

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

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FISCAL IMPACT STATEMENT

LS 7233
BILL NUMBER: SB 507

DATE PREPARED: Jan 18, 2000
BILL AMENDED:

SUBJECT: Creates state agency to hear property tax appeals.

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

Summary of Legislation: This bill establishes the Indiana Board of Tax Review. It provides that the Indiana Board of Tax Review hears: (1) appeals from determinations of county property tax assessment boards of appeals; and (2) appeals from determinations of the State Board of Tax Commissioners. The bill provides that determinations of the Indiana Board of Tax Review are appealable to the Indiana Tax Court. The bill also establishes the organization of the Indiana Board of Tax Review, including the requirements for a Division of Appeals and a Division of Data Analysis.

This bill specifies the duties and procedures of the Indiana Board of Tax Review. It directs the Indiana Board of Tax Review to compute school assessment ratios and authorizes the Indiana Board of Tax Review to order special reassessments. The bill also provides for annual withholding by the state of distributions of property tax replacement credit and homestead credit revenue for a county's Reassessment Fund until submission by the county of data relating to tax assessments, exemptions, deductions, and credits if the data is not submitted in a timely manner.

The bill requires the State Board of Tax Commissioners to establish a Personal Property Audit Division, a Budget Division, and an Assessment Division and specifies the responsibilities of those divisions. It eliminates the Division of Appeals and the Division of Tax Review of the State Board of Tax Commissioners. The bill requires the State Board of Tax Commissioners to conduct annual personal property assessment audits. It also provides that payment of an appraisal contractor by a county is conditioned on the contractor providing real property assessment and property characteristic data to the state.

Additionally, this bill provides that rules of the State Board of Tax Commissioners and the Indiana Board of Tax Review may not: (1) restrict ability to practice before the agency to attorneys; or (2) restrict admissibility of evidence to the agency based on the manner in which the taxpayer's representative or other witness is compensated.

Effective Date: July 1, 2001.

Explanation of State Expenditures: The State Tax Board is currently comprised of five divisions including the Appeals, Assessment, Budget, Operations, Tax Review Divisions. The Tax Board has 99 approved positions and their FY 2000-2001 budget is set at \$6.2 M. This bill would redefine the duties of the State Tax Board and would also create the Indiana Board of Tax Review. Many of the current duties of the State Tax Board would simply be shifted to the new Indiana Board of Tax Review without any change to those duties. Both the State Tax Board and the Indiana Board of Tax Review would have some new or enhanced requirements. This analysis focuses on those changes.

State Tax Board: The State Tax Board would be required to establish a Personal Property Audit Division. This division would be required to conduct audits on a sample of the returns filed throughout the state. The bill also stipulates that Audit Division employees may only perform duties related to the audit function. Although the State Tax Board performed personal property audits in the past, the former auditors have been assigned to other duties within the Assessment and Appeals Divisions. The State Tax Board would have to hire a new staff of auditors (or reassign former auditors and fill their current positions) to perform the required audits. The former audit staff consisted of 26 auditors, three supervisors, and an audit coordinator. The number of auditors needed for the new division depends on the size of the audit sample deemed necessary. The former auditors' positions ranged from PAT IV to PAT I. The starting annual salary for these positions currently ranges from \$22,000 to \$32,000.

The State Tax Board's Budget Division would be required to provide training in budget matters to employees of political subdivisions. The bill also stipulates that Budget Division employees may only perform duties related to the budget review and certification. The Budget Division might need to hire one or two new employees to perform the local training requirements of this bill.

Indiana Board of Tax Review: The bill creates the Indiana Board of Tax Review, composed of four lay members and two ex officio, non-voting members who are members of the General Assembly. Each member of the Board and each employee of the Board would receive a salary and travel allowances.

The Board of Tax Review would establish the Appeals and Data Analysis Divisions. The Appeals Division would be quite similar to the current Appeals Division under the State Tax Board. This division would hear the same appeals as it currently does except for a potentially small number of appeals from certain State Tax Board final determinations. The Appeals Division could operate with its current employees. However, there is currently a backlog of 3,400 to 3,500 appeals. If the Board of Tax Review finds that additional employees are necessary to administer this function, there would be an increase in personnel expenditures.

The Data Analysis Division would compile a database including information from the Local Government Database, sales disclosure forms, personal property returns, real property assessment records, and exemption, deduction, and credit data. Much of this data is already available in machine readable form. The division would have to electronically compile data from the sales disclosure forms and information on exemptions, deductions, and credits.

The division would also:

Conduct continuing studies related to State Tax Board areas;

Make periodic field surveys and audits of various documents useful in checking valuations and returns;
Make test checks of valuations to serve as the basis for special reassessments;
Conduct a coefficient of dispersion study for each township and county each two years;
Conduct a sales assessment ratio study for each township and county each four years;
Compute school assessment ratios; and
Report the data obtained or determined to the Legislative Services Agency.

The Indiana Board of Tax Review would be required to conduct coefficient of dispersion and sales assessment ratio studies that apply to the 2002 assessment year.

The Data Analysis Division would require large initial expenditures for computer equipment, software, and possibly contractor services to create the database. The division would also need to hire a division director, programmer, systems analyst, and several employees to review and analyze the data.

The Indiana Board of Tax Review would be permitted to initiate a review to determine whether to order a special reassessment. If all or part of the property in a township or county is not substantially valued at true tax value, the Board of Tax Review would contract for a special reassessment to correct the valuation. The cost of the special reassessment of a township would be paid by the township. The cost of the special reassessment of a county would be paid by the county.

The creation of the Indiana Board of Tax Review would also necessitate the duplication of some support services such as payroll, personnel, and secretarial. Although some of the State Tax Board support personnel could be transferred to the Indiana Board of Tax Review, additional employees would have to be hired.

Property Tax Appeal Representation: The State Board of Tax Commissioners is currently required to adopt rules governing the practice of representatives before the State Board of Tax Commissioners and the county property tax board of appeals. This bill would also require the Indiana Board of Tax Review to adopt the same rules. The bill would prohibit the State Tax Board and Indiana Board of Tax Review rules from restricting the ability of a representative to practice before the property assessment board of appeals, the State Tax Board, or the Indiana Board of Tax Review just because the representative is not an attorney. Under the proposal, the rules also would not be able to restrict the admissibility of testimony based on the method by which the representative or a witness is compensated.

Explanation of State Revenues:

Explanation of Local Expenditures: County assessors would be required to maintain an electronic data file of the parcel characteristics and parcel assessments in the form required by the Indiana Board of Tax Review. If a county's database does not currently contain the required data or if the county cannot provide the data with its current software, the county may face additional expenses in order to adapt to the requirements.

Explanation of Local Revenues: This bill requires each appraiser or appraisal firm to submit data including complete parcel characteristics and parcel assessment data to the Indiana Board of Tax Review. The bill would also require the Department of State Revenue to withhold payments of homestead credit and property tax replacement credits (PTRC) attributable to the county Property Reassessment Fund from counties where the data is not timely submitted. PTRC payments on the county Property Reassessment Fund are equal to 20% of the gross property tax levy for the fund. Homestead credits on the county Property Reassessment

Fund are equal to 10% of homeowners net tax liability for that fund. The homestead credit percentage changes to 4% in CY 2002 under current law.

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

Local Agencies Affected: Counties and townships.

Information Sources: