LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7313
BILL NUMBER: HB 1374

DATE PREPARED: Feb 23, 2000
BILL AMENDED: Feb 22, 2000

SUBJECT: Various state and local taxes.

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FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill makes various changes concerning the gross income tax, the sales and use tax, the adjusted gross income tax, federal tax refunds for Indiana income taxes owed, ordinances regarding local taxes, Roth IRAs and educational IRAs. It updates the references to the Internal Revenue Code for 2000. It provides that oil inspection fees collected by licensed gasoline distributors are not gross income. The bill removes vehicle identification information from the income tax return. It repeals the Investment Income Tax Credit and the Prison Investment Income Tax Credit. It also corrects internal references.

This bill also provides that the state welfare allocations calculated as part of the Financial Institutions Tax distributions and the Motor Vehicle Excise Tax distributions are based on amounts levied by counties for the county welfare fund and the county welfare administration fund, rather than the amounts appropriated from those funds.

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

Explanation of State Expenditures: (Revised) *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.

Explanation of State Revenues: (Revised) *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).

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.

Oil Inspection Fees: The bill provides that oil inspection fees collected by licensed gasoline distributors are not considered gross income for purposes of calculating a taxpayer's tax liability. According to the Department of State Revenue, this exemption would result in a $60,000 reduction in Gross Income Tax revenue. This revenue is deposited in the General Fund.

Repealed Tax Credits: This bill also repeals the Investment Income Tax Credit and the Prison Investment Income Tax Credit. According to the Department of State Revenue, no one has utilized these credits so there will be no impact resulting from their repeal.

Calculations of Welfare Allocation: The provision which changes the calculation of state welfare allocations to be based on county levies for the county welfare fund and the county welfare administration fund, rather than the amounts appropriated from those funds, clarifies how these distributions are to be made and corresponds to the current practice of other local distributions.

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.

State Agencies Affected: Auditor's Office; Department of State Revenue.

Local Agencies Affected: All.

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