LEGISLATIVE SERVICES AGENCY

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FISCAL IMPACT STATEMENT

LS 6832 | **NOTE PREPARED:** Dec 28, 2010
BILL NUMBER: SB 173 | **BILL AMENDED:**

SUBJECT: Property tax deduction for new homes.

FIRST AUTHOR: Sen. Young R Michael | **BILL STATUS:** As Introduced
FIRST SPONSOR:

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

Summary of Legislation: This bill establishes a 100% property tax deduction for a new home, which includes a newly constructed home or an existing home that has not been previously occupied as a residence. The bill provides that: (1) the deduction applies only if the contracts for construction or purchase and financing are entered into after June 30, 2011, and before July 1, 2012; (2) the deduction period is five years unless the legislative body of the city, town, or county establishes a period of three or four years; and (3) the owner of the new home must apply to the county auditor for the deduction. The bill also directs the Department of Local Government Finance (DLGF) to adopt rules.

Effective Date: Upon passage.

Explanation of State Expenditures: Under the bill, the DLGF must adopt rules and may adopt emergency rules to implement the deduction for new homes.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under this proposal, the assessed valuation of owner-occupied homes that are occupied for the first time between July 1, 2011, and June 30, 2012, inclusive, would be withheld from the tax base for at least three and up to five years. This would affect taxes payable from 2013 through as late as 2018.

When property is added to the tax base, part of the property burden is spread to the new property. Without the new property, tax rates would increase as compared to the rates under current law. If this proposal encourages additional home purchases, then there could be additional assessed value (above the normal growth amount) added to the tax base after the deduction period. Tax rates would return to normal, or possibly lower, at the end of the deduction period.

Cumulative fund rates are capped. The levies for these funds grow only when new property or property enhancements are added to the tax base. These funds would forgo the growth attributable to these new homes for the deduction period. Cumulative fund levies would return to normal, or possibly higher, at the end of the deduction period.

Additional Information: The number of newly occupied homes by their owners each year has not been determined. As a possible proxy, the number of building permits for single-family homes in Indiana was 32,116 in 2005; 24,438 in 2006; 19,232 in 2007; 11,780 in 2008; and 9,666 in 2009 . The estimated average cost of a new home in 2012 is $157,991. If it is assumed that 10,000 to 15,000 homes would be built and occupied by their owners during the qualifying time period, the gross AV could total $1.6 B to $2.3 B. The net AV after all standard deductions and an assumed mortgage deduction could total $704 M to $1.05 B. The deduction under this bill would be effective for taxes payable from 2013 through 2017 for homes purchased from July 1, 2011, through as late as March 1, 2012. The deduction would be effective for taxes payable from 2014 through 2018 for homes purchased from March 2, 2012, through as late as June 30, 2012.

State Agencies Affected: DLGF.

Local Agencies Affected: All.

Information Sources: *Building Use Permits - Indiana*, STATS Indiana, Indiana University; *Indiana Home Price, New Average*, Global Insight.

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