

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

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7199**  
**BILL NUMBER: SB 331**

**DATE PREPARED:** Jan 4, 1999  
**BILL AMENDED:**

**SUBJECT:** True tax value of depreciable personal property.

**FISCAL ANALYST:** Bob Sigalow  
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**FUNDS AFFECTED:**     **GENERAL**  
                          **X DEDICATED**  
                          **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill adopts the value for depreciable personal property that is used for federal income tax purposes as the true tax value of the personal property under the property tax.

**Effective Date:** January 1, 2000.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** The State levies a one cent tax rate for State fair and State forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Under current law, the true tax value of depreciable personal property for property tax purposes is determined under State Tax Board rule. Valuation under the rule begins with the property's federal cost basis. The property is then placed into one of four depreciation pools based on the property's useful life. The pool determines the rate of depreciation given to the property. Finally, the total true tax value of all of the taxpayer's depreciable property must equal at least 30% of the total cost.

This bill would place the true tax value of the property at the federal tax basis amount. Depending on the type of depreciation given to the property for federal purposes, the federal tax basis could be more or less in a given year than the true tax value under current law. However, because property can be fully depreciated for federal tax purposes, the property's tax basis will be reduced to zero at some point. Because of this, the true tax value of the property under the proposal will eventually be eliminated and total assessed value of all depreciable personal property would be reduced.

The actual amount of the reduction is not currently known. For the 1997 Pay 1998 property tax year,

depreciable personal property had an assessed value of \$7.8 billion and a net property tax of \$713 million or 16% of the total net property tax of \$4.4 billion.

Reductions in value reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers experiencing the reduced valuation to all taxpayers in the form of an increased tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the lost AV applicable to that fund.

**State Agencies Affected:** State Board of Tax Commissioners.

**Local Agencies Affected:** Local assessing officials; All local taxing units.

**Information Sources:** Local Government Database.