LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT

PROPOSED RULE: 00-284 **DATE PREPARED:** Sep 27, 2001
STATE AGENCY: State Board of Tax Commissioners **DATE RECEIVED:** Sep 17, 2001

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Digest of Proposed Rule: This proposed rule adds 50 IAC 4.3 for the assessment of tangible personal property. The proposal also repeals the current rule regarding the assessment of personal property.

The State Tax Board is required by IC 6-1.1-31-1 to adopt rules concerning the assessment of tangible property.

This analysis is preliminary in nature and will be updated when more detailed data is gathered.

Governmental Entities: State: This rule places no unfunded mandates upon state government.

The reduced tax liability of residential property tax payers as a result of the proposed personal property assessment rule will result in a reduction in the state's liability for Homestead credit. Under current law, the Homestead credit is set at 10% through CY 2003. It is scheduled to be reduced from its current 10% to 4% beginning in CY 2004. Homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any Homestead credit savings would ultimately benefit the General Fund.

Under this proposed rule, the reduction in the cost of the Homestead credit at 10% in CY 2003 is estimated at $15.8 M. The reduction in CY 2004 at 4% is estimated at $6.7 M.

Local: This rule places no unfunded mandates upon any local government unit.

Regulated Entities:
The regulated entities affected by this proposed rule are the owners of taxable real and personal property in the state of Indiana.

This proposed rule creates assessment regulations to be used to value tangible personal property beginning with the March 1, 2002, assessment date. Changes to the assessed value of personal property will cause the tax rate for all property types to change, thereby affecting the tax liabilities of all property classes. This proposed rule, in concert with the newly adopted rule on real property assessments (50 IAC 2.3), would redefine the distribution of the property tax burden among the different classes of property tax payers.

The proposed personal property rule differs from the existing rule in three significant ways. The proposed rule eliminates the 30% floor for depreciable property, imposes new, lower depreciation rates for depreciable property, and eliminates the 35% valuation adjustment for inventories.

An analysis was performed by Dr. Larry DeBoer of Purdue University to determine how the proposed rule compares to the current rule and, specifically, how these changes affect the relative tax burdens on the various classes of property.

The following table shows the anticipated percentage change in real and personal property tax liabilities for owners of agricultural, residential, business, and utility property. **This table represents the change in liabilities when considering only this proposed rule. The base includes the newly adopted real property assessment manual.** The first item in the table shows the change for the average taxpayer across the state in each of the four property classes. For example, the -6.1% change for the average residential taxpayer shows the amount of reduction in the average homeowner's tax bill when personal property is assessed under the proposed rule. The average and median tax liability changes of the 92 counties are shown. The table also shows the maximum and minimum county percentage change in tax liability.

Percentage Change in Real and Personal Property Tax Liabilities
(Proposed Personal Property Rule Only)

Class of Property	Agricultural	Residential	Business	Utility
Average Taxpayer	-3.1%	-6.1%	4.1%	20.6%
Average County	-2.9%	-6.6%	6.6%	23.8%
Median County	-2.8%	-6.5%	6.6%	25.5%
Maximum County	16.8%	-2.2%	12.0%	31.4%
Minimum County	-12.4%	-16.4%	2.1%	2.9%

To better illustrate the effects of all of the property assessment changes that will take effect on March 1, 2002, if adopted, the following table also shows the overall percentage change in CY 2003 property tax liabilities under both the proposed personal property rule *and* the newly adopted real property assessment manual. **However, the proposed personal property assessment rule under review does NOT affect real property assessments.**

Percentage Change in Real and Personal Property Tax Liabilities (Illustrated With Personal Property and Real Property Assessment Changes)				
Class of Property	**Agricultural**	**Residential**	**Business**	**Utility**
Average Taxpayer	1.8%	13.1%	-8.3%	-12.9%
Average County	2.0%	8.3%	-9.1%	-11.4%
Median County	3.9%	8.1%	-8.9%	-9.7%
Maximum County	16.5%	47.5%	7.4%	7.4%
Minimum County	-45.8%	-36.5%	-20.8%	-31.0%

The CY 2003 statewide total net property tax levy (after PTRC and Homestead credits) is estimated to be approximately $5.3 B. The average taxpayer percentage changes for each property class from the DeBoer study were applied to each class's share of the $5.3 B total levy in order to estimate the tax dollar impact of the reassessment under this proposed rule. The table below restates the average taxpayer percentage change and also shows the total dollar impact for each property class. A reduction in Homestead credit payments account for a portion of the change in residential property tax. **This table represents the change in liabilities when considering only this proposed personal property assessment rule.**

CY 2003 Statewide Property Tax Impact Of Proposed Personal Property Assessment Rule (Base Includes the New Real Property Manual)		
Class of Property	**% Change**	**Net Tax Change ($M)**
Agricultural	-3.1%	$ (12.3)
Residential	-6.1%	(145.2)
Business	4.1%	96.6
Utility	20.6%	45.1
Homestead Credit Saved by State	-6.1%	15.8
Total		$ 0.0

To better illustrate the effects of all of the property assessment changes that will take effect on March 1, 2002, if adopted, the following table also shows the overall percentage change and anticipated dollar impact in real and personal property tax liabilities in CY 2003 under both the proposed personal property rule *and* the newly adopted real property assessment manual. **However, the proposed personal property assessment rule under review does NOT affect real property assessments.**

CY 2003 Statewide Property Tax Impact Of Proposed Personal Property Assessment Rule And Newly Adopted Real Property Assessment Changes		
Class of Property	**% Change**	**Net Tax Change ($M)**
Agricultural	1.8%	$ 6.7
Residential	13.1%	268.3
Business	-8.3%	(208.0)
Utility	-12.9%	(39.0)
Less Amount Paid by State Homestead Credit	13.1%	(28.0)
Total		$ 0.0

A detailed description of the analysis conducted by Purdue University's Dr. Larry DeBoer, including property tax shifts by county is available from the Legislative Services Agency.

Information Sources: Dr. Larry DeBoer, Purdue University.