LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7206 **DATE PREPARED:** Feb 9, 2000
BILL NUMBER: HB 1386 **BILL AMENDED:** Feb 7, 2000

SUBJECT: Property tax exemption and credit.

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FUNDS AFFECTED: **GENERAL** **IMPACT:** State & Local
<u>**X**</u> **DEDICATED**
FEDERAL

<u>Summary of Legislation:</u> (Amended) This bill provides a property tax exemption in Tippecanoe County for raw materials and parts that are to be incorporated into completed goods that will be shipped out of state. The bill phases in the exemption over ten years.

<u>Effective Date:</u> July 1, 2000; January 1, 2001.

<u>Explanation of State Expenditures:</u>

<u>Explanation of State Revenues:</u> (Revised) 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 $6,300 per year.

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u> (Revised) 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 in Tippecanoe County 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 an estimated $13.9 M in CY 1999 in Tippecanoe County. Manufacturers accounted for about 48% of net property tax on inventory statewide. In Tippecanoe County, the estimated property tax on inventory paid by manufacturers in CY 1999 was $6.7 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 Tippecanoe County manufacturers' inventory would be exempt under this bill, so only a portion of the $6.7 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 statewide. Applying this same percentage to the rest of manufacturer's inventory, it is estimated that about $5.2 M of the property tax burden would have been shifted from manufacturers in Tippecanoe County to all other taxpayers in the county if this exemption had been fully implemented in CY 1999.

This bill phases the exemption in at a rate of 10% per year. The following table estimates the annual tax shift through the end of the 10 year phase-in period.

CY	**Exempt %**	**Tax Shift**
2002	10%	$646,000
2003	20%	1.4 M
2004	30%	2.3 M
2005	40%	3.3 M
2006	50%	4.2 M
2007	60%	5.4 M
2008	70%	6.8 M
2009	80%	8.4 M
2010	90%	9.7 M
2011	100%	11.6M

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: State Board of Tax Commissioners.

Local Agencies Affected: Local Assessing Officials in Tippecanoe County.

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