

**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 6815

BILL NUMBER: HB 1072

NOTE PREPARED: Mar 14, 2012

BILL AMENDED: Mar 10, 2012

SUBJECT: Tax Administration.

FIRST AUTHOR: Rep. Espich

FIRST SPONSOR: Sen. Kenley

BILL STATUS: Enrolled

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: *Adoption Dates:* The bill changes dates for budget and levy adoption actions.

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

Department of State Revenue (DOR): The bill changes various sales tax and income tax reporting and filing requirements.

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.

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

AV Exclusion: This bill permits the Department of Local Government Finance (DLGF) to authorize the exclusion of more than 2% of net assessed value for the purposes of calculating budgets.

Maximum Permissible Rates - Rate Controlled Funds: This bill changes the formula for calculating adjustments to the maximum permissible tax rate for cumulative funds and capital project funds to reflect changes in the total assessed value in a taxing unit. It also provides for a loan to replace revenue lost from applying the prior adjustment formula.

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.

However, the bill provides that a public library outside of Marion County is subject to binding review and approval of the public library's budget by a county, city, or town fiscal body (as appropriate) only if the public library's budget is increasing faster than the assessed value growth quotient (AVGQ).

The bill also specifies that if such a public library that is not required to submit the public library's budgets and levies for binding review and approval proposes to make an additional appropriation, and that additional appropriation would result in the budget for the library for that year increasing (as compared to the previous year) by a percentage that is greater than the AVGQ, the additional appropriation must first be approved by a city, town, or county fiscal body (as appropriate under the binding review and approval statute).

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.

Sales Tax Exemptions: The bill provides a sales tax exemption for sales of wrapping material and empty containers that are acquired for shipping or delivery and a sales tax exemption concerning recycling.

Solar Power Device: The bill provides a property tax deduction for solar power devices.

Tax Credit Extensions: 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.

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.

Starke County CEDIT: The bill permits an additional local income tax rate in Starke County.

Maximum Levies: The bill provides for an adjustment of certain maximum levy limits for two townships in Jasper County and the Frontier School Corporation.

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 (CAGIT) 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.

Miami County LOIT: This bill changes the date that a Miami County resolution related to the use of local income taxes for property tax credits takes effect.

LOIT Repeals: This bill eliminates certain local income tax rates for Tippecanoe County and Parke County.

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.

Updates: The bill updates references to the largest city in Lake County and updates population parameters to reflect the 2010 Census.

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.

Abatement Notices: This bill provides for a continuous abatement notice regarding weeds and vegetation.

Credit Card Fees: This bill provides that a political subdivision or municipally owned utility may collect from a person using a bank card or credit card a fee that may not exceed the transaction charge or discount fee charged to the political subdivision or municipally owned utility by bank or credit card vendors.

Electronic Funds Transfer: The bill permits a political subdivision or the board of a municipally owned utility to use an electronic funds transfer method of payment of claims.

Proof of Residency: The bill provides that a county auditor may require an individual to provide evidence proving that the individual's residence is the individual's principal place of residence for purposes of the homestead standard deduction.

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 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.

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.

Debt Reports: This bill requires a political subdivision to submit a debt issuance report to the DLGF within one month of issuing debt. It provides that the DLGF may not approve an appropriation or a property tax levy that is associated with a debt unless the required debt issuance report has been submitted to the DLGF. The bill allows the DLGF to waive for good cause the reporting requirement.

Fire Protection District Borrowing: The bill authorizes borrowing by a fire protection district that meets certain conditions.

Studies: The bill also requires various legislative studies.

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

Explanation of State Expenditures: *Reporting Requirements:* Under current law, the DLGF must annually publish a report containing tax rates, abstract real property assessed value (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 local homestead credits) are made 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 (SBoA). This bill would require the reports to be in the form and content, and filed in the manner, prescribed by the SBoA.

Also under current law, each state and local government entity is required to file a written compensation report with the SBoA. 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.

Starke County CEDIT: The 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.

Department of State Revenue (DOR): The bill contains various tax procedure provisions for the DOR.

(1) The bill changes the requirement for estates and trusts to file income tax returns from any estate or trust with gross income from sources in Indiana to estates and trusts with gross income of \$600 or more from sources in Indiana.

(2) The bill increases the income tax withholding threshold for an employer to pay withholdings to the DOR on an annual basis instead of a monthly basis. The bill increases the threshold from a monthly average during the prior year of \$10 to a monthly average of \$1,000. The bill also eliminates the 3-month and 6-month reporting periods for employers with small withholdings.

(3) The bill requires all entities that withhold income taxes to file the withholding report and remit withholding taxes electronically. Currently, only entities that registered to withhold after December 31, 2009, must report and remit electronically.

(4) The bill requires any person filing more than 25 copies of the forms listed below after December 31, 2012, to file the forms electronically:

- Form W-2G (certain gambling winnings);
- Form 1099-R (distributions from pensions, annuities, retirement or profit sharing plans, IRAs, insurance contracts, or like distributions);
- Form WH-18 (miscellaneous withholding tax statements for nonresidents).

(5) The bill eliminates the prohibition for the Tax Court to hear a refund appeal that is filed more than three years after the date the claim for refund was filed with the DOR.

Commission on State Tax and Financing Policy (CSTFP): The bill requires the CSTFP to conduct a study of all income tax credits during the 2012 and 2013 legislative interims. The study is to be conducted with half

the credits studied during each year and in the order they were enacted. The bill requires the CSTFP to prepare a report that covers each credit and specifies the analysis to be conducted on each tax credit. The bill requires the CSTFP to issue the report in two parts, in an electronic format, and to the Legislative Council, not later than November 1, 2012, and November 1, 2013, respectively.

During the 2012 interim, this bill would require the CSTFP to also study the assessment of outdoor signs and whether Sec. 42 income tax credits should be included in the assessed valuation of low-income housing.

Instructional Spending Study: The bill requires the Legislative Council to assign to a 2012 study committee the topic of more clearly defining what is included in instructional spending by school corporations and what is included in noninstructional spending for purposes of the annual performance report provided by school corporations.

Explanation of State Revenues: *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 sales tax revenue by an indeterminable amount.

Sales Tax Exemption for Recycling: This bill provides the following sales tax exemptions regarding recycling:
(1) Machinery, tools, supplies, and equipment for direct use in recycling, if the person acquiring that property is occupationally engaged in recycling.
(2) 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 direct 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.

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%).

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.

Rate-Controlled Fund Loans: Under this bill, taxing units could receive interest-free loans from the state General Fund to cover certain 2012 levy reductions in rate-controlled funds. Before June 1, 2012, the Office of Management and Budget (OMB) would calculate and certify the amount of the loan for which each taxing unit is qualified. The total maximum loan amount for taxing units in the 69 counties that have certified budgets is estimated at \$30 M. The total statewide amount is not yet known.

The loans would be repaid in two installments, on the June and December 2013 settlement dates. The state would forgo interest earnings on any amount loaned under this provision until the loans are repaid.

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.

Abatement Notices: Under current law, a county or municipality may require property owners to cut and remove weeds and other rank vegetation. Violation notices must be sent by certified mail. This provision would

permit the county or municipality to post a notice of continuous abatement at the property after the initial violation notice is sent by certified mail. This provision would reduce the cost of posting violation notices for properties that are in continuous violation.

Explanation of Local Revenues: 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.

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.

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, with the exception of libraries, 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.

Library budgets would be subject to review only if the proposed budget increase exceeds the AVGQ. Additional appropriations for libraries would be subject to review only if the additional appropriation would result in a total budget increase that exceeds the AVGQ.

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.

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.

Solar-Powered Devices: 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.

[Background Information on Solar-Powered Devices: 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 LOIT: 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.

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 total combined CAGIT 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 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.

Maximum Levies - 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 the 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 of the levy increase approved.

Maximum Levies - Frontier Schools: Under the law in effect for 2008 through 2011 maximum levies, a taxing unit’s maximum levy was equal to the unit’s actual levy for the previous year multiplied by the income-based assessed value growth quotient (AVGQ), plus one-half of the unused levy authority from the previous year. Beginning with 2012 levies under current law, the maximum levy is equal to the previous year’s maximum levy multiplied by the AVGQ.

Under this provision, a school corporation whose transportation fund maximum levy declined by at least 24% in 2009 would have its maximum levy restored as if the school corporation had imposed the maximum levy in 2008, 2009, 2010, and 2011. The Frontier School Corporation is the only school corporation that would qualify.

Under this provision, the transportation maximum levy for 2013 would be computed by applying the AVGQ for 2009 through 2013 to the 2008 maximum levy. The 2012 maximum levy is \$203,548. At an assumed 3.2% AVGQ, the 2013 maximum levy is estimated at \$210,062 under current law. Under this provision, the 2013 maximum levy is estimated at \$290,207, for an increase of \$80,145. The increase is estimated at \$82,389 in 2014 and \$84,614 in 2015.

Assuming that the school corporation would increase its property tax levy by these amounts, net taxes would grow and circuit breaker losses could grow for civil taxing units and school corporations.

Proof of Residency: Under current law, a homestead is defined as an owner-occupied dwelling and up to one acre of land immediately surrounding the dwelling. Homesteads receive a standard deduction worth 60% of AV up to \$45,000 and the supplemental standard deduction worth 35% on the first \$600,000 of net AV after the

standard deduction plus 25% of the net AV that exceeds \$600,000. In addition, homestead property is subject to a 1% circuit breaker cap.

Under the current DLGF rule for homestead standard deduction applications, county auditors may require an individual to provide proof of principal residence. An applicant may provide any of the following documents to the county auditor as proof of the applicant's principal residence:

- (1) An Indiana identification card.
- (2) An Indiana driver's license or permit.
- (3) An Indiana gun permit.
- (4) A bank statement issued within 60 days of application.
- (5) Form W-2 (federal or state) or Form 1099.
- (6) A state or federal tax return.
- (7) A computer-generated pay check stub.
- (8) A valid employee identification card with a photo.
- (9) A valid Indiana professional license.
- (10) A valid insurance card.
- (11) A Medicare or Medicaid card.
- (12) U.S. military discharge or DD214 separation papers.
- (13) An Indiana residency affidavit.
- (14) A voter registration card.
- (15) A valid Indiana vehicle or watercraft title or registration.
- (16) Any other document with the applicant's name and the address of the residence that has reliability similar to the above listed documents.

This bill would void the above rule. The bill would permit county auditors to require an individual to provide proof of principal residence and would allow the auditors to limit the proof of residency documents to the following:

- (1) A state income tax return.
- (2) A valid driver's license.
- (3) A valid voter registration card.

If a county auditor limits the proof of residency documents to the three listed above, some applicants might not qualify. Nonhomestead residential property does not qualify for the standard and supplemental standard deductions. It is subject to a 2% circuit breaker cap.

If the county auditor determines that a property is not the owner's principal residence, the owner may appeal the determination to the PTABOA.

Fire Protection District Borrowing: This bill would permit certain fire protection districts to borrow money for operating expenses and obligations. A district would qualify if:

- The district and its tax levy and rate were initially established in 2011;
- The district properly advertised its 2011 and 2012 budgets, levies, and rates;
- The 2012 budget, levy, and rate were disallowed by the DLGF;
- The district's 2012 budget, levy, and rate were considered in an open meeting of the county council; and
- The district may experience a significant revenue shortfall.

Cass County Fire District # 1 would qualify to borrow money under this provision. The district could borrow the money if the board of fire trustees makes findings and the county council approves the expenditures. The borrowed money would be repaid with property taxes.

Maximum Permissible Rates - Rate-Controlled Funds: Under current law, the maximum tax rate for a rate-controlled fund, such as a cumulative fund, is adjusted each year to negate the effects of AV increases due to general reassessments or annual adjustments. When AV increases for these reasons, the rate is reduced so that the rate will produce the same tax amount on the same property. Sometimes, however, the current formula produces a reduced rate when AV is declining.

Beginning with taxes payable in CY 2013, the calculation would be changed so that there would be no change in the tax rate when AV declines. To the extent that the CY 2012 maximum rate is used as a starting point for the 2013 calculation, the 2012 maximum rate would be recalculated under the new formula. The 2012 rate calculation does not allow any additional levy in 2012. It only serves to restore the tax rate for 2013.

In the case of a unit with declining AV, this provision would result in an increase in property tax levies for rate-controlled funds as compared to current law. However, the levies would not be any higher than, and would possibly still be lower than, the 2011 levies for these funds.

The DLGF has certified 2012 property tax rates in 69 counties to date. An analysis of the cumulative fund rates reveals that taxing units in these 69 counties will lose a total of approximately \$30 M under current law in 2012 because of the lower tax rates produced by the current formula. The full statewide impact is not yet known.

Rate-Controlled Fund Loans: This bill would also permit a taxing unit to seek an interest-free loan from the state General Fund. The amount of the loan could not exceed the difference between (1) the unit's 2012 maximum levy for its rate-controlled funds and (2) the amount that the unit could have levied if the revised rate cap formula had been in place in 2012. The loan would have to be repaid in full in 2013 using proceeds from a debt service levy.

If taxing units receive a loan and impose a debt service levy, the total unit and district tax rate would increase in 2013. In areas where the circuit breaker caps may be triggered, the property tax losses attributable to the circuit breaker would rise for both the units imposing the debt service levies and for other taxing units in the taxing district.

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; Office of Management and Budget.

Local Agencies Affected: County assessors; County auditors; County treasurers; County property tax assessment boards of appeals; Taxing units with appointed governing bodies; Counties imposing local option income taxes; Civil taxing units and school corporations; Marion County; Miami County; Barkley and Union Townships in Jasper County; Starke County; Cass County Fire District # 1; Frontier School Corporation; Taxing units with rate-controlled funds.

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.

Fiscal Analyst: Bob Sigalow, 317-232-9859; Jessica Harmon, 317-232-9854; Jim Landers, 317-232-9869, Chris Baker, 317-232-9851.