LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7206
BILL NUMBER: HB 1386

DATE PREPARED: Jan 20, 2000
BILL AMENDED:

SUBJECT: Property tax exemption and credit.

FISCAL ANALYST: Bob Sigalow, Diane Powers
PHONE NUMBER: 232-9859; 232-9853

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

IMPACT: State & Local

Summary of Legislation: ***Manufacturer's Exemption*:** This bill provides a property tax exemption for raw materials and parts that are to be incorporated into completed goods that will be shipped out of state.

***Inventory Tax Credit*:** This bill also provides a refundable credit against a taxpayer's state tax liability for property taxes paid on inventory. It provides that the credit is initially equal to 20% of property taxes paid on inventory, and that the credit increases over five years until the credit may be claimed for 100% of property taxes paid on inventory in 2004 and thereafter. The bill provides that if the credit exceeds a taxpayer's liability, the taxpayer is entitled to a refund of the excess.

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

Explanation of State Expenditures: ***Inventory Tax Credit*:** The Department of State Revenue will have additional administrative expenses associated with the revision of tax forms, instructions, computer programs and compliance.

Explanation of State Revenues: (Revised) ***Inventory Tax Credit*:** This bill creates a business inventory tax credit based on a certain percentage of property taxes paid on inventory. The applied percentages and corresponding tax years are identified below along with the estimated revenue loss for the respective fiscal years. The amount of inventory has been adjusted to reflect the new manufacturer's exemption from property taxes as discussed below.

Tax Year	% Credit	Estimated Inventory Tax Credit (M)	FY Impact
2000	20%	$53.2 M	FY 2001
2001	40%	$112.3 M	FY 2002
2002	60%	$172.1 M	FY 2003
2003	80%	$244.8 M	FY 2004
2004 & After	100%	$326.5 M	FY 2005 & after

Due to the effective date of this credit, January 1, 2000, there may be a slight reduction in income tax collections in FY 2000 if taxpayers adjust their June, 2000 quarterly payment based on property taxes paid in May, 2000.

The credit may be taken against the taxpayer's liability under the Corporate Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Insurance Premium Tax, and the Financial Institution Tax. If the amount of the credit exceeds the taxpayer's liability, they are entitled to a refund of any unused credit. If a pass through entity does not have an income tax liability, the credit may be taken by the shareholder(s) or partner(s) in relation to their distributive income in which they are entitled from the pass through entity.

The tax credits would continue to grow in tax years 2005 and years after. Tax revenue from the various taxes noted above are deposited in the General Fund and the Property Tax Replacement Fund.

Manufacturer's Exemption: The State levies a one cent tax rate for State Fair and State Forestry. The reduction in the assessed value base will reduce the property tax revenue for these two funds by approximately $169,000 per year.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) ***Manufacturer's Exemption*:** Under current law, finished goods inventory owned by a manufacturer or processor is exempt from property taxation if the property is stored in its original package and will be shipped out of state. Certain other inventory property that is stored in an Indiana warehouse and will be shipped to another state is also currently exempt. In addition to the currently exempt property, this bill would exempt finished goods, raw materials and parts owned by a manufacturer or processor that will be incorporated into completed goods that will be shipped out of state. The final product to be shipped out of state may be produced by the taxpayer or by a purchaser of the goods produced by the taxpayer.

Total net property taxes on inventory amounted to about $402 M in CY 1999. Manufacturers accounted for about 48% of that amount or $193 M. The additional exemptions allowed by this bill would reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the exemptions to all taxpayers in the form of an increased tax rate. Only a portion of manufacturers’ inventory would be exempt under this bill, so only a portion of the $193 M tax burden would be shifted to other taxpayers. According to exemption data from the 1997 the personal property tax returns, just over 78% of manufacturers' finished goods were destined out-of-state and therefore exempt. Applying this same percentage to the rest of manufacturer's inventory, it is estimated that about $151 M per year of the property tax burden would be shifted from manufacturers to all other taxpayers.

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 exemption amount applicable to that fund.

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

Local Agencies Affected: Local Assessing Officials.

Information Sources: Jeff Wuensch, State Board of Tax Commissioners (232-3784); Local Government Database.