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

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## FISCAL IMPACT STATEMENT

**LS 7330**
**BILL NUMBER:** HB 1376

**NOTE PREPARED:** Jan 27, 2003
**BILL AMENDED:**

**SUBJECT:** Property tax exemption for aircraft.

**FIRST AUTHOR:** Rep. GiaQuinta
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

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

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides a deduction for certain aircraft and related parts and equipment owned by a business entity with an Indiana corporate headquarters.

**Effective Date:** January 1, 2003 (retroactive).

**Explanation of State Expenditures:**

**Explanation of State Revenues:** The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The annual revenue reduction under this proposal is estimated at about $800 - $1,200 in FY 2003 and $1,600 - $2,500 in FY 2004 and years following.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Effective with property taxes paid in 2003, this bill would provide a 100% property tax deduction for:

1) Common carrier passenger aircraft with a seating capacity of 90 passengers or less;
2) Common carrier or private cargo aircraft;
3) Spare parts for deductible aircraft; and
4) Maintenance equipment that is used on the deductible aircraft.

To qualify for the deduction, the owner must have its corporate headquarters in Indiana or be a subsidiary of another corporation with its headquarters in Indiana.

According to the Department of Local Government Finance, approximately $11 M in aircraft assessed value was reported for property taxes payable in 2000 (the latest year available) by Indiana headquartered corporations. While this value may include aircraft that might not qualify for the deduction, it does not include the value of spare parts or maintenance & repair equipment. More current information received from an impacted taxpayer suggests that the AV is now in the neighborhood of $50 M.

Since other Indiana headquartered corporations that are not identified as airline companies might own maintenance & repair equipment, spare parts, and even some aircraft, the total AV that would be exempted under this bill could exceed the $50 M that is identified above. It is estimated that this bill would result in exemptions totaling about $50 M - $75 M.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. A $50 M - $75 M reduction in AV would cause a $0.0003 - $0.0005 increase in the statewide average net tax rate and cause a shift of about $900,000 - $1.35 M from the taxpayers receiving the deduction to all taxpayers, beginning in CY 2003. Total local revenues, except for cumulative funds, would remain unchanged. Cumulative fund revenue would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

If the 2003 tax rates in an affected county are certified prior to the passage of this bill, then the AV reduction would cause a reduction in local revenues instead of a shift in CY 2003. The AV reduction would cause a shift in CY 2004 and later years. Tax rates are normally certified by February 15th each year. However, the current reassessment has caused a delay in the certification of assessed values for taxes paid in 2003 in many counties and tax rate certification by the Department of Local Government Finance depends on this valuation.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** County auditors; Local governmental units; School corporations.

**Information Sources:** Kurt Barrow, Assessment Director, Department of Local Government Finance (317) 232-3777; Local Government Database.

**Fiscal Analyst:** Bob Sigalow, 317-232-9859