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FISCAL IMPACT STATEMENT

LS 6815 **NOTE PREPARED:** Feb 23, 2012
BILL NUMBER: HB 1072 **BILL AMENDED:** Feb 23, 2012

SUBJECT: Tax Administration.

FIRST AUTHOR: Rep. Espich **BILL STATUS:** CR Adopted - 2nd House
FIRST SPONSOR: Sen. Kenley

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

Summary of Legislation: (Amended) *Outdoor Signs*: This bill specifies the assessed value for outdoor signs for the 2011 through 2014 assessment dates. It requires the Commission on State Tax and Financing Policy to study the assessment of outdoor signs.

Low-Income Housing Assessments: The bill specifies that the value of federal income tax credits under Section 42 of the Internal Revenue Code awarded after December 31, 2012, must be used for purposes of determining the assessed value of low income housing tax credit property.

Residential Historic Rehabilitation Grant Program: This bill permits the fiscal body of a city or town, or the county, in the case of an unincorporated area, to authorize the unit's redevelopment commission to establish a residential historic rehabilitation grant program.

Adoption Dates: The bill changes dates for budget and levy adoption actions.

Reporting Requirements: This bill changes certain property tax related reporting requirements.

Solar Power Device: The bill provides a 100% property tax assessed value deduction for a solar power device used to generate electricity that is installed after December 31, 2011. It provides that a person leasing real property with a solar power device is eligible for the deduction if the person is subject to assessment for the solar power device.

IEDC: The bill provides that the projection of the jobs to be created by a project funded from the Indiana

Twenty-First Century Research and Technology Fund may not be kept confidential.

AV Exclusion: This bill specifies that the amount that may be excluded from assessed value for the purposes of calculating budgets, property tax rates, and property tax levies may not exceed 2% of net assessed value (rather than 2% of assessed value, under current law) without approval by the Department of Local Government Finance (DLGF).

Notices: The bill specifies that notices concerning final actions on budgets, property tax rates, and property tax levies shall be given electronically rather than in writing.

Circuit Breaker Allocation: This bill changes the formula for applying the circuit breaker among debt and nondebt levies.

Nonelected Bodies: The bill makes political subdivisions with nonelected governing bodies subject to review and adoption of the political subdivision's budget by a county, city, or town fiscal body. It requires approval of the supplemental appropriations of a political subdivision with a nonelected governing body by a county, city, or town fiscal body.

Circuit Breaker Certification: This bill replaces a separate certification by county auditors concerning the amount of circuit breaker credits granted to taxpayers with an annual report by the DLGF.

Utility Receipts Tax: The bill exempts from the utility receipts tax any payments of severance damages or other compensation resulting from a change in assigned service area boundaries between electricity suppliers.

Sales Tax Refund Claims: This bill specifies that industrial processors and those engaged in floriculture and arboriculture do not have to file a sales tax refund claim if the utility service is separately metered, or it has been determined that the utility service is predominantly used in industrial processing, horticulture, or arboriculture.

It also provides that a sales tax refund claim based on the exemption for electrical energy, natural or artificial gas, water, steam, and steam heat may not cover transactions that occur more than 36 months (rather than 18 months, under current law) before the date of the refund claim.

Sales Tax Exemptions: The bill provides a sales tax exemption for sales of wrapping material and empty containers that are acquired for shipping or delivering certain tangible personal property. It also provides certain sales tax exemptions concerning recycling.

Recognition of Federal Income Exclusions: This bill eliminates the requirement to add back amounts excluded from gross income for federal income tax purposes as annual employer provided education expenses and qualified transportation fringe benefits exceeding $100 a month.

Hoosier Business Investment Tax Credit: The bill extends the Hoosier business investment tax credit, the venture capital investment tax credit, the alternative fuel vehicle manufacturer tax credit, and the new employer tax credit through December 31, 2016.

LOIT Adoption: This bill changes the procedures for submitting a certified copy of ordinances related to local income taxes to the state to require in all cases that the certified copy be sent to the Commissioner of the

Department of State Revenue (DOR), the Director of the Budget Agency, and the Commissioner of the DLGF by certified mail or in an approved electronic format within 10 days after adoption.

LOIT Distribution: The bill changes the schedule on which revenue from county adjusted gross income taxes and county economic development taxes (CEDIT) are distributed to counties from a semiannual schedule to a monthly schedule. It eliminates provisions that provide for distribution of revenues from certain local income taxes on a quarterly basis in the initial year of adoption.

LOIT Repeals: This bill repeals: (1) authority to impose a local income tax to fund the expenses of prosecuting a capital case in Parke County; (2) authority to impose a local income tax to provide revenue for remediation of a superfund site in Tippecanoe County; and (3) expired authority to grant a tax rate to replace revenue lost from elimination of the inventory tax.

Starke County CEDIT: The bill allows the county council of Starke County to adopt an ordinance imposing an additional CEDIT rate for the purposes of: (1) financing, constructing, acquiring, and equipping the county jail and related buildings and parking facilities; and (2) operating or maintaining those facilities. The bill specifies that the maximum additional tax rate.

Tax Court: This bill removes (from current law) the prohibition of taking a case to the tax court if the DOR takes longer than three years to settle a claim.

Marion County: The bill specifies that the City-county Council in Marion County must take certain actions by November 1 (rather than September 1, under current law).

Miami County: This bill permits Miami County to adopt an ordinance in 2012 that immediately takes effect to change the combination of local homestead credits and property tax replacement credits provided in the county under the county option income tax rate used to provide property tax relief to taxpayers.

Allen County Taxes: The bill specifies the allocation of Allen County food and beverage taxes between the supplemental coliseum improvement fund and the food and beverage tax fund, including the reserve account, be administered by the capital improvement board. It specifies the allocation of covered taxes earned in the Allen County professional sports development tax area between the coliseum professional sports and convention development area fund, administered by the Allen County Memorial Coliseum board of trustees, and the capital improvement board.

Fishers Food and Beverage Tax: This bill authorizes the Town of Fishers to adopt, before October 1, 2012, an ordinance to impose a 1% town food and beverage tax. It specifies that the revenue from the tax must be used to reduce the town's actual property tax levy (but not maximum permissible levy) or for any legal or corporate purpose of the town, including the pledge of money to bonds, leases, or other obligations.

Fire Protection Levies: The bill provides that upon petition by Barkley Township or Union Township in Jasper County, the DLGF shall increase the township's maximum property tax levy for fire protection by the lesser of: (1) the amount of the increase requested in the petition; or (2) the amount necessary to increase the township's maximum property tax levy for fire protection for property taxes first due and payable in 2013 to the amount of the township's maximum property tax levy for fire protection that applied to taxes first due and payable in 2003.

MVH / LRS: This bill provides that money distributed from the Motor Vehicle Highway Account and the Local Road and Street Account to cities and towns may be used for the same purposes.

The bill also updates population parameters to reflect the 2010 census.

Effective Date: (Amended) Upon Passage; January 1, 2011 (Retroactive); March 1, 2011 (Retroactive); January 1, 2012 (Retroactive); July 1, 2012; January 1, 2013; July 1, 2013.

Explanation of State Expenditures: (Revised) *Outdoor Signs*: This bill would require the Commission on State Tax and Financing Policy to study the assessment of outdoor signs during the 2012 interim.

Reporting Requirements: Under current law, the DLGF must annually publish a report containing tax rates, abstract real property AV, utility AV, and various other AV breakdowns. Under this bill, the DLGF would not be required to publish these reports.

Some of the property types that are the subject of some of the reports are no longer taxed, such as individual personal property and inventory. The DLGF collects some of the data required for the reports from county assessors on forms designed for this specific purpose.

The DLGF would have reduced administrative costs associated with the forms design and the collection and publication of this information under this proposal. More detailed parcel-level assessment and tax bill data is already being collected from county assessors and county auditors, so there would be no loss of information collected from the counties under this proposal.

Exemptions: Under current law, counties must forward duplicate copies of all property tax exemption applications to the DLGF. The DLGF is required to review all applications and may deny an exemption if the DLGF determines that the property does not qualify for an exemption. The DLGF must also currently make an annual report to the executive director of LSA that includes the numbers of applications forwarded, investigated, and denied.

Under this bill, the DLGF would have discretion to review the applications and would not be required to make an annual report. The DLGF would have reduced administrative costs associated with application review and compilation of the report.

Circuit Breaker Certification: Under current law, county auditors must annually certify the amount of circuit breaker credits in the county to the DLGF. The certification must include the amount by which each taxing unit's property tax distribution is reduced. Under this bill, the DLGF would prepare the report and publish on the DLGF website. The breakdown by taxing unit can be computed from the information contained in the county auditor's abstracts.

Notices: Under current law, the DLGF must give written notification to taxing units regarding any revision, reduction, or increase that the DLGF proposes in a unit's levy or rate. The taxing unit has 10 days to respond in written form. This bill would require that these communications are to be made electronically. This provision could reduce the cost of postage and it would also eliminate any delay caused by the time it takes the mail service to deliver the notice and response.

LOIT Distribution: This bill changes the schedule for the distribution of CAGIT and CEDIT revenue to

counties from a semiannual schedule to a monthly schedule. Currently, CAGIT and CEDIT distributions (except for CEDIT distributions for homestead credit rates) are on a monthly basis, according to the State Budget Agency.

Annual Reports: Under current law, each state and local government entity is required to electronically file an annual financial report with the State Board of Accounts (SBA). This bill would require the reports to be in the form and content, and filed in the manner, prescribed by the SBA.

Also under current law, each state and local government entity is required to file a written compensation report with the State Board of Accounts. This bill would require the report to also indicate whether a health plan, pension, and other benefits are offered. The report would have to be filed electronically through a web-based system maintained by the DLGF.

Electronic Transmission: Under current law, the DLGF may require local governmental units to submit forms electronically. In addition, this bill would require the DLGF to work with the Office of Technology or a state educational institution to develop and maintain a web-based system for forms submission. Local governmental units would be required to use these systems as prescribed by the DLGF. The DLGF is already engaged in web-based submission projects so this provision would not add any additional state expenses.

Recognition of Federal Income Exclusions: The Department of State Revenue will have administrative expenses to revise tax forms, instructions, and computer programs to accommodate these changes.

(Revised) *Starke County CEDIT*: The Department of State Revenue (DOR) and the State Budget Agency (SBA) would be required to adjust Starke County's CEDIT certified distribution if a tax rate increase is adopted by the county council. The DOR and the SBA should be able to carry out this provision within their existing resources.

Explanation of State Revenues: *Recognition of Federal Income Exclusions:* The bill provides that two Federal income exclusions that were not conformed to under the Internal Revenue Code Update legislation enacted in 2011 would apply for purposes of Indiana income tax. It is estimated that the revenue loss from recognizing the exclusions would total $6.7 M with the revenue loss occurring in FY 2013. There would be no revenue loss beyond FY 2013 unless Congress extends these income exclusions, one of which expired at the end of 2011 and the other which expires at the end of 2012.

(1) Under current statute, certain employer-provided educational assistance excluded from Federal adjusted gross income (AGI) must be added back to Indiana AGI. The exclusion expires, under Federal law, at the end of 2012.

(2) Under current statute, certain employer-provided mass transit and parking benefits is excluded from Federal AGI must be added back to Indiana AGI. The exclusion expired, under Federal law, at the end of 2011.

Some of revenue loss from recognizing these exclusions could potentially occur in FY 2012 to the extent that taxpayers filing 2011 tax returns in March or April after enactment of this bill do not add back educational or transit benefits to their Indiana AGI.

(Revised) *Sales Tax Exemption for Sales of Wrapping Material:* This bill provides a sales tax exemption for sales of wrapping material and empty containers that are acquired for shipping or delivering tangible personal

property that is owned by another person, is processed or serviced for the owner, and will be sold by that owner either in the same form or as a part of other tangible personal property produced by that owner in the owner's business of manufacturing, assembling, constructing, refining, or processing. This provision would decrease sale tax revenue by an indeterminable amount.

(Revised) *Sales Tax Exemption for Recycling:* This bill provides the following sales tax exemptions regarding recycling:
(1) Electrical energy, natural or artificial gas, water, steam, or steam heating service used for recycling.
(2) Tangible personal property predominantly used and acquired for the purpose of complying with any state, local, or federal environmental quality statutes, regulations, or standards by a person engaged in the business of recycling.
(3) Machinery, tools, supplies, and equipment for use in recycling, if the person acquiring that property is occupationally engaged in recycling.
(4) Recycling materials and other tangible personal property to be consumed in the processing of recycling materials or to become a part of the product produced by the processing of recycling materials acquired for use in recycling, if the person acquiring that property is occupationally engaged in recycling.
This provision would decrease sale tax revenue by an indeterminable amount.

(Revised) *Sales Tax Refund Claims:* This bill provides that a sales tax refund claim based on the exemption for electrical energy, natural or artificial gas, water, steam, and steam heat may not cover transactions that occur more than 36 months (rather than 18 months, under current law) before the date of the refund claim. [Note: P.L. 172-2011 changed the refund time period from 36 months to 18 months.] This provision should have no impact.

Sales Tax revenue is deposited in the state General Fund (99.848%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%)

(Revised) *Other Tobacco Products*: This bill provides that for the purpose of the tobacco tax statute, "wholesale price" means the net price shown on an invoice and at which the manufacturer of the tobacco products sells tobacco products to distributors, excluding any discount or other reduction that is not shown on the invoice. Under current statute "wholesale price" means the price at which the manufacturer of the tobacco products sells tobacco products to distributors, excluding any discount or other reduction. The impact of this change is indeterminable and dependent on whether the manufacturers were remitting the tax on the base with the discount or on the base prior to the discount. If the manufacturers were remitting on the after-discount price, then there would be no change in the amount of revenue that the state would see from this change. However, if the manufacturers were remitting taxes based on the prediscount price as specified in current statute, then the state would receive less revenue from this provision. Other tobacco products are taxed at a rate of 24% of the wholesale price. In FY 2011, other tobacco tax revenue totaled $32.4 M.

Of the Tobacco Products Tax revenue, 25% is distributed to the Affordable Housing and Community Development Fund. The remaining revenues are allocated to Medicaid reimbursements (2.46%), Cigarette Tax Fund (4.22%), the Mental Health Centers Fund (0.6%), the state General Fund (54.5%), the Pension Relief Fund (5.43%), the State Retiree Health Benefit Trust Fund (5.74%), and the Check-Up Plan Trust Fund (27.05%).

(Revised) *Tax Credit Extensions:* The bill makes the following sunset date extensions. The potential additional credits that could potentially be claimed and the potential fiscal impact from these credit extensions is

indeterminable.

(1) The bill extends the sunset date on the venture capital investment credit by two years, from December 31, 2014, to December 31, 2016. This would allow two additional years for the IEDC to award credits under this provision. Current statute limits the credits awarded by IEDC to $12.5 M per year. From 2007 to 2009, annual credits claimed by individual and corporate taxpayers averaged about $3.2 M, with the 2009 total coming in below the average at about $2.5 M. The credit is equal to 20% of annual qualified venture capital investment up to $1 M.

(2) The bill extends the sunset date on the Hoosier business investment (HBI) tax credit by three years, from December 31, 2013, to December 31, 2016. This would allow three additional years for the IEDC to award credits under this provision. From 2007 to 2009, annual credits claimed by individual and corporate taxpayers averaged about $6.7 M, with the 2009 total coming in below the average at about $5.6 M. The credit is equal to 10% of the qualified investment made by the taxpayer.

(3) The bill extends the sunset date on the alternative fuel vehicle manufacturing investment credit by 4 years, from December 31, 2012, to December 31, 2016. This would allow 4 additional years for the IEDC to award credits under this provision. The potential additional revenue loss due to the extension of this credit is indeterminable. In tax year 2009, only 7 individual taxpayers claimed the alternative fuel vehicle manufacturing investment credit, and no corporate taxpayers claimed the credit. The credits claimed in 2009 totaled $6,285. The credit is equal to 15% of qualified investment made before 2012 to manufacture and assemble alternative fuel vehicles.

(4) The bill extends the sunset date on the new employer credit by 4 years, from December 31, 2012, to December 31, 2016. This would allow 4 additional years for the IEDC to award credits under this provision. The potential additional revenue loss due to the extension of this credit is indeterminable. The IEDC indicates that while they do receive inquiries about the credit, they have not received any applications for the credit. The credit is equal to 10% of wages paid by a new Indiana business to new qualified employees during the first 24 months of employment, and applies to new businesses starting in 2010, 2011, or 2012, that employ at least 10 new qualified employees.

Explanation of Local Expenditures: *Reporting Requirements - Debt*: Currently, a taxing unit that issues debt or enters into a lease must supply the DLGF with information regarding the debt issue or lease by December 31 of the year of issue. Under this bill, taxing units would be required to supply a debt issuance report within one month of the date of issue. The report would have to be submitted electronically to the DLGF. Beginning with CY 2013 budgets under the bill, the DLGF would be prohibited from approving appropriations associated with the debt issue or lease if the report has not been submitted.

Taxing units must currently submit an annual report to the DLGF that lists all outstanding bonds and leases. Under this bill, the annual report would no longer be required, but the DLGF may annually require taxing units to verify the information held in the DLGF debt database. Taxing units could have reduced administrative expenditures associated with compiling an annual report.

Circuit Breaker Certification: County auditors would have a reduction in administrative expenses associated with preparing circuit breaker certifications to the DLGF.

MVH / LRS: The provision would give cities and towns greater flexibility on how they can spend local road

funds, but it would not change the amount of funds they receive or can spend on local road projects.

(Revised) *Fishers Food and Beverage Tax*: Fishers would have the option to adopt the food and beverage tax at 1%, and produce separate forms, on which, the tax would be submitted, if the town so desired. Printing of separate forms would be an additional expense to the town, unless the forms were readily available for printing from the town's government website. Additionally, the town fiscal officer would be required to establish a food and beverage tax and receipts fund. Money in the fund could be used for reduction of the town's property tax levy for a particular year (but not the max levy of the town), or for any legal or corporate purpose of the town including: bonds, leases, or other obligations under IC 5-1-14-4 (bond and obligations law miscellaneous provisions). Additionally, revenue from the tax would be allowed to be treated by the town as additional revenue for the purpose of fixing the town's budget for the budget year during which the revenues are to be distributed to the town.

Explanation of Local Revenues: *Recognition of Federal Income Exclusions:* Because the exclusions will decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes. Based on the current average LOIT rate of about 1.4%, LOIT collections on a statewide basis could potentially be reduced by about $2.8 M in FY 2013. (See Explanation of State Revenue for a discussion of the educational assistance and transit benefit exclusions.)

AV Exclusion: Under current law, county auditors may, for specific reasons, exclude the AV of certain properties from the tax base used to calculate property tax rates. The excluded amount is limited to 2% of a taxing *unit's gross* AV. Under this bill, the exclusion limit would be 2% of the *net* AV of the taxing *district*.

Taxing *units* are political subdivisions such as counties, townships, cities, towns, school districts, libraries, and special units. Taxing *districts* are geographical areas that are served by a unique combination of taxing units. Taxing units may serve several taxing districts.

The change from a unit limit to a district limit could reduce the exclusion amount in some cases such as when a taxing unit's excluded AV is concentrated in specific geographical areas. The change from gross to net AV could also reduce exclusion limits because total gross AV includes exempt properties but net AV does not.

When AV is excluded from the tax base, the calculated tax rate is higher. This is done to try to account for AV on which billed taxes may not be collected. If AV exclusions are reduced, then tax rates could decline and the lower tax rate could lead to property tax shortfalls for some taxing units. On the other hand, lower tax rates may also result in lower circuit breaker credit losses for some taxing units.

Under both current law and this bill, county auditors may appeal to the DLGF to reduce a taxing unit's AV by an amount that exceeds the exclusion limitation.

Nonbinding Review: Under current law, civil taxing units in a county without a board of tax adjustment must submit their estimated budget, levy, and tax rate to the county fiscal body for review at least 45 days before the unit adopts the budget. The county fiscal body must perform a review and must issue a nonbinding recommendation regarding the proposal at least 15 days before the taxing unit adopts its budget. In addition to civil taxing units, this bill would require school corporations to submit their estimated levy and tax rate (but not their budget) to the county fiscal body for review.

Circuit Breaker Allocation: Currently, certain levies are exempt from the calculation of property tax limits

under the circuit breaker law. These include levies that are approved in a referendum and levies in Lake and St. Joseph Counties for debt incurred before July 1, 2008. Under current law, when a taxing unit distributes tax receipts among its funds, the total amount collected from exempted funds must be allocated to the appropriate fund without any adjustment for circuit breaker credits. The tax loss created by the circuit breaker credits is allocated among the nonexempt funds.

Under this provision, both exempt levies and any debt service levies that are not exempt would be referred to as "protected taxes". The total amount of protected taxes collected would be allocated to the appropriate fund without any adjustment for circuit breaker credits. The tax loss created by the circuit breaker credits would be allocated among the unprotected funds.

Under current law, if the amount available in a debt service fund is insufficient to pay obligations because of circuit breaker losses, the unit must transfer money from its other funds. This provision would eliminate the need to make the transfer.

(Revised) *Nonelected Bodies*: Under current law, certain taxing units whose governing bodies are appointed rather than elected must submit their proposed budgets and tax levies to the fiscal body of the city, town, or county. These taxing units include:

(1) Conservancy Districts;
(2) Solid waste management districts;
(3) Fire protection districts; and
(4) Any civil taxing units (not schools) whose proposed budget increase exceeds the income-based assessed value growth quotient (AVGQ).

Under this bill, all taxing units with appointed governing bodies, including school corporations, regardless of the percentage change in the proposed budget would be subject to review. In addition, the bill would require additional appropriations for these units to be adopted by ordinance of the city, town, or county before approval by the DLGF.

Cumulative Fund Adoption: Under current law, a taxing unit may establish a cumulative fund by giving notice to the affected taxpayers and holding a public hearing. Taxpayers may object by filing a petition with the county auditor within 30 days after the publication of the hearing notice. The county auditor must forward the petition to the DLGF, and the DLGF must make a determination after the public hearing.

Under this bill, the 30-day appeal window would begin after the taxing unit publishes a notice of adoption of the cumulative fund after the public hearing. This provision would give taxpayers more time to appeal. It could also eliminate unnecessary appeals in a case where the taxing unit does not adopt the cumulative fund.

LOIT Repeals: This bill repeals the authority to impose the following LOIT rates:
(1) an additional CAGIT rate to help fund the expenses of prosecuting a capital case in Parke County;
(2) an additional CEDIT rate of up to 0.25% to help fund remediation of a superfund site in Tippecanoe County; and
(3) expired authority for a CEDIT tax rate used to provide homestead credits to mitigate tax shifts from the elimination of inventory taxes in counties that opted for the elimination before the statewide elimination took effect. (The ability for any county to adopt this CEDIT rate still exists in another section of the code).

Parke County adopted the additional 0.25% CAGIT rate for the purpose above effective October 1, 2007, but

rescinded that rate effective October 1, 2009. Also, Tippecanoe County adopted the additional 0.25% CEDIT rate effective July 1, 1994, but rescinded that rate effective July 1, 1998.

(Revised) *Low-Income Housing Assessments*: Currently, the assessed value of low-income rental housing that is eligible for Section 42 credits equals the greater of (1) the amount determined under the income capitalization method or (2) the value that would result in taxes equal to 5% of the annual total gross rents for the property. Current law also prohibits consideration of Section 42 federal income tax credits in determining the AV of low-income rental housing. Under this proposal, the value of income tax credits awarded after December 31, 2012 must be considered when determining AV.

This provision would result in an increase in the assessments of future low-income housing developments. The increase in AV could be captured to fund grants for the Residential Historic Rehabilitation Grant Program, also in this bill.

(Revised) *Residential Historic Rehabilitation Grant Program*: This bill would create the Residential Historic Rehabilitation Grant Program. Counties, cities, and towns could adopt an ordinance establishing the program. A county program would pertain to the unincorporated portion of the county.

An adopting unit would also establish a residential historic rehabilitation grant fund. Grants from the fund would be available only for the qualified expenditures of a taxpayer that qualifies for a residential historic rehabilitation income tax credit. The adopting unit's fiscal body would have to appropriate money in the fund to be used as grants. Fund income would include taxes paid by the owners of low-income housing on the increase in their AV that is due to the inclusion of Section 42 federal income tax credits in determining the value.

(Revised) *Outdoor Signs*: Prior to the 2011 Pay 2012 assessment year, outdoor advertising signs were assessed under a DLGF rule that set the value of each sign based on the type, size, and number of faces on the sign. The DLGF repealed that rule effective with the March 1, 2011, assessment date.

Outdoor advertising signs are now valued in the same manner as most other depreciable personal property by listing the cost of the signs in the depreciation schedule in the personal property tax return. The cost to purchase an existing outdoor sign can vary greatly depending on location. In many cases the value under the current method is higher than under the previous rule.

This bill would establish a valuation schedule that would be used for taxes payable from CY 2012 through CY 2015. The new schedule would set the unit value per structure based on the type and size, but not the number of faces, of each sign. This value would be used in lieu of the value arrived at by using the depreciation schedule in the personal property tax return.

For purposes of this analysis, it was assumed that there is an average of 1.5 faces on outdoor advertising signs in Indiana. In comparing the estimated assessed value for signs under this proposal with the estimated value under the previous rule, the values for single-pole signs would be about 136% higher, on average, with a range of 85% to 268%.

For taxes payable in 2011 (under the previous rule), \$7.7 M in assessed value was reported statewide by taxpayers who self-reported their principal business activity as display advertising. The tax due is estimated at \$195,000. For taxes payable in 2012 (without a rule or schedule), \$22.2 M in assessed value was reported

and the estimated tax due is $602,000. So, with no special rule in place, the tax due is estimated to be 209% higher than it was under the old rule.

The total AV and taxes attributable to outdoor advertising signs are not known. The property tax returns for the taxpayers identified above may also contain property other than outdoor advertising signs, so the above estimates for these taxpayers may be high. However, the full universe of outdoor advertising signs is not known. If a sign owner listed any other activity as their principal business activity, then the value of their signs would not be included in the estimates above. It is very likely that there are many outdoor advertising signs that are reported on property tax returns other than those identified here.

The valuation schedule contained in this bill would most likely result in a total sign valuation that is about 25% lower than the AV under current law (without a rule or schedule), but 135% greater than the AV under the pre-2012 schedule. The change in valuation by taxpayer and location would vary. Compared with current law, lower overall assessments would cause property tax rates to rise and could result in an increase of circuit breaker losses for local civil taxing units and school corporations.

(Revised) *Solar Power Device*: Under this bill, the owner or lessee of real property or the owner of a mobile or manufactured home equipped with a solar-powered device designed to generate electricity is entitled to receive an annual property tax deduction. The deduction would be equal to the difference between the assessed value with the system and the assessed value without the system.

The deduction also extends to the owner of a solar powered device that is assessed either as distributable property under current law, or personal property. In this case, the amount to be deducted annually is the assessed value of the device.

In general, a solar powered device that is owned or operated by an entity (e.g. a utility company) that sells electricity wholesale or retail is not eligible for the deduction. However, a person who sells solar generated electricity to a utility through a net metering or feed-in-tariff program is eligible. Additionally, the owner of a solar powered generator (including one directly serving a public utility's business operations site), located on a site where a person consumes an annual amount of electricity equal to what the generator produces, is also entitled to the deduction. This applies even if the electricity generated on the site is sold to a public utility.

To be eligible for the property tax deduction, the device must be installed after 2011. Eligible taxpayers may claim the deduction beginning in tax payment year 2013.

This proposal could result in an increase in the number of solar-powered electric generating devices installed. The potential increase in assessed valuation is indeterminable at this time. Normally, an increase in assessed valuation would lead to lower tax rates and possibly lower circuit breaker credit losses for local civil taxing units and schools. Assuming that the investment in acquiring a solar-powered electric generating system would be made with or without the availability of the deduction, the deduction would cause taxing units to forgo the increase in assessed value to their tax base, and the possible reduction in tax rates and circuit breaker credits.

Total local revenues would be unchanged. Cumulative funds would not benefit from the assessed value of the new solar-powered electric generating systems.

<u>*Background Information:*</u> Current law extends an annual property tax deduction to the owners of real property or mobile homes equipped with a solar-energy heating or cooling system. Owners of real property or mobile

homes equipped with a wind-power device to generate electricity are also entitled to an annual property tax deduction.

Currently available data combine the deduction for solar-energy heating or cooling systems and wind-power devices. In 2011, approximately 2,875 solar-energy and wind-power devices received a total deduction of a little over $45 M in assessed valuation.

Miami County: Currently, Miami County imposes a 1% LOIT to provide funding for local property tax credits. In 2012, the certified distribution of these funds totals $4,389,846. Of the total LOIT money, the county uses 30% for homestead credits, 20% for residential credits (including both homestead and nonhomestead property), and 50% for property tax credits that go to all real and personal property.

Counties may change the allocation of LOIT proceeds by ordinance under current law. Any change must be made by December 31st to be effective for tax credits offered in the following year. This provision would permit Miami County to adopt an ordinance in 2012 to change the allocation beginning with property tax credits offered in 2012.

A change in the allocation of credits will change net tax liabilities for property taxpayers and will impact circuit breaker losses for local units and school corporations. Under this bill an allocation change in Miami County would take effect one year earlier than it would under current law. The actual impact is dependent on actions taken by Miami County.

(Revised) *Starke County CEDIT*: This provision would allow Starke County to impose an additional CEDIT rate of up to 0.65% for the county jail, and it provides that Starke County's combined county adjusted gross income tax (CAGIT) rate and CEDIT rate may not exceed 2%. It is estimated that Starke County could generate approximately $1.9 M from an additional CEDIT rate of 0.65%. Starke County's CEDIT certified distribution for CY 2012 is about $1.6 M, and their current CEDIT rate is 0.56%.

In order to increase the tax rate, the county council would have to adopt an ordinance. Revenue derived from the additional CEDIT rate would be deposited in the county jail revenue fund. The bill prohibits the Department of Local Government Finance (DLGF) from considering the additional revenue in setting the county's maximum levy. Any impact will depend upon local action.

Effective dates for new or increased LOIT rates are provided below.

Adoption Date	Effective Date
January 1 - September 30	October 1
October 1 - October 15	November 1
October 16 - October 31	December 1

Marion County: Under current law, the Marion County City-County Council may levy a special tax on all property in a redevelopment district. The Council may also elect to fund the public communications system with COIT funds. The Council must act by September 1 of the year before the year in which they wish to impose the tax or make the election. This provision would give the Council until October 31st to act.

Fire Protection Levies: Under this provision, Barkley Township and Union Township, both in Jasper County would receive an increase in their firefighting maximum levies beginning in 2013 if they petition the DLGF. The increase would be limited to lesser of (1) the amount requested or (2) the difference between the 2003 maximum levy and the 2013 maximum levy under current law.

Under current law, Barkley Township's firefighting maximum levy is estimated at $5,479 in 2013 and the 2003 maximum levy was $17,726. Barkley Township's increase would be limited to $12,247. Under current law, Union Township's firefighting maximum levy is estimated at $5,664 in 2013 and the 2003 maximum levy was $20,402. Union Township's increase would be limited to $14,557.

Net tax bills would increase in these two townships by the amount if the levy increase approved.

(Revised) *Fishers Food and Beverage Tax*: A 1% food and beverage tax in Fishers would, assuming adoption on or about September 12, 2012, bring in approximately $0.91 M in SFY 2013 (assuming only three-quarters of FY 2013) and approximately $1.3 M in SFY 2014 (first full fiscal year of collections). Estimates rely on Census Bureau Economic Census data for food and drinking establishments from 2007 (the most recent year of data) to establish a base-year. After applying the 1% tax rate, a 10% adjustment is added to account for deli and other pre-prepared foods sold in supermarkets not accounted for in the Census data. Historical state Sales Tax actual collections and the Indiana Revenue Technical Committee growth forecast rates are then used to estimate future food and beverage sales in the Town of Fishers.

State Agencies Affected: Commission on State Tax and Financing Policy, Department of Local Government Finance; State Budget Agency; Department of State Revenue; Indiana Economic Development Corporation; State Board of Accounts.

Local Agencies Affected: County assessors; County auditors; County treasurers; Taxing units with appointed governing bodies; Counties imposing local option income taxes; Civil taxing units and school corporations; Marion County; Miami County; Jasper County; Starke County; Town of Fishers.

Information Sources: LSA property tax databases; LSA income tax databases, 2007-2009. Local Government Database, DLGF; Bob Lain, State Budget Agency, 317-232-3471; State Budget Agency, CY 2012 Advisory Distribution Amounts and LOIT tax rates as of November 30, 2011; Indiana Handbook of Taxes, Revenues, and Appropriations FY 2011 edition, U.S. Bureau of Census.

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