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 6257 | **NOTE PREPARED:** Jan 14, 2008
BILL NUMBER: HB 1353 | **BILL AMENDED:**

SUBJECT: Property tax benefits for seniors.

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

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

Summary of Legislation: This bill removes income limitations on the property tax deduction for individuals who are at least 65 years of age. The bill enables an individual who is at least 65 years of age and has never claimed a homestead credit and standard deduction for a particular homestead to do so by filing a statement with the county auditor before receiving the property tax bill for the homestead. (Current law requires filing the statement in the 12 months before June 11 of the year prior to the first year of receiving the credit.) It requires the county auditor to recalculate the individual's property tax bill if the statement is filed after tax rates are determined for the individual's county. It provides that the property tax replacement amount distributed to counties may not include the amount of homestead credits granted to individuals whose property tax bills are recalculated. It allows a county to impose a levy to make up property tax collection shortfalls that resulted from recalculated property tax bills in the previous calendar year. It provides that the levy is not subject to levy growth limits. It also requires the county to allocate the property taxes among the taxing units in the county according to the ratio each unit's levy bears to the total county levy.

Effective Date: Upon passage; January 1, 2009.

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. PTRC and homestead credits are paid from the Property Tax Replacement Fund.

The bill first becomes effective for taxes payable in CY 2010.Subject to appropriation and assuming full funding of these payments in CY 2010, state PTRC and Homestead payments would be reduced. The state savings in CY 2010 is expected to be approximately $1.2 M. In FY 2010 (partial payment), the savings would be approximately $600,000.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base under this proposal would reduce the property tax revenue for these two funds. The revenue reduction is estimated at approximately $22,500.

Explanation of Local Expenditures: As of November 1, 2007, forty-nine counties provided additional Homestead credits that are paid with proceeds from a combination of county option taxes (COIT) and county economic development income taxes (CEDIT). Local Homestead credits in CY 2009 are expected to decrease by approximately $404,000 in CY 2010. COIT proceeds that are not used for county Homestead credits are distributed to civil taxing units as certified shares. CEDIT proceeds that are the result of the additional rate allowed for homestead credits may only be used for homestead credits.

Explanation of Local Revenues: Under current law, persons 65 or over (senior citizens) or their surviving spouses may receive an assessed value(AV) deduction on their real property or mobile home residence equal to one-half the assessed value of the property up to $12,480. In order to qualify, the assessed value of the property may not exceed $182,430 and the adjusted gross income of the taxpayer may not exceed $25,000. Senior citizens had to file a statement with the county auditor by June 10 of the year prior to the year they would receive the credit. For example, to obtain the credit in 2009, the statement had to be filed by June 10, 2008.

For taxes payable in CY 2010 and after, this bill removes the income limitation. For taxes payable in CY 2008 and after, it also extends the June 10 filing deadline for those senior citizens who have never previously filed for a homestead credit and standard deduction (first time filers). These taxpayers can file at any time before they receive their tax bill. Tax bills are usually sent out in May and November of the tax year. For example, under current law an individual, in order to receive the credit in CY 2009, had to file by June 10, 2008. Under this proposal, the filing deadline for a first time filer is extended from June 10, 2008 to May 10, 2009. If the statement is filed after tax rates have been calculated the county auditor shall recompute the individual's taxes and extend the deadline for taxes due one month. Taxes due on May 10 would now be due on June 10; taxes usually due on November 10 would now be due on December 10.

Estimates derived from income tax data and the most current parcel level data indicate that this proposal would enable an additional 74,100 senior citizens to claim this deduction in CY 2010. They would pay approximately $17.5 M less in taxes for an average net tax reduction of $240 per taxpayer. At a maximum of $12,480 per qualifying senior citizen household, this deduction will potentially reduce the tax base by $925 M AV. This reduction in the tax base will cause a shift of property tax burden to all taxpayers in the form of an increase in the statewide average gross tax rate of about $0.0074 in CY 2010. This translates to a property tax shift of $19.5 M to all other classes of property. This number exceeds the $17.5 M in tax savings to senior citizen taxpayers because the tax base for all other classes of property includes some property that does not qualify for homestead credits or the regular 20% PTRC. Senior citizen households, on the other hand, comprise only homesteads which qualify for these credits.

This analysis assumes that all taxpayers who would qualify for the deductions under this bill will actually claim it. If, however, these conditions change then the fiscal impact might be different from the results presented here. For example, if some individuals who qualified any of the deductions under current law but did not claim them, decide to do so under this proposal then the impact on State and Local revenues and expenditures will be correspondingly larger. On the other hand, if some applicable taxpayers under this proposal do not apply for the deduction, then this would have a smaller impact on State and Local revenues and expenditures.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Additional Levy: Any senior citizen who qualifies for the aged deduction automatically qualifies for the standard deduction ($45,000 in CY 2008) and state and county homestead credits. For those first time filers who file after the normal filing deadline, the state, under this proposal, would not reimburse the county for the additional state homestead credits. The county is authorized to raise the additional revenue to cover the costs of these credits and the standard deduction. The amount raised in each taxing unit would be in proportion to the what the taxing unit would normally pay. For example, if the taxing unit supplied 5 percent of the normal levy, it would supply 5 percent of the additional levy. The amount of this additional levy that a school corporation would have to pay would not be used in computing their maximum permissible tuition support levy or the school's corporation state tuition support.

State Agencies Affected: State Fair Board; DNR Division of Forestry.

Local Agencies Affected: County Auditors, All Local Taxing Units

Information Sources: OFMA Property Tax Database, OFMA Income Tax Database.

Fiscal Analyst: David Lusan, 317-232-9592.