fund levy is reduced by the amount of taxes generated by MOIT.

Under this bill municipalities in all counties would be permitted to impose MOIT. The maximum tax rate for resident taxpayers would equal the greater of (1) 0.5% or (2) the rate necessary to pay debt service, lease rentals, or other obligations incurred before April 1, 2007, for which CAGIT or COIT was pledged, and after applying any remaining COIT shares that the municipality still receives. Individuals who reside in a non-adopting county but are employed in an adopting county would pay a rate in the employment county equal to one-half of the resident rate, up to 0.25%.

Eighty percent of the MOIT revenue would be used to provide additional property tax replacement credits to the property owners in the municipality. The credits would be distributed proportionately based on each taxpayer's net property tax liability for municipal funds that qualify for state property tax replacement credits.

Under the bill, if a municipality pledges the revenue from MOIT to pay obligations, then the municipality must maintain a tax rate that is expected to generate 1.25 times the annual payments on those obligations.

The impact of the MOIT provisions would depend on local action.

State Agencies Affected: Department of Local Government Finance; State Budget Agency; Indiana Department of Revenue.

Local Agencies Affected: Local civil taxing units.

Information Sources: Local Government Database; Department of Revenue state taxable income data.

Fiscal Analyst: Bob Sigalow, 317-232-9859.