

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6755**

**BILL NUMBER:** SB 145

**NOTE PREPARED:** Feb 17, 2022

**BILL AMENDED:** Feb 17, 2022

**SUBJECT:** Property Tax Matters.

**FIRST AUTHOR:** Sen. Buchanan

**FIRST SPONSOR:** Rep. Brown T

**BILL STATUS:** CR Adopted - 2<sup>nd</sup> House

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

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) *Commercial Property Value:* This bill provides that the true tax value of commercial real property commercial property with a structure, or a portion thereof, that: (1) is at least 100,000 square feet in area; (2) is used for retail purposes; and (3) is occupied by a single retailer; shall be determined by application of the cost approach. It provides that the application of the cost approach requirement is not applicable if the property was: (1) vacated by the original occupant for which the property was constructed; (2) constructed more than five years prior to the assessment date; or (3) substantially and adversely impacted by a change in a roadway or traffic pattern. The bill provides that estimates of depreciation and obsolescence shall not be based on data derived from the sales comparison or income capitalization approaches.

*Construction Cost:* The bill requires the Department of Local Government Finance (DLGF) to establish a standard construction cost per square foot for the purpose of applying the cost approach and it requires the DLGF to update the standard construction cost per square foot annually.

*Commercial Property Appeals:* This bill provides that when requesting a review, a taxpayer may present an appraisal based on the cost approach as evidence that the actual construction cost was lower than the DLGF's determined standard construction cost per square foot that was used to assess the property. It provides that the parties to any appeal may enter into a written agreement to stipulate to the true tax value of the property.

*Separate Account:* The bill provides that the fiscal officer of the county may establish a separate account for the tax receipts that are attributable to the property tax assessment that is the subject of review.

**Effective Date:** January 1, 2023.

**Explanation of State Expenditures:** (Revised) *Construction Cost:* Beginning in CY 2023, the DLGF will be required to annually establish a standard construction cost of commercial retail properties with at least 100,000 square feet. The DLGF may need to hire an additional statistician to complete this task. The total starting salary plus fringe benefits and indirect costs for a statistician is estimated at \$30,910 for one-half of FY 2023 and \$62,116 for FY 2024. The DLGF is funded from the state General Fund.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) *Commercial Property Value:* This provision could result in increased assessments of some commercial retail properties. Increased assessments will reduce the tax rate, shift taxes to these properties from others, and potentially reduce tax cap losses in some places.

Beginning with January 1, 2023, assessments, a new commercial retail property with at least 100,000 square feet that is occupied by a single retailer will be assessed under the cost approach for the first five years of occupancy unless the property was vacated or it was substantially and adversely impacted by a change in a roadway or traffic pattern. The assessment will be based on the standard construction cost per square foot provided by the DLGF. Additionally, depreciation may not be based on data derived from the sales comparison or income capitalization approaches. The value of land may be determined based on the sales comparison approach.

*Commercial Property Appeals:* On appeal, a taxpayer may present an appraisal based on the cost approach.

*Separate Account:* In counties that choose to establish a separate account for taxes paid on properties under appeal, this provision will reduce current year revenues for local civil taxing units and school corporations if they serve large commercial retail properties with an assessment under appeal. The greater of (1) the tax payments attributable to the increase in the assessment from the prior year, or (2) 25% of the total tax payments on a property under review, will be deposited into the separate fund and held until there is a final determination or final judgment. Money in the fund will be released to the taxing units consistent with the final determination or judgment. Future years' revenue will increase as the money in the fund is released.

Under current law, if there is a refund due the taxpayer, then the refund reduces current year tax distributions to the taxing units. Under the bill, taxpayer refunds will come from the separate account and any remainder will be distributed to units.

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

**Local Agencies Affected:** Local assessors; Civil taxing units and school corporations.

**Information Sources:** LSA's property tax database.

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