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FISCAL IMPACT STATEMENT

LS 7787

BILL NUMBER: SB 426

NOTE PREPARED: Jan 7, 2007

BILL AMENDED:

SUBJECT: Sales Tax Increment Funding for Tourism.

FIRST AUTHOR: Sen. Simpson

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill establishes the Tourism Supplemental Revenue (TSR) Fund to be administered by the Office of Tourism Development (OTD). The bill provides that money in the TSR Fund may be used by the OTD for the promotion and development of tourism in Indiana.

The bill requires the Department of State Revenue (DOR) to require retail merchants to report on all Sales and Use Tax returns an industry code listed in the North American Industry Classification System Manual to allow the DOR to classify certain merchants as tourism related merchants.

The bill provides that for all calendar years beginning after December 31, 2008, and ending before January 1, 2020, requires the Auditor of State to transfer from those funds receiving Sales and Use Tax collections to the TSR Fund an amount equal to the lesser of:

(1) 10% of the difference between the Sales and Use Taxes collected from tourism related merchants in the previous calendar year, minus those taxes collected from tourism related merchants in the calendar year ending December 31, 2007; or

(2) the amount deposited in the TSR Fund in the immediately preceding calendar year plus \$3,000,000.

Effective Date: Upon passage; July 1, 2007.

Explanation of State Expenditures: *Department of State Revenue:* This bill will require the Department to develop rules and procedures related to classifying firms that are engaged in certain tourism related

industries and yearly calculate the Sales Tax remittances made by these firms. While this provision will increase the Department's administrative costs, it is presumed that the Department could cover any additional costs using existing staff and resources.

Office of Tourism Development: This bill creates the Tourism Supplemental Revenue (TSR) Fund. The Fund will be administered by the Office of Tourism Development (OTD). Money in the TSR Fund will be used to provide money to the Tourism Information and Promotion Fund and any other activity of the OTD related to promotion and development of tourist resources and facilities in Indiana. The bill provides that any costs associated with administering the Fund will be paid by the Fund.

Explanation of State Revenues: *Sales Tax Revenue:* This bill will shift a portion of the state Sales Tax revenue collected from retail sales made by certain tourism related firms from the current funds which receive Sales Tax revenue to the TSR Fund. Under this bill, the DOR would identify the CY 2007 Sales Tax collections from tourism related firms in order to establish a base year of Sales Tax collections. Beginning in 2009, the Auditor would, before February 1, annually transfer to the TSR Fund an amount equal to the lesser of: (1) 10% of the difference between the Sales Tax collected from tourism related merchants in the previous calendar year, minus collections made in the base year or (2) the amount deposited in the TSR Fund in the immediately preceding calendar year plus \$3,000,000. The provision expires after CY 2019.

The TSR Fund distribution would be deducted from the five funds that receive state Sales Tax revenue. Based on adjusted DOR Data, the total amount deducted from the five funds that currently receive Sales Tax revenue is expected to be between \$1.8 M and \$4.8 M each fiscal year beginning in FY 2009. The first deposit amount is not required to be made until between January 1, and January 31, 2009.

The bill specifies that the deductions must be made from each of these funds in the same proportion in which the funds receive Sales Tax revenue. Sales Tax revenue is deposited in the: Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

It should be noted that the precise impact of this proposal will depend on the actual base of the specified tourism related firms and the growth rate of the state's tourism sector.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Office of Tourism Development; Auditor of State.

Local Agencies Affected: Local governmental entities.

Information Sources: Department of State Revenue.

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