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FISCAL IMPACT STATEMENT

LS 7829
BILL NUMBER: HB 1767

NOTE PREPARED: Feb 26, 2007
BILL AMENDED: Feb 23, 2007

SUBJECT: Property taxes.

FIRST AUTHOR: Rep. Smith V
FIRST SPONSOR: Sen. Kenley

BILL STATUS: As Passed House

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: *Exemption - Building Period:* 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. The bill also provides for repayment of property taxes if certain exempt property is sold within four years after purchase.

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.

Exemption - Vermillion County: The bill also provides a property tax exemption for certain property in Vermillion County.

Effective Date: January 1, 2007 (Retroactive); Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues: *Exemption - Building Period:* 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 - Building Period:* 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.

(Revised) Under this bill, if unimproved exempt property is sold, leased, or transferred, then the owner would be liable for the property taxes that would have been due if the property had been taxable beginning on January 1st of the fourth year of ownership and until December 31st of the year of sale, lease, or transfer. The county auditor may establish an installment plan allowing repayment over the same number of years as the years recovered.

Repayments would be distributed as other property tax receipts to the civil taxing units and school corporations that serve the taxpayer. Property tax collections that exceed a taxing unit's levy are deposited into the unit's levy excess fund and are used to reduce the following year's levy.

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, 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.

Exemption - Vermillion County: This provision would restore property tax exemptions for three taxpayers in Vermillion County for taxes payable in 2007. These taxpayers received exemptions in the past but the county auditor has determined for taxes payable in 2007 that the property is not eligible for exemption.

Property tax rates for 2007 have not yet been established. If rates are not established until after this bill's enactment, then the rates would take these exemptions into account. However, if 2007 tax rates are established before enactment of this bill, then the tax rates will be based on an inflated assessed value base resulting in tax rates that are too low. The low rates would potentially cause a levy shortfall for the taxing units that provide services to these properties.

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; Vermillion County.

Information Sources:

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