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FISCAL IMPACT STATEMENT

LS 6328 | **NOTE PREPARED:** Nov 17, 2003
BILL NUMBER: SB 58 | **BILL AMENDED:**

SUBJECT: Filing Deadline for Deductions and Credits.

FIRST AUTHOR: Sen. Simpson | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill permits an individual who was eligible for, but did not apply for, a property tax deduction or homestead credit for taxes payable in 2004 to apply before December 15, 2003, to receive the benefit.

Effective Date: Upon passage.

Explanation of State Expenditures: Under current law, an application for a property tax deduction or homestead credit must be filed by May 10th to be effective for taxes paid in the following year. Under this proposal, a taxpayer would be entitled to a deduction or homestead credit for taxes paid in 2004 if the application is filed by December 15, 2003, and the taxpayer meets all other eligibility requirements. Under current law, these deductions and credits would not be effective until taxes are paid in CY 2005. This provision would have the effect of allowing these deductions and homestead credits to become effective one year early.

Based on available 2003 county abstract data and 2003 property tax parcel record data compared with Census estimates for owner-occupied housing, it was estimated that as many as 5.7%, or 95,000 homeowners, may not have filed for the homestead credit. The resulting additional homestead credit for CY 2004, assuming that all 95,000 homeowners file for the credit, is estimated at $12.1 M. **The additional expense by fiscal year is estimated at $4.0 M in FY 2004 and $8.1 M in FY 2005.**

(Note: These estimates were based on data from a small number of counties and is subject to change as more data is received.)

Homestead credits are paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund. Any additional homestead credit expenditures would ultimately come from the General Fund.

Explanation of State Revenues: The state levies a small 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 revenue reduction under this proposal is estimated at $59,000 in FY 2004 and $59,000 in FY 2005.

Explanation of Local Expenditures: There are 10 counties that currently provide a locally funded homestead credit. These counties include Allen, Madison, Marion, Miami, Monroe, Perry, St. Joseph, Spencer, Tippecanoe, and Vanderburgh.

If additional taxpayers in these 10 counties receive the state homestead credit in CY 2004 as a result of this provision, they will also receive the local homestead credit. The additional local homestead expense for all 10 counties is estimated at about $2.7 M.

This local homestead credit is paid for with County Option Income Tax (COIT) proceeds. The amount of COIT revenue available for distribution to local civil taxing units would be reduced by the amount spent for local homestead credits. The additional $2.7 M in local homestead credit expense would, therefore, reduce distributions to the civil taxing units in these counties in CY 2004.

Explanation of Local Revenues: The property tax deductions that would be available for taxes paid in 2004 under this proposal if applied for by December 15, 2003, include the mortgage, aged, blind/disabled, and veterans deductions. The $35,000 standard deduction is also included and is automatic when the homeowner receives the homestead credit.

This analysis assumes that the percentage of taxpayers who qualify for these deductions and who would benefit from this proposal is the same (5.7%) as the number that could benefit under the homestead credit portion of the bill. If all of the eligible taxpayers file for these deductions, there would be an estimated 6.1% increase in the deductions along with an additional 95,000 standard deductions at $35,000 each and would result in a loss of assessed value estimated at $3.59 B.

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. An additional $3.59 B in deductions would cause a $0.035 increase in the statewide average gross tax rate and would shift approximately $70 M to 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 deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; Auditor of State.

Local Agencies Affected: County auditors; All local civil units and school corporations.

Information Sources: 2002 and 2003 County Auditors' Abstracts; County property tax parcel record data; Census Bureau; Local Government Database.

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