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FISCAL IMPACT STATEMENT

LS 6955

BILL NUMBER: SB 210

NOTE PREPARED: Jan 4, 2024

BILL AMENDED:

SUBJECT: Property Taxes and Sales and Use Taxes.

FIRST AUTHOR: Sen. Young M

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: *Property Tax:* This bill eliminates property taxes on primary residences for those who are at least 65 years of age (qualified homesteads) and on business personal property.

The bill provides an annual state distribution to offset the property tax elimination for qualified homesteads and business personal property based on the amount of property taxes that otherwise would be due on the qualified homesteads and business personal property. It prohibits changes in qualified homestead and business personal property tax deductions, credits, and abatement that were in effect on December 31, 2023.

Sales Tax: The bill decreases the state sales and use tax rate from 7% to 6%, except for business to business transactions involving services, in which case the rate is 2.75%. It also provides that the sales and use tax applies to transactions involving services, except for legal services, health or mental health services (including insurance premiums for policies covering these services), and services provided for charitable tax exempt purposes. It deposits the increased sales and use tax revenue in the state General Fund.

Renter's Deduction: The bill increases the maximum renter's deduction for income tax purposes from \$3,000 to \$8,000 per taxable year.

Fuel Tax Indexing: The bill freezes the gasoline excise tax and the special fuel tax rates beginning on July 1, 2024, at the rates that were in effect on June 30, 2024.

The bill makes conforming changes and technical corrections. It makes an ongoing appropriation.

Effective Date: Upon passage; July 1, 2024; November 1, 2024; January 1, 2025.

Summary of NET State Impact: This bill increases revenue from Sales Tax, reduces revenue from Fuel Tax, reduces revenue from Individual Income Tax, and increases state expenditures for property tax replacement. The following table shows the estimated change in the state’s net position beginning in FY 2025.

Net State Change (In \$ Millions)		
	FY 2025	FY 2026
Sales Tax Revenue	1,336.8 - 1,683.9	2,420.5 - 3,042.2
Fuel Tax Revenue	(32.6)	(64.8)
Individual Income Tax Revenue	0.0	(78.0)
Property Tax Replacement	(1,221.1)	(2,470.6)
Net Change	83.1 - 430.2	(192.9) - 428.8

Explanation of State Expenditures: *Property Tax Replacement:* The Department of Local Government Finance (DLGF) will calculate the total property tax distribution amount for each county in each year. The State Comptroller will make each year’s distribution in two payments, in May and November. The current level of resources at each of these agencies should be sufficient to administer this provision. Total property tax replacement distributions are estimated at \$1.22 B in FY 2025 (half year) and \$2.49 B in FY 2026. The bill makes an appropriation from the General Fund for the distributions.

Department of State Revenue (DOR): The DOR would incur additional administrative expenses related to the Sales Tax rate change and base expansion. The DOR reports that the implementation of a new tax could cost around \$400,000. It is possible that expanding the Sales Tax to services would require a similar level of expenditures. *[This fiscal note will be updated as more information becomes available.]*

The DOR would also incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes to the renter’s deduction. However, the bill would decrease workload of the DOR to annually determine the Gasoline and Special Fuel Excise Tax rate that otherwise would have occurred through FY 2027.

Explanation of State Revenues: *Sales Tax:* The bill reduces the Sales and Use Tax rate on the current tax base (Excluding Gasoline Use Tax) from 7% to 6%. It also expands the tax base to include services, except legal services, health care services (including insurance premiums for policies covering those services), and charitable services. The tax rate on services purchased by businesses is 2.75%, and the tax rate on all other services is 6%. In addition, the bill increases the percentages used to calculate the collection allowance that may be retained by retail merchants. These provisions are effective November 1, 2024. The following table summarizes the estimated impact in FY 2025 and FY 2026 from reducing the rate and expanding the base. The increased collection allowance is included in these estimates. The FY 2025 estimates assume the state would begin receiving revenue from service transactions in December 2024. However, the estimated revenue increase could be lower to the extent there is a longer implementation period.

Estimated Sales Tax Impact (In \$ Millions)		
	FY 2025	FY 2026
Rate reduction on current base	(901.0) - (807.0)	(1,588.4) - (1,422.6)
Sales tax on services (non-business purchases)	797.3 - 976.2	1,428.2 - 1,750.9
Sales tax on services (business purchases)	1,440.4 - 1,514.7	2,580.7 - 2,713.9
Net sales tax impact	1,336.8 - 1,683.9	2,420.5 - 3,042.2

Under current law, Sales Tax revenue is deposited in the General Fund and two dedicated funds. The bill changes the distribution percentages beginning in FY 2025 so the majority of the revenue increase is deposited in the General Fund. The following table shows the estimated impact on each fund that receives sales tax revenue.

Estimated Sales Tax Impact by Fund (In \$ Millions)		
	FY 2025	FY 2026
General Fund	1,337.0 - 1,683.7	2,421.0 - 3,041.8
Commuter Rail Service Fund	(0.2) - 0.1	(0.4) - 0.3
Industrial Rail Service Fund	0.0 - 0.1	(0.1) - 0.1
Net sales tax impact	1,336.8 - 1,683.9	2,420.5 - 3,042.2

Renter's Deduction: This bill increases the maximum renter's deduction to \$8,000. The provision may decrease revenue into the General Fund by approximately \$78 M beginning in FY 2026. The revenue impact may decline slightly through FY 2028 as the Individual Income Tax rate decreases through tax year 2027. The estimate is based on Individual Income Tax returns filed for tax year 2021 and estimates of the amount of contract rent paid in Indiana from the American Community Survey.

Fuel Tax Indexing: The bill repeals the fuel tax indexing formula effective for FY 2025, which would decrease fuel tax revenue collections between FY 2025 and FY 2028. The total revenue loss between this time frame is estimated to be \$513.6 M, of which approximately \$321.0 M of the revenue decrease will impact the state. The following table shows the estimated fuel tax revenue loss by year along with the estimated revenue reductions between the state and local units of government.

Fiscal Year	Annual Revenue Loss	State Revenue Loss	Local Revenue Loss
2025	\$52.2 M	\$32.6 M	\$19.6 M
2026	\$103.7 M	\$64.8 M	\$38.9 M
2027	\$154.0 M	\$96.3 M	\$57.7 M
2028	\$203.8 M	\$127.4 M	\$76.4 M

Decreases in fuel tax revenue would decrease distributions to the State Highway Fund. Approximately 62%

of fuel tax revenue is distributed to the State Highway Fund. Additionally, decreases in Special Fuel Tax revenue collections would decrease revenue distributed to the Motor Carrier Regulation Fund. The estimated additional revenue the Motor Carrier Regulation Fund would receive each year is estimated to be approximately \$0.36 M per fiscal year. Total reductions in revenue collections for the fund are estimated to be approximately \$3.41 M by the end of FY 2028.

NICTD: The Northern Indiana Commuter Transportation District (NICTD) receives all of the revenue from the railcar property tax and also from the railroad company property tax imposed on the South Shore Freight Railroad. These taxes are outside of the regular property tax system and are paid into the Commuter Rail Service Fund and the Electric Rail Service Fund. The revenues from these taxes will be eliminated beginning in CY 2025. Beginning in CY 2025, the bill makes a distribution from the state General Fund to the two service funds in the amount of the taxes that would have been paid in the prior year. In FY 2023, these taxes amounted to \$15.5 M.

Additional Information - Sales Tax: The estimated revenue loss from the rate change on the current Sales Tax base is based on the December 19, 2023, state revenue forecast, as well as a range of assumptions regarding tax rate elasticity, which is a measure of the responsiveness of the tax base to a change in the tax rate. The estimated revenue increase from taxing services is based on Economic Census data and Bureau of Economic Analysis input-output data, as well as a range of assumptions about the price elasticity of demand for services, which measures the behavioral impact of price changes on business and consumer spending.

Renter's Deduction: In 2021, approximately 580,800 returns claimed the maximum deduction out of a total of about 665,500 returns claiming the deduction. The group of 580,800 returns claiming the maximum deduction was distributed according to Indiana contract rent data published by the U.S. Census Bureau. A new renter's deduction amount was derived for those returns according to the rent distribution and the \$8,000 maximum deduction under the bill. The estimate accounts for the possibility that certain taxpayers will have insufficient rent paid to claim the full deduction.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Property Tax:* Property tax revenues will be replaced with state property tax replacement distributions that are equal to the previous year's net property tax on homesteads for owners who are at least 65 years old and personal property. The estimates of property tax reductions and replacement revenue are shown in the table below.

Estimated Net Revenue Change (In \$ Millions)		
Tax Reduction / Replacement	CY 2025	CY 2026
Homestead Property Tax (65+)	-1,111.1	-1,185.6
Personal Property Tax	-1,388.0	-1,384.3
Property Tax Replacement	2,442.1	2,499.1
Net Revenue Change	-57.0	-70.8

This bill will provide a property tax exemption for property qualified as homestead property and for personal property. The exemption works by eliminating the net property tax liability remaining after all other deductions, abatements, or credits. A deduction, abatement, credit, or allocation of revenue that reduces the net tax liability may not be changed after December 31, 2023.

Renter's Deduction: The tax deduction will decrease taxable income, so counties imposing local income taxes

(LIT) may experience revenue loss. Based on the current average LIT rate of 1.67%, the statewide revenue loss may be approximately \$43 M beginning in FY 2026.

Fuel Tax Indexing: Local units of government are expected to experience decreases in road funding of approximately \$192.6 M between FY 2025 and FY 2028. For more information on the estimated revenue losses to local units by fiscal year, see *Explanation of State Revenues*.

State Agencies Affected: Department of State Revenue; Indiana Department of Transportation; Department of Local Government Finance; State Comptroller.

Local Agencies Affected: All.

Information Sources: LSA Property Tax Model; LSA Income Tax Database; U.S. Census Bureau, American Community Survey, 2022. ACS Indiana 1-Year Estimates Detailed Tables, Contract Rent; State Comptroller database; Andrea Zimmerman, INDOT; Indiana Handbook of Taxes, Revenue, and Appropriations FY 2018 - FY 2023; US Energy Information Administration, Energy Consumption by Section and Source; State Comptroller distribution factors; US Bureau of Labor Statistics. Revenue Forecast Technical Committee, December 2023 Revenue Forecast, <https://www.in.gov/sba/budget-information/revenue-data/2023-2025-revenue-forecast-and-updates/>. U.S. Census Bureau, Economic Census, 2017. Bureau of Economic Analysis, The Use of Commodities by Industries, 2021.

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