

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6810
BILL NUMBER: SB 325

NOTE PREPARED: Feb 27, 2023
BILL AMENDED: Feb 27, 2023

SUBJECT: Homestead Standard Deduction.

FIRST AUTHOR: Sen. Buchanan
FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill modifies the definition of "homestead" for purposes of the homestead standard deduction. It also makes corresponding changes.

Effective Date: January 1, 2024.

Explanation of State Expenditures: (Revised) *Department of Local Government Finance (DLGF):* This bill's provision will increase the administrative workload for the DLGF since the agency will have to amend the prescribed application form for the homestead deduction in order to capture the following information: the specific additional improvement on the homestead property that the owner wishes to have included for purposes of the deduction, along with the location of that improvement and a verification that the improvement is not being used for business or commercial purposes.

Additionally, the bill may require the DLGF to issue further updated guidance to local assessing officials regarding the guidance for which real property improvements should be assessed as a property owner's homestead dwelling.

These provisions are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Additional Information - In October 2022, the DLGF issued updated guidance to assessing officials, regarding the outcome of the State Tax Court's ruling in *Marion County v. Schiffler*. In the memo, the DLGF instructed assessing officials that buildings on a property owner's one-acre homestead that are used as an extension of the individual's dwelling, such as carriage houses, detached garages, barns, and similar

structures, should be included as property under the 1% property tax cap. Previous guidance has instructed assessing officials to exclude these improvements from the 1% homestead cap.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Local Assessing Officials:* The bill updates the definition of what improvements on a homestead parcel are to be considered as part of a parcel’s homestead assessed value (AV). Under current statute, a homestead consists of a dwelling and the real estate - not exceeding one acre - that immediately surrounds the dwelling. The updated definition keeps that language but now includes an improvement located on the real estate, not exceeding one acre, that is used for any residential purpose (regardless of whether the building is connected to the residence) but does not include an improvement used for business and commercial purposes.

This bill’s provision will result in an increase in the assessing officials’ workload since the officials will need to perform further due diligence on the various real property improvements located on a given homestead parcel to verify if those improvements would be eligible to be allocated as part of the parcel’s homestead AV.

(Revised) *County Auditors:* This bill’s provision may result in an increase in the county auditors’ workload since the auditors may need to consult further with their respective local assessing officials in order to identify where the designated improvement’s AV is allocated on the homestead owner’s property so that the auditor’s office can apply the deduction to the correct AV allocation.

(Revised) *Additional Information* - The tax and billing software systems used by the county auditors do not house the underlying characteristics for improvements on real property parcels; rather, that data is housed in the real property assessment software systems used by the local assessing officials. Therefore, additional consultation between the county auditors and local assessing officials may be required to implement this bill’s provisions.

Explanation of Local Revenues: (Revised) The bill’s provision of updating the homestead definition will result in changes in local revenue and in tax shifts between property types beginning in CY 2025.

The estimated effect on net taxes by taxpayer class is summarized in the following table for CY 2025 and CY 2026.

Estimated Net Tax Change (\$M)		
Property Type	CY 2025	CY 2026
Homesteads	-10.9	-11.0
Farmland	0.2	0.2
Other Residential	0.1	0.1
Apartments	0.1	0.0
Ag Business	0.1	0.1
Other Real	0.6	0.6
Personal Property	0.5	0.5
Total	-9.3	-9.5

The following table summarizes the estimated net revenue change by taxing unit type. [Total estimated local

revenue changes by county appear in Appendix A.]

Estimated Revenue Change (\$M)		
Unit Type	CY 2025	CY 2026
Counties	-1.7	-1.8
Townships	-0.3	-0.4
Cities and Towns	-2.8	-2.9
School Corporations	-3.5	-3.4
Libraries	-0.4	-0.4
Special Units	-0.9	-0.9
TIF	0.3	0.3
Total	-9.3	-9.5
Total Without TIF	-9.6	-9.8

(Revised) *Additional Information* - The estimates presented in the two tables above and in Appendix A analyze just those homestead parcels with one acre or less of legally deeded acreage. Due to data limitations for multi-use parcels (i.e., a parcel that has both a homestead dwelling and non-residential land and improvements) with more than one acre of legally deeded acreage, it is not possible to know if certain improvements are located on the one acre of land immediately surrounding the homestead dwelling or if they are located elsewhere on the property. Therefore, those particular parcels are excluded from this analysis.

Additionally, the analysis assumes that in the case there are multiple non-commercial/business improvements on the property owner’s one acre of homestead land, the owner will select the highest valued improvement to have the county auditor’s office apply the homestead deduction to.

For CY 2022, there were approximately 1.834 million real property parcels that have at least a portion of their AV allocated as homestead land and improvement. Of this total, 1.419 million parcels have one acre or less of legally deeded acreage (or 77.4% of the 1.834 million parcels). These 1.419 million parcels were used in this analysis.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local Assessing Officials; County auditors.

Information Sources: DLGF Homestead and 1% Tax Cap Case – *Marion County v. Schiffler* Memo: <https://www.in.gov/dlgf/files/2022-memos/221028-Wood-Memo-Homestead-and-1-Tax-Cap-Case-Supplement.pdf> ; LSA Property Tax Database.

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**Appendix A: Total Estimated Local Revenue Changes by
County
Estimated Revenue Change**

Cnty	County	CY 2025	CY 2026
01	Adams	-37,000	-39,000
02	Allen	-153,000	-155,000
03	Bartholomew	-155,000	-170,000
04	Benton	-9,000	-9,000
05	Blackford	-24,000	-23,000
06	Boone	-33,000	-30,000
07	Brown	-2,000	-2,000
08	Carroll	-5,000	-5,000
09	Cass	-72,000	-73,000
10	Clark	-225,000	-229,000
11	Clay	-3,000	-6,000
12	Clinton	-38,000	-38,000
13	Crawford	-8,000	-8,000
14	Daviess	-92,000	-96,000
15	Dearborn	-71,000	-71,000
16	Decatur	-26,000	-28,000
17	DeKalb	-23,000	-25,000
18	Delaware	-339,000	-357,000
19	Dubois	-98,000	-101,000
20	Elkhart	-693,000	-713,000
21	Fayette	-33,000	-35,000
22	Floyd	-82,000	-86,000
23	Fountain	-10,000	-10,000
24	Franklin	-8,000	-8,000
25	Fulton	-7,000	-7,000
26	Gibson	-89,000	-94,000
27	Grant	-43,000	-47,000
28	Greene	-51,000	-52,000
29	Hamilton	-401,000	-338,000
30	Hancock	-88,000	-81,000
31	Harrison	-4,000	-4,000
32	Hendricks	-188,000	-176,000
33	Henry	-79,000	-83,000
34	Howard	-215,000	-225,000
35	Huntington	-29,000	-27,000
36	Jackson	-67,000	-73,000
37	Jasper	-3,000	-4,000
38	Jay	-10,000	-10,000
39	Jefferson	-66,000	-65,000
40	Jennings	-31,000	-32,000
41	Johnson	-230,000	-209,000
42	Knox	-62,000	-62,000
43	Kosciusko	-57,000	-61,000
44	LaGrange	-5,000	-6,000
45	Lake	-262,000	-243,000
46	LaPorte	-124,000	-120,000
47	Lawrence	-92,000	-96,000

**Appendix A: Total Estimated Local Revenue Changes by
County
Estimated Revenue Change**

Cnty	County	CY 2025	CY 2026
48	Madison	-202,000	-202,000
49	Marion	-2,147,000	-2,199,000
50	Marshall	-48,000	-51,000
51	Martin	-4,000	-5,000
52	Miami	-23,000	-25,000
53	Monroe	-31,000	-31,000
54	Montgomery	-87,000	-96,000
55	Morgan	-13,000	-13,000
56	Newton	-18,000	-17,000
57	Noble	-13,000	-14,000
58	Ohio	0	0
59	Orange	-9,000	-10,000
60	Owen	-4,000	-4,000
61	Parke	-2,000	-2,000
62	Perry	-35,000	-36,000
63	Pike	-32,000	-34,000
64	Porter	-155,000	-158,000
65	Posey	-31,000	-33,000
66	Pulaski	-1,000	-1,000
67	Putnam	-12,000	-13,000
68	Randolph	-42,000	-43,000
69	Ripley	-5,000	-4,000
70	Rush	-23,000	-25,000
71	St. Joseph	-701,000	-766,000
72	Scott	-19,000	-20,000
73	Shelby	-41,000	-43,000
74	Spencer	-6,000	-7,000
75	Starke	-19,000	-20,000
76	Steuben	-3,000	-3,000
77	Sullivan	-20,000	-20,000
78	Switzerland	-2,000	-2,000
79	Tiptecanoe	-75,000	-81,000
80	Tipton	-27,000	-28,000
81	Union	-6,000	-7,000
82	Vanderburgh	-432,000	-469,000
83	Vermillion	-40,000	-41,000
84	Vigo	-288,000	-300,000
85	Wabash	-35,000	-36,000
86	Warren	-3,000	-3,000
87	Warrick	-36,000	-37,000
88	Washington	-22,000	-22,000
89	Wayne	-152,000	-159,000
90	Wells	-2,000	-2,000
91	White	-10,000	-11,000
92	Whitley	-6,000	-6,000
	Indiana	-9,331,000	-9,529,000