LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6535
BILL NUMBER: HB 1880

DATE PREPARED: Jan 18, 1999
BILL AMENDED:

SUBJECT: Local Option Education Income Tax.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill would establish an optional school income tax district education income tax (EIT) that applies to individuals (based on the adjusted gross income of individual taxpayers) and to corporations (based on the apportioned supplemental net income of corporations). It would require that each school income tax district be comprised of its school corporations having their budgets reviewed in the same county.

It would allow a school corporation in a school income tax district to collectively impose an individual EIT at a rate of 0.5% or 1% and a corporate EIT at a rate of 0.5% or 1%. The rates would apply, respectively, to the adjusted gross income of individual taxpayers and to the apportioned supplemental net income of corporations (the corporate EIT would be apportioned using the ratio of the corporation's assessed value of property in the school income tax district to the assessed value of all the corporation's property in Indiana).

This bill would require that both the individual EIT rate and the corporate EIT rate be identical in each school income tax district.

It would establish an EIT council in each school income tax district to do the following: 1) impose; 2) rescind; 3) increase; or 4) decrease the EIT rates for the school income tax district. It would require that the EIT council be comprised of the school boards of the school corporations in the school income tax district. It would require that the county auditor convene a meeting of an EIT council to consider proposed ordinances by its members.

It would stipulate that EIT revenues be used for property tax replacement credits, and that the property tax reduction not affect the 20% property tax replacement credit paid by the State. It would require that for the purposes of computing and distributing excise taxes, EIT property tax replacement credit distributions be treated as though the distributions were property taxes.

It would provide for the collection, administration, and distribution of the individual and corporate EIT.

Effective Date: Upon passage.

Explanation of State Expenditures: The administration, auditing, and collection of the individual and corporate EIT would result in an increased administrative cost the Department of Revenue.

Explanation of State Revenues:

Explanation of Local Expenditures: School income tax districts would incur costs associated with public notice and hearings regarding the imposition of the individual and corporation EIT. These costs would vary from district to district.

Explanation of Local Revenues: This bill would establish school income tax districts (throughout the state), with each tax district being comprised of its school corporations having their respective budgets reviewed in the same county. It would establish an EIT council within each district (an EIT council would have the authority to adopt ordinances to either impose, rescind, increase, or decrease education income taxes for its district).

School income tax districts would be allowed to impose an EIT on individuals at a rate of either 0.5% or 1.0% based on the adjusted gross income of the respective individual taxpayer. Business entities (e.g., partnerships and Sub S corporations) would have income taxed at the individual rate, and paid by the individual partners or shareholders.

School income tax districts would be allowed to impose an EIT on corporations at a rate of either 0.5% or 1.0% based on the apportioned supplemental net income of the respective corporation (apportioned net income for each corporation would be calculated by multiplying the total supplemental net income for that corporation by the ratio of the corporation's assessed value in the district to the corporation's total statewide assessed value).

It would require that both the individual EIT rate and the corporate EIT rate be identical in each school income tax district.

The ultimate impact of this bill would depend upon local action. This analysis assumes that **all** school corporations would become members of the school income tax districts, and that all appropriate ordinances would be adopted.

The numbers provided here estimate a **total statewide impact** as a result of this bill. Based on the December 17, 1998 Revenue Forecast, this analysis assumes a 4.5% increase in individual AGI revenue and a 3.5% increase in supplemental net income tax (SNIT) revenue from FY 99 to FY 2000. FY 2000 and FY 2001 revenues are expected to increase by 6.6% for individual and approximately 4.2% for business taxes. Expected revenues for a full tax year are as follows:

1% TAX			0.5% TAX	
	Individual	Business	Individual	Business
FY 2000	$1,143.5 M	$77.9 M	$571.7 M	$39.0 M
FY 2001	$1,219.4 M	$81.5 M	$609.7 M	$40.8 M

This analysis also assumes that districts are formed as soon as possible. This would mean an adoption of the tax in July 1999, with the first distribution to school corporations in CY2000.

This bill would require that the Department of Revenue (before July 2 of each year) estimate and certify to the county auditor of each district, the amount of EIT revenue that would be collected from July 1 to June 30 of the next year (this amount would be the district's certified distribution). It would require that half of the certified distribution be distributed to the county treasurer of each district before May 1 of the following year, and the other half before November 1. The certified distribution would then be deposited in each district's account within the state General Fund until distribution.

Once received, the county treasurer would allocate the local option EIT entirely to property tax replacement credits. The funds would then be distributed to each school corporation according to its size in relation to the total district. Similarly, the school corporations would distribute the funds within the budget to each line item according to its size in relation to the total budget.

The bill would require that property tax replacement credits be allocated among each fund in which a corporation has a levy. For example, if a particular school corporation does not have a Debt Service Fund levy, then the credits would be allocated to other school corporation funds (e.g., General, Capital Projects and Transportation).

This bill would require that the 20% state property tax credit provided through the state Property Tax Replacement Fund will not be affected by this proposal. The credits would be considered as part of the school corporation's property tax levy for each fund for purposes of fixing the school corporation's budget.

Any property tax replacement credits from the EIT would result in decreased property tax rates and therefore smaller property tax bills for taxpayers. There would be some shift in the tax burden among district residents and businesses. Renters, for example, would take on obligations while property owners could experience tax relief as a result of this bill. There could also be some shift in the tax burden within the business sector as corporations would be subject to income tax while other businesses may not be.

This bill would stipulate that elderly and disabled persons be entitled to credits against their EIT similar to the credits available for individual income taxes. The credit for the EIT would equal the lesser of the following:

Elderly or Disabled Credit * (EIT rate/.15); or

the amount of EIT actually imposed on the individual taxpayer and the individual taxpayer’s spouse. The impact of these credits would vary from district to district.

Total statewide elderly credits for 1995 and 1996 were $8,360,430 and $7,740,080 respectively.

State Agencies Affected: Department of Revenue; State Board of Tax Commissioners.

Local Agencies Affected: School Corporations; County Auditors; County Treasurers.

Information Sources: State Budget Agency, December 17, 1998 Revenue Forecast; Department of Revenue.