LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7829 | **NOTE PREPARED:** Jan 11, 2007
BILL NUMBER: HB 1767 | **BILL AMENDED:**

SUBJECT: Property taxes.

FIRST AUTHOR: Rep. Smith V | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Exemption:* This bill extends the period during which certain property tax exemptions apply to a tract of land pending construction of a building to be used for exempt purposes.

Compromise: The bill allows the department of local government finance, with the approval of the attorney general and local officials, to compromise the amount of property taxes owed by certain educational, literary, scientific, religious, or charitable entities.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues: *Exemption:* The state levies a small tax rate for state fair and state forestry. Any change in the assessed value base will change the property tax revenue for these two funds.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Exemption:* Under current law, a tract of land is exempt from property taxation if:
(1) The land has been purchased to erect a building that will be exempt because it will be:
    (A) Owned and occupied by a taxpayer for educational, literary, scientific, religious, or charitable purposes;
    (B) Owned, occupied, and used by a town, city, township, or county for educational, literary,

scientific, fraternal, or charitable purposes; or

(C) Acquired for the purpose of developing low-income, single-family residential housing; and

(2) The owner demonstrates substantial progress and active pursuit towards construction within three years of the purchase of the land and each year thereafter.

This bill would give the owner five years, instead of three, to show progress toward building. Some tracts of land that might lose their exemption under current law because of the three-year limit would be able to keep the exemption for at least another two years under this proposal.

The assessed value of property that loses its exemption is added to the tax base which causes a reduction in the tax rate. This provision would either eliminate that addition to the tax base or delay it for two years. The number of properties that have lost exemptions because of the three-year rule is not known.

Compromise: Under current law the DLGF has authority to compromise the amount of property taxes, interest, and penalties owed by taxpayers in bankruptcy. The DLGF may compromise only if:

(1) A petition requesting the compromise is filed by the county assessor, auditor, treasurer, and township assessor;

(2) The compromise significantly advances the time of payment;

(3) The compromise is in the best interest of the state and affected taxing units; and

(4) The Attorney General approves the compromise.

In addition to taxpayers in bankruptcy, this bill would also permit the DLGF to compromise property taxes, interest, and penalties owed by the following taxpayers:

(1) Educational, literary, scientific, religious, or charitable nonprofit organizations, or their local chapters, or persons associated with their national organizations; and

(2) Churches or church-related entities regardless of the church's denomination or whether the church is a nonprofit corporation.

Taxpayers in compromise would not be required to be exempt under Section 501 of the Internal Revenue Code. All other current requirements would remain in place.

A compromise of tax due could reduce the amount of property taxes eventually collected. However, such a compromise would be initiated at the local level.

State Agencies Affected: Department of Local Government Finance; Attorney General; Department of Natural Resources; State Fair Board.

Local Agencies Affected: County assessors; County auditors; County treasurers; Township assessors; All local civil taxing units and school corporations.

Information Sources:

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