LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7313 **DATE PREPARED:** Jan 11, 2000
BILL NUMBER: HB 1374 **BILL AMENDED:**

SUBJECT: Various state and local taxes.

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

Summary of Legislation: This bill makes various changes concerning the gross income tax, the sales and use tax, the adjusted gross income tax, electronic fund transfers, business income data collection, federal tax refunds for Indiana income taxes owed, ordinances regarding local taxes, Roth IRAs and educational IRAs, and the professional sports and convention development tax area law. The bill also removes vehicle identification information from the income tax return. It updates the references to the Internal Revenue Code and corrects internal references.

Effective Date: Upon passage; January 1, 2000 (retroactive); July 1, 2000; January 1, 2001.

Explanation of State Expenditures: *Vehicle identification information:* This bill deletes the requirement that the Department of State Revenue (DOR) obtain vehicle identification information from taxpayers on the tax return.

Sales Tax Remittance & Reports: The requirement that remitters of sales and use tax pay monthly, but only file reports on a quarterly basis is designed to create administrative savings for the Department and taxpayers. The threshold for filing, by remitters of sales and use tax, by electronic fund transfer is also reduced to $5,000 (from $10,000) per month. This will increase the number of remitters filing by electronic fund transfer.

Explanation of State Revenues: *Internal Revenue Code Update:* A number of federal tax provisions were included H.R. 1180 - 1999 would affect the calculation of Indiana Adjusted Gross Income. These provisions will have minimal impact on revenue collections beginning in FY 2000 and beyond. Some of these provisions include the following:

- a two year extension of the exception from subpart F foreign personal holding company income, foreign base company services income, and insurance income for certain income that is derived from the active conduct of banking, finance or insurance;

- exclusion for employer-provided educational assistance through December 31, 2001;
- extends the duty-free treatment under the Generalized System of Preferences (GSP);
- extends the expensing of environmental remediation expenditures;
- limits long term capital gain treatment to certain income in transactions involving pass-through entities;
- prohibits the use of the installment method by accrual method taxpayers;
- numerous changes relating to the treatment of real estate investment trusts (REITS).

Electronic fund transfers: This bill will result in more taxpayers remitting their tax liabilities through electronic fund transfer. Beginning January 1, 2001, the threshold for remitting the Sales and Use Tax , and the Adjusted Gross Income Tax by electronic fund transfer is lowered from an average monthly liability of $10,000 to $5,000. The threshold for the Motor Carrier Fuel Tax and Surcharge Tax is$10,000 per quarter. For the Gross Income Tax and the Financial Institutions Tax, the same threshold change is made for average quarterly liabilities. This should result in the more efficient collection of these taxes.

Beginning January 1, 2001, for Innkeepers's Taxes and Food and Beverage Taxes collected by the Department, the threshold is established at an average monthly liability $5,000 for the requirement that persons collecting those taxes remit by electronic funds transfer. Currently these taxes are not required to be remitted by electronic funds transfer.

County Remittance: This bill allows county treasurers to remit gross income tax receipts from the sale or transfer of an interest in real estate to the Department of State Revenue on the 20th day of the month following the end of a quarterly period. Current law requires the remittance to be on the 15th day of the month. This will result in a minimal loss of interest earnings from the five day delay of receiving these tax receipts but it will bring the remittance dates in conformity with other tax filing dates.

Use Tax exemption: The bill clarifies that the use tax exemption for tangible personal property processed in Indiana by commercial printers and transported out of Indiana for sole use outside of Indiana applies to property that is delivered into Indiana from sources within or outside the state. Any impact would be negligible.

Definition of dependent: For purposes of the employee medical care savings account plans, the definition of dependent is changed to be consistent with the Internal Revenue Code. This change expands the definition except for the exclusion of mentally or physically incapacitated children over the age of 18.

Refund offset: The bill allows the Department to enter an agreement with the Internal Revenue Service for purposes of collecting state income tax obligations through a refund offset. This could assist the Department in the collection of delinquent liabilities.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Local Option Taxes:* The bill specifies that if a local unit of government adopts a local option tax, the ordinance must be adopted after January 1 and before April 1 of a year and takes affect on July 1 of the year it was adopted. The local fiscal body must send DOR a certified copy of each ordinance adopted by certified mail not more than 10 days after the ordinance is adopted.

Professional Sports Development Areas: The bill clarifies the conditions under which a city or county may establish a professional sports and convention development (PSCDA) area. Under current law, a PSCDA may include only facilities owned by a city, a county, a school corporation, a local capital improvement board (only in counties not containing a consolidated city), a civic center's board of directors in South Bend and Mishawaka, or the Building Authority in Gary. A PSCDA may only contain a facility that is owned by one of these entities and is used either by a professional sports franchise or for tourism and convention events.

This bill would require all PSCDAs to contain a facility used by a professional sports franchise (except for a PSCDA in Fort Wayne). This bill also provides that any facility in a PSCDA other than a professional sports arena must be used "principally" for convention and tourism related events serving regional or national markets. In addition, the bill clarifies that if a PSCDA that contains multiple facilities, these facilities may have different owners provided they are included in the list of eligible owners provided in the paragraph above. If multiple owners exist, this bill would further require the parties involved to establish an agreement specifying the distribution of tax revenues collected for the PSCDA fund.

PSCDAs are special zones in which certain state and local tax revenues earned in the area are diverted and deposited into a special fund. This fund is dedicated for capital improvement in the development area. The taxes which may be captured in PSCDAs are the Sales Tax, the Individual Adjusted Gross Income (AGI) Tax, local food and beverage taxes, and local option income taxes.

This bill would also allow a county courthouse listed on the National Register of Historic Places to be included in a PSCDA. There are three PSCDAs established in counties where a county courthouse is included in the Register (Allen County, St. Joseph County, and Vanderburgh County). If a courthouse were included in a development area, state revenues would be affected to the extent that Individual AGI Tax and Sales Tax revenue generated by the courthouse would be deposited in the PSCDA fund. Revenue from these taxes would not be realized by the state until the annual limit on captured state taxes is reached (the maximum is $5 for each resident of the unit that established the area).

Food and beverage taxes and local option income taxes earned in PSCDAs are also captured for capital improvement, and there is no limit on the amount of local taxes that may be captured. However, this bill specifies that a food and beverage tax in Allen County is not a covered tax and may not be captured by the PSCDA. With the exception of Allen County, the inclusion of county courthouses in development areas would increase PSCDA funds by the full amount of additional food and beverage, COIT, CAGIT, and CEDIT tax revenue they generate. The increase in revenue would be directed to the PSCDA instead of other local taxing units in the county as provided under current law.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: All.

Information Sources: Department of State Revenue; Joint Committee on Taxation.