

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8017

BILL NUMBER: HB 1650

DATE PREPARED: Jan 15, 1999

BILL AMENDED:

SUBJECT: Food and beverage tax in second class cities.

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**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill permits second class cities to impose a food and beverage tax up to a rate of 1% for urban development projects. It establishes a five member urban development board in each city adopting the tax to plan and oversee the urban development projects, subject to common council approval. It models the urban development board powers and duties on the capital improvement board law applicable to Marion County.

Effective Date: July 1, 1999.

Explanation of State Expenditures: The Department of Revenue's costs for administration, audit and collection of food and beverage taxes are approximately \$0.51 for every \$100 collected. The Department's current resources are sufficient to absorb the additional costs associated with this proposal.

Explanation of State Revenues:

Explanation of Local Expenditures: This bill establishes a five-member urban development board in each second class city that adopts a food and beverage tax. The boards are to plan and oversee the urban development projects, subject to common council approval. Board members are entitled to reimbursement for any expenses incurred.

Explanation of Local Revenues: This bill permits second class cities to impose a tax on the gross retail income from food and beverages furnished, prepared, or served for sale. The tax must be in increments of 0.1%, but may not exceed 1%. Each second class city that imposes a food and beverage tax must establish an urban development project fund, into which food and beverage tax revenue is to be deposited. Revenue from this tax would be used exclusively for the financing, construction, renovation, improvement, or equipping of urban development projects. However, revenue may not be used for the operation or maintenance of a project. Money in the fund may be pledged to pay bonds issued, loans obtained, and lease

payments or other obligations incurred by or on behalf of the city or a special taxing district in the city.

The 15 second class cities in Indiana are Anderson, Bloomington, Elkhart, Evansville, Fort Wayne, Gary, Hammond, Kokomo, Lafayette, Mishawaka, Muncie, New Albany, Richmond, South Bend, and Terre Haute. There are currently eleven local units that impose a 1% food and beverage tax (five towns and six counties). The total amount of revenue collected from these taxes in FY 1998 was \$23,683,538. The revenue received in towns ranged from \$340,642 for Plainfield (Hendricks County) to \$60,248 for Shipshewana (LaGrange County).

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Second class cities (see Explanation of Local Revenues).

Information Sources: Department of Revenue.