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FISCAL IMPACT STATEMENT

LS 6143
BILL NUMBER: SB 152

NOTE PREPARED: Apr 4, 2013
BILL AMENDED: Apr 4, 2013

SUBJECT: Property Tax Assessments.

FIRST AUTHOR: Sen. Eckerty
FIRST SPONSOR: Rep. Davis

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Real Property Assessments*: This bill provides that in the case of real property that is the subject of a property tax appeal in which the gross assessed value is reduced by the Property Tax Assessment Board of Appeals (PTABOA), if the assessed value is increased above the amount determined by the PTABOA the assessor has the burden of proving that the assessment is correct. The bill specifies that this provision does not apply to real property that was valued using the income capitalization approach in an appeal.

Interest: The bill specifies that when a taxpayer is entitled to interest, the interest shall be computed using the rate in effect for each particular year covered by a refund or credit. It specifies that when a taxpayer is required to pay interest, the interest shall be computed using the rate in effect for each particular year in which the interest accrued.

Veterans Excise Tax Credit: This bill allows veterans with qualifying disabilities who do not own certain types of taxable property to claim credits against the motor vehicle excise tax. It allows the surviving spouses of qualified veterans and World War I veterans who do not own those types of taxable property to claim the credits. The bill specifies that the amount of the credit is the lesser of the claimant's excise tax liability or $70. It also provides that the maximum number of vehicles for which credits may be claimed is two. (Current law allows such veterans to apply any excess property tax deduction amount to the motor vehicle excise tax as a credit, but owning property is a requirement for claiming the property tax deduction and applying its excess to the excise tax.)

Effective Date: July 1, 2013.

Explanation of State Expenditures: (Revised) *Veterans Excise Tax Credit*: The Bureau of Motor Vehicles (BMV) would implement this credit. The bill's requirements are within the BMV's routine administrative functions and the BMV should be able to implement the requirements with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues: (Revised) *Veterans Excise Tax Credit*: State revenues could be reduced by as much as $1.4 M per year beginning in FY 2015. Revenues in FY 2014 could be reduced by half that amount. Motor vehicle excise taxes that are captured by the state are deposited into the state General Fund.

Explanation of Local Expenditures: (Revised) *Interest Rate*: This provision would require all interest collected by the county treasurer on property tax bills and interest paid to taxpayers on property tax refunds to be calculated at the interest rate set by the Commissioner of the Department of Revenue (DOR). In addition, this provision requires that the appropriate year's interest rate applies for each year of the interest calculation.

This provision could increase or reduce interest payments to taxpayers, depending on whether the DOR interest rate is higher or lower than 4% for a given year. Property tax refunds reduce current year property tax collections for civil taxing units and school corporations.

Under current law, the interest rate used to compute interest payments to a taxpayer who receives a property tax refund because of a reduction in assessed value is 4% per year. The 2013 DOR interest rate is 3%. The last five years of DOR interest rates are as follows:

Year	Interest Rate
2009	7%
2010	4%
2011	9%
2012	4%
2013	3%

The interest rate is currently equal to the rate set by DOR if the taxes are refunded because:

(1) Taxes were paid more than once;
(2) The taxes were illegal; or
(3) There was a mathematical error in the computation of either the assessment or the taxes.

Interest paid by taxpayers for additional taxes billed because of assessments made or increased after the tax due date is also currently charged at the DOR rate.

Explanation of Local Revenues: (Revised) *Real Property Assessments*: Currently, when a taxpayer prevails in an assessment appeal to the PTABOA, the PTABOA's assessment modification applies only to the tax year or years that were appealed. Each tax year stands on its own. While the local assessor may use this modified assessment as the base for assessments in subsequent years, the assessor is not required to do so.

Beginning with March 1, 2014, assessments under this provision, the local assessor would have the burden of proving an assessment to be correct if the assessment is greater than the previous year's assessment as reduced by the PTABOA in an appeal. This provision would not apply to assessments made under the income capitalization method.

Currently, there are several reasons why an assessment modified by the PTABOA may not be carried forward. They include:

1. Timing issues between adjudication of the appeal and certification of the following year's assessment.
2. Influence factors may be applied to an assessment for a situation that presents itself for a limited amount of time.
3. Appeals of PTABOA decisions may be made to the Indiana Board of Tax Review (IBTR) and then the Indiana Tax Court and Indiana Supreme Court.

This provision would eliminate the need for real property owners to repeatedly appeal their assessments in cases where the taxpayer prevails. This could reduce the number of appeals filed in some areas which could reduce both county and taxpayer costs.

Veterans Excise Tax Credit: Local revenue from the motor vehicle excise tax could be reduced by as much as $2.9 M per year beginning in CY 2014. Local excise tax revenues are distributed to local civil taxing units and school corporations.

<u>Background</u>: Under current law, certain disabled veterans or their surviving spouses are eligible for a property tax deduction against any real or personal property that they may own. There are two disabled veteran deductions.

Service-Connected Disability: Veterans with wartime service and a service-connected disability of at least 10% or their surviving spouses are entitled to a property tax deduction of $24,960 on their real or personal property. There is no qualification on assessed value (AV).

Nonservice-Connected Disability: Veterans or their surviving spouses are entitled to a property tax deduction of $12,480 on their real or personal property if the veteran is either totally disabled or is at least age 62 with a disability of 10% or more. The disability need not be service-connected, nor does the service need to be wartime service. In order to qualify, the AV of the property must not exceed $143,160.

Veterans who qualify may receive both disabled veteran deductions. Properties that are co-owned by more than one disabled veteran are subject to multiple deductions.

Surviving spouses of WWI veterans are eligible for a property tax deduction of $18,720 on their real or personal property. There is no qualification on AV.

An individual who is entitled to any of the above property tax deductions may receive a credit against the motor vehicle excise tax for any part of a property tax deduction that was not used against real or personal property. The credit is equal to $2 per $100 of unused deduction. So, for example, if a veteran or surviving spouse who qualified for the $24,960 deduction used only $20,960 against property taxes, the individual could receive an excise tax credit of up to $80 [($4,000 remainder/$100) * $2.00].

In the past, some individuals may have claimed the excise tax credit without owning any real or personal property that qualified for the property tax deduction. The total number of these claims and the amount of these credits cannot be quantified. Excise tax credits are no longer being granted if the disabled veteran does not possess real or personal property that qualifies for the property tax deduction.

Beginning July 1, 2013, this bill would grant excise tax credits to disabled veterans and surviving spouses who do not own qualifying property if they meet all other qualifications. The credit would be limited to $70 each on up to two vehicles.

Analysis:

Service-Connected Disability: According to the Indiana Department of Veterans Affairs, 61,500 veterans currently receive compensation from the VA for service-connected disabilities. After allowing for the 39,850 veterans that currently receive the service-connected property tax deduction, there are potentially 21,650 additional veterans in this group who could qualify for the credit under this bill.

Nonservice-Connected Disability: If it is assumed that 5% of Indiana's veteran population has a nonservice-connected disability, there could be 21,500 nonservice-connected disabled veterans. (This estimate is based on a total veteran population of 491,000, less the 61,500 veterans known to have service-connected disabilities). The percentage disability of these veterans is not known and not all would qualify for the credit.

After allowing for he 12,500 veterans receiving the nonservice-connected property tax deduction, there are potentially 9,000 additional veterans in this group who could qualify for the credit under this bill.

There are many unknowns, including (1) the actual number of nonservice-connected disabled veterans, (2) the percentage disability for these veterans, (3) the number of surviving spouses that would qualify, (4) the percentage of the disabled veterans who own vehicles subject to the excise tax, and (5) the amount of excise tax currently paid on those vehicles. Some of these factors may add to the impact estimate, while others would reduce the estimate.

If 30,650 disabled veterans qualified under this bill for excise tax credits at a maximum of $70 for each of two vehicles, the maximum cost of the credit would be about $4.3 M per year.

These credits would reduce excise tax collections. About two-thirds of the revenue reduction would impact local government units and school corporations, while one-third would impact the state.

Additional Information: In CY 2011, the BMV collected $384.5 M in motor vehicle excise tax. An additional $236.4 M in excise tax replacement came from the state Lottery and Gaming Surplus Account and the state General Fund. Total excise tax revenues (plus replacement) were $621.2 M.

Without LaPorte County, the state captured $204.4 M of the $621.2 M as part of the property tax reform that took effect in 2009. The remainder, $406.1 M (not including LaPorte County), was sent to the counties for distribution to local taxing units. So, about two-thirds of excise tax collections are sent to local units while one-third is retained by the state.

The $384.5 M in excise taxes were paid by 5.5 million registrants. The average excise tax paid was $70.

State Agencies Affected: Bureau of Motor Vehicles.

Local Agencies Affected: Local assessors, PTABOAs; Local civil taxing units and school corporations.

Information Sources: Barry Wood, Department of Local Government Finance, 317-232-3777; Elizabeth Murphy, Bureau of Motor Vehicles, Tom Applegate, Indiana Department of Veteran Affairs; LSA parcel-level property tax database.

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