

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

LS 7150
BILL NUMBER: HB 1402

NOTE PREPARED: Mar 21, 2025
BILL AMENDED:

SUBJECT: Local Government Finance.

FIRST AUTHOR: Rep. Thompson
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Exemption for New Business Personal Property:* This bill phases in a total exemption for business personal property that is placed in service after January 1, 2025. It specifies that the exemption does not apply to business personal property that is placed in service on or before January 1, 2025.

Personal Property DeMinimis Exemption: This bill increases the acquisition cost threshold for the business personal property tax exemption from \$80,000 to \$200,000 over six years.

Personal Property Floor Adjustment: This bill provides that the 30% minimum valuation limitation does not apply to business personal property placed in service after January 1, 2025. It also phases down the minimum valuation percentage from 30% to zero for business personal property placed in service on or before January 1, 2025.

Homestead Deduction Changes: This bill phases down the homestead standard deduction over five years to zero beginning for taxes due and payable in 2031. It also phases in an increase in the supplemental homestead deduction over five years to 2/3 of the assessed value (AV) of the homestead.

Deduction for 2% CB Cap Properties: This bill provides an AV deduction for all property that is subject to the 2% circuit breaker credit for excessive property taxes for assessment dates beginning in 2025. It provides that the amount of the AV deduction is increased over a five year period from a 7% AV deduction for taxes due and payable in 2026 to a 1/3 AV deduction for taxes due and payable in 2031, and each taxable year thereafter.

Certain Property Tax Deductions Expiration: This bill expires certain property tax deductions allowed in current law, and instead allows a credit against local property taxes in certain instances.

New LIT Structure: This bill increases, beginning in 2027, the maximum local income tax (LIT) expenditure rate for all counties to 2.9%. It authorizes a city or town to impose a municipal LIT rate beginning in 2027 not to exceed 1.2%. It provides four rate categories within the county's total expenditure rate that a county

may adopt:

- (1) up to a 1.2% rate for county general purpose revenue;
- (2) up to a 0.4% rate for fire protection and emergency medical services;
- (3) up to a 0.2% rate for nonmunicipal civil taxing unit general purpose revenue; and
- (4) up to 1.2% for certain cities and towns that are not eligible to adopt a municipal LIT rate.

This bill defines "nonmunicipal civil taxing units".

Current LIT Structure Expiration: This bill eliminates the following provisions under the current LIT structure:

- Eliminates the imposition of the LIT on individuals who maintain a principal place of business or employment in a county with a LIT but do not reside in the county.
- Eliminates provisions that provide for a distribution of LIT expenditure rate revenue to schools and civil taxing units in counties that imposed a rate under the prior county adjusted gross income tax (CAGIT).
- Expires the authority to impose a property tax relief rate under the LIT and repeals the levy freeze rate.
- Provides that an ordinance adopted to impose a LIT property tax relief rate shall expire December 31, 2026.
- Provides that, in order to continue to impose an expenditure tax rate after 2026, each county must adopt a new ordinance in 2026 (on or before October 1, 2026) to impose the rate. This bill provides that, for counties that fail to adopt an ordinance to renew an existing expenditure tax rate in 2026, the expenditure tax rate for the county in 2027 shall be the minimum tax rate necessary for existing debt service. It specifies that this does not prevent the county from renewing, imposing, or modifying an expenditure tax rate in subsequent years.
- Eliminates local income tax councils beginning July 1, 2026, and instead provides that the county fiscal body is the adopting body in all counties for purposes of the county LIT, and the city or town fiscal body is the adopting body in the case of a municipal LIT.
- Repeals a provision that requires the State Budget Agency to adjust the certified distribution of a county for the succeeding year following a tax rate change.

LIT Trust Account Special Distributions: This bill requires the State Budget Agency to determine the difference between the balance in a county's local income tax trust account as of December 31, 2025, minus the county's certified distribution amount for 2027, and beginning in 2027, make five consecutive special distributions to counties over a five year period equal to 20% of that amount each year.

LIT Holding Accounts: This bill establishes the local income tax holding account within the state General Fund for purposes of local income tax distributions. It provides that the State Budget Agency shall administer the account and requires the State Budget Agency to maintain an accounting for each county imposing a local income tax based on annual returns filed by or for county taxpayers (same as current law). It also requires undistributed amounts so accounted to be held for purposes of the local income tax holding account beginning after December 31, 2026. (Under current law, undistributed amounts are required to be held in reserve separate from the state General Fund.)

This bill requires the State Budget Agency to present each December to the State Budget Committee a report of the following: (1) An estimate of the monthly certified distribution amounts for the immediately

succeeding calendar year. (2) A description of the method used to determine the monthly estimates. (3) The balance in the local income tax holding account, including an accounting of the undistributed amounts held for purposes of the account. Beginning in 2027, the State Budget Agency will be required to make monthly transfers to the local income tax holding account of the amount determined for the month in its report to the State Budget Committee.

This bill makes technical corrections and makes a continuous appropriation.

Effective Date: Upon passage; January 1, 2025 (retroactive); July 1, 2025; January 1, 2026; June 30, 2026;

Explanation of State Expenditures: *Department of Local Government Finance (DLGF):* The bill's requirements would entail that the DLGF do the following in order to implement the various provisions:

- Prescribe new personal property forms to distinguish between personal property that was placed in service before January 1, 2025, and personal property placed in service after January 1, 2025.
- Issue updated guidance and applications/forms (as applicable) to county officials and the general public regarding deduction changes, as well as the new property tax credits created as a result of this bill.
- Revise its allocation process for determining and certifying the amount of LIT distributions to local units.
- Review and approve referendum ballot language for small cities and towns.

These activities represent an additional workload and expenditure on the agency outside of the agency's routine administrative functions, and existing staffing and resource levels, if currently being used to capacity, may be insufficient for full implementation. The additional funds and resources required could be supplied through existing staff and resources currently being used in another program or with new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions.

Department of State Revenue (DOR): The DOR would need to update forms, guidance, processes, and processing systems to implement the bill's changes. The requirements represent an additional workload and expenditure on the agency outside of the agency's routine administrative functions. The DOR has estimated that the one-time cost of implementing a new municipal LIT tax would be approximately \$400,000 (including personnel and technology costs). The additional funds and resources required could be supplied through existing staff and resources currently being used in another program or with new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions.

State Budget Agency (SBA): The bill's requirement of transitioning from the current county trust accounts to the local income tax holding account and creating a new accounting structure for each county that imposes a LIT rate under the new structure using the local income tax holding account will result in a temporary increase in the administrative workload for the SBA. However, in the long term, the administrative workload for the SBA may potentially decrease since they would no longer be required to determine and certify supplemental LIT distributions on an annual basis.

Explanation of State Revenues:

Explanation of Local Expenditures: *New LIT Structure - Eligible Municipalities:* This bill's provisions will

result in an increase in the administrative workload for both the fiscal/legislative body and the fiscal officer of a city or town that meets the population eligibility requirements (i.e., 3,500 or more) and that decides to enact a municipal LIT rate. The increase in the administrative workload for the fiscal/legislative body might be temporary in nature - limited to the process of adopting the rate itself. The increased workload will be ongoing for the municipal fiscal officer since they would be tasked with handling the distribution of revenue generated from the municipal LIT rate.

Current LIT Structure Expiration - LIT Councils: The bill eliminates local income tax councils beginning in FY 2027 and provides that the county fiscal body is the adopting body in all counties for purposes of the LIT, with the exception of the municipal LIT rate for those municipalities that meet the population eligibility requirements. This provision may result in a minor decrease of the administrative workload for non-county members of the LIT councils since they would no longer be tasked with determining LIT rate changes.

Small Cities and Towns Operating Referendum: The administrative workload for applicable municipal legislative bodies and their respective county clerks and election boards will increase to the extent a municipal legislative body decides to pursue an operating referendum.

Explanation of Local Revenues: (Revised) *Property Tax Summary:* This bill contains multiple provisions that affect local unit property tax revenue beginning in CY 2026. Changes include the following items that are described in the Summary section above: Exemption for New Business Personal Property, Personal Property DeMinimis Exemption, Personal Property Floor Adjustment, Homestead Deduction Changes, Deduction for 2% CB Cap Properties, and Certain Property Tax Deductions Expiration. Additionally, this bill eliminates property tax relief credits (PTRC) and the property tax levy freeze replacement that are funded via LIT starting in CY 2027.

These provisions will result in changes to individual property tax bills and changes in revenue losses due to tax caps. As it pertains to deriving revenue estimates from these provisions, LSA's property tax model currently forecasts policy impacts only to CY 2028. The CY 2029 through CY 2031 values reflected in both tables immediately below are shown strictly for illustrative purposes and were calculated using all the same AV and levy assumptions in place for CY 2028. The actual fiscal impact will be contingent on assessed values and property tax levies for those respective years.

The following table summarizes these changes by unit type. [The totals shown in the unit type and property type summary tables immediately below, as well as on the unit level report (link provided below), were updated on March 21, 2025, to correct for a formula error impacting local units in Whitley County.]

Estimated Change in Revenue by Unit Type (In \$ Millions)

| Unit Type | CY 2026 | CY 2027 | CY 2028 | CY 2029 | CY 2030 | CY 2031 |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Counties | -5.7 | -70.1 | -74.4 | -83.1 | -100.0 | -122.5 |
| Townships | 0.6 | -5.3 | -5.0 | -6.8 | -10.2 | -14.7 |
| Cities and Towns | 14.9 | -123.4 | -143.4 | -146.8 | -164.0 | -187.2 |
| School Corporations | -4.0 | -127.8 | -182.0 | -193.0 | -224.0 | -264.3 |
| Libraries | 3.5 | -5.1 | -1.5 | -1.7 | -3.3 | -5.8 |
| Special Units | 8.8 | 17.9 | 40.5 | 40.1 | 35.6 | 28.7 |
| TIF | 61.0 | 42.4 | 41.8 | -80.8 | -122.7 | -173.2 |
| Total | 79.1 | -271.3 | -324.0 | -472.1 | -588.6 | -739.0 |
| Total Without TIF | 18.1 | -313.7 | -365.8 | -391.3 | -465.9 | -565.8 |

Note: Totals may not sum due to rounding. Additionally, LSA's property tax model currently forecasts policy impacts only to CY 2028. The values reflected for CY 2029 through CY 2031 are shown strictly for illustrative purposes and were calculated using all the same AV and levy assumptions in place for CY 2028.

The following table summarizes these changes by property type.

| Estimated Net Tax Change (In \$ Millions) | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Property Type | CY 2026 | CY 2027 | CY 2028 | CY 2029 | CY 2030 | CY 2031 |
| Homesteads | -146.9 | 23.0 | 21.7 | -78.1 | -134.1 | -245.6 |
| Farmland | -3.9 | 0.4 | -5.9 | -16.4 | -21.2 | -18.6 |
| Other Residential | -1.7 | 8.1 | -43.6 | -18.1 | -24.2 | -17.7 |
| Apartments | 3.9 | 2.7 | -19.3 | -10.3 | -13.5 | -11.0 |
| Ag Business | 5.8 | 15.6 | 17.0 | 24.2 | 28.1 | 34.9 |
| Other Real | 134.9 | 295.4 | 449.9 | 509.5 | 582.6 | 664.5 |
| Personal Property | 86.9 | 13.5 | -85.2 | -224.3 | -347.7 | -486.9 |
| Total | 79.0 | 358.7 | 334.6 | 186.5 | 70.0 | -80.4 |

Note: Totals may not sum due to rounding. Additionally, LSA's property tax model currently forecasts policy impacts only to CY 2028. The values reflected for CY 2029 through CY 2031 are shown strictly for illustrative purposes and were calculated using all the same AV and levy assumptions in place for CY 2028.

[Estimated local property tax revenue changes by taxing unit are available at this [link](#).]

For CY 2027 through CY 2030, the overall total net tax change by property type is a net positive, while the overall total revenue change by unit type is negative. The difference between the totals is approximately \$630.0 M for CY 2027 and approximately \$658.5 M for CY 2028 through CY 2031 and is attributable to the LIT PTRC being eliminated starting in CY 2027. The LIT PTRC is a fully funded property tax credit, and the amount of LIT revenue that a county decides to allocate to PTRC is distributed to local units via the property tax billing process. When LIT PTRC is removed, property tax bills will increase overall because the LIT PTRC is no longer buying down a taxpayer's tax liability, and the amount of revenue distributed to local units will decrease.

New Property Tax Credits: This bill expires certain property tax deductions allowed in current law and instead allows a credit against local property taxes in certain instances. Specifically, new property tax credits for property owners over 65 years of age, property owners who are blind and/or disabled, and property owners who are disabled veterans would go into effect beginning in CY 2026. The fiscal impact of these new credits would result in lower property tax bills for eligible taxpayers and an additional reduction in tax revenue to the local units beyond what is reflected in the Unit Type Net Revenue Change table above. The

new credits, though, would not result in a shift of property tax liability between different types of taxpayers.

Using microdata available via the U.S. Census Bureau's American Community Survey, 5-Year Estimates 2022, the table immediately below provides an estimated statewide total amount of these new property tax credits for eligible property owners (for a particular credit). These estimates represent a high end or maximum amount assuming that every eligible property owner (for a particular credit) would be able to receive the full amount of the credit. Additionally, these estimates are not included in the impacts shown in the two tables above since the requisite data is not available to know which specific taxpayers would be eligible for these credits. Furthermore, for the veteran related credits, the counts are the same for both the partially disabled veterans and totally disabled veterans since the microdata does not specify whether a veteran's service is during war time. In reality, the counts of eligible property owners would more than likely be different for these two credits.

| Estimated Statewide Total Property Tax Credits | | | |
|---|--|---------------------------------------|--|
| Property Tax Credit Type | Count of Owner Occupied Housing Units | Maximum Credit Amount (\$) | Total Amount of Credit (\$) |
| Over 65 | 640,817 | 150 | 96,122,550 |
| Blind or Disabled | 599,988 | 125 | 74,998,500 |
| Totally Disabled Veteran | 73,911 | 150 | 11,086,650 |
| Partially Disabled Veteran | 73,911 | 250 | 18,477,750 |
| Total | | | 200,685,450 |

Current LIT Structure Expiration - LIT Local Taxpayers: The bill amends the definition of local taxpayer to eliminate the imposition of LIT on people who maintain a principal place of business or employment in a county with a LIT but do not reside in a county that imposes a LIT. This will reduce the tax base for local income taxes. Based on income tax returns filed in CY 2022 (the most complete year of data currently available), there was a total of \$59.8 M of local income tax generated from filers who worked in a county that had a LIT rate but lived out of state. This represents potential revenue that would have been lost for local units had this bill's provision been in place for CY 2022 or roughly 2% of the certified LIT distribution statewide for CY 2022.

(Revised) *New LIT Structure:* Effective CY 2027, the bill establishes a new rate structure and distribution formula for LIT expenditure rate revenue for civil taxing units that is based on the following:

- (1) up to a 1.2% rate for county general purpose revenue;
- (2) up to a 0.4% rate for fire protection and emergency medical services;
- (3) up to a 0.2% rate for nonmunicipal civil taxing unit general purpose revenue; and
- (4) up to a 1.2% rate for certain cities and towns that are not eligible to adopt a municipal LIT rate.

Overall, the maximum LIT expenditure rate for all counties is increased to 2.9%. It also authorizes a city or town with a population of 3,500 or more to impose a municipal LIT rate beginning in 2027 not to exceed 1.2%. The municipal LIT rate for these eligible municipalities would only be imposed on income earners who live in the particular municipality that is imposing the rate.

The bill also eliminates provisions that provide for a distribution of LIT expenditure rate revenue to schools and civil taxing units in counties that imposed a rate under the prior county adjusted gross income tax (CAGIT).

Assuming the hypothetical example of applying the new structure to the certified CY 2025 distributions, the

new structure for the LIT expenditure rate would result in up to approximately \$5.5 B more revenue statewide compared to the CY 2025 certified distributions for the current expenditure rate and PTRC rate structure, as shown in the table below. This statewide total assumes that the various unit types would be at their maximum rate capacity under the new rate structure. This statewide total also includes any special purpose revenue, which would still exist under the new structure but would be considered outside the 2.9% rate cap.

Under the current expenditure and PTRC rate structure for the certified CY 2025 distributions, there is still a revenue capacity of approximately \$5.1 B statewide available that counties could generate through a combination of increasing their expenditure and/or PTRC rate. When factoring in the remaining revenue capacity for CY 2025 under the current LIT rate structure, the new proposed LIT rate expenditure structure could generate up to approximately \$451 M more revenue statewide (as opposed to the total \$5.5 B shown in the Difference column below). The actual impact of the new LIT expenditure rate structure will ultimately depend on individual county decisions to increase rates and the magnitude of those increases and on changes in the local income tax base used to determine the CY 2027 LIT distributions and beyond. [The totals shown in the unit type summary table immediately below, as well as on the unit level report (link provided below), were updated on March 21, 2025 to correct for a formula error impacting certain units in Marion County.]

| Unit Type | CY 2025 Certified LIT Distributions (Current Structure) | Estimated CY 2025 LIT Distributions (Proposed Structure) | Difference: Proposed - Current |
|---|---|--|--------------------------------|
| Counties | 1,995,144,980 | 2,994,304,548 | 999,159,569 |
| Townships | 113,026,799 | 1,356,916,613 | 1,243,889,814 |
| Municipalities | 1,226,562,073 | 4,235,686,647 | 3,009,124,574 |
| Schools | 58,292,212 | - | (58,292,212) |
| Libraries | 93,728,752 | 401,090,131 | 307,361,379 |
| Special Units | 495,630,214 | 519,164,283 | 23,534,069 |
| Total | 3,982,385,030 | 9,507,162,221 | 5,524,777,191 |
| <i>Note: The \$3.98 B total shown under the CY 2025 Certified LIT Distributions does not take into account the potential additional \$5.1 B available in LIT revenue that counties could generate through a combination of increasing their expenditure and/or PTRC rate.</i> | | | |

[Estimated revenue changes by taxing unit as a result of the LIT expenditure rate restructuring are available at this [link](#).]

Current LIT Structure Expiration - LIT Property Tax Relief Rate: Beginning in CY 2027, this bill eliminates the authority for counties to impose a LIT property tax relief rate. Under current law, counties may use LIT revenues to provide PTRC for homesteads (1% cap), 2% capped property, 3% capped property, non-homestead residential property, or any combination thereof. Currently 58 counties provide LIT-funded PTRC. The total property tax relief distribution in CY 2025 is approximately \$545.8 M.

PTRC reduces a taxpayer's gross property tax liability before tax cap credits are calculated. In many cases, the application of PTRC reduces or eliminates the tax cap credits for a taxpayer, which then reduces revenue losses for local civil taxing units and school corporations. The elimination of PTRC will reduce local revenues through higher tax cap credits.

Current LIT Structure Expiration - LIT Levy Freeze: Beginning in CY 2027, this bill eliminates the property

tax freeze LIT distribution. Under current law, counties were permitted to replace one or more years of civil taxing unit operating levy growth with LIT distributions. Counties were able to adopt a property tax freeze through 2016. After 2016, a county that had not adopted the freeze could not adopt one, but existing levy freezes could continue. A county with a freeze may elect to thaw property taxes at any time. If thawed, the property tax levy begins to grow again, but the levy growth from the frozen years must be replaced with LIT distributions thereafter.

Eleven counties have adopted a property tax freeze. Only one county, Carroll, remains frozen. The other 10 property tax freeze counties have since thawed. In CY 2025, the LIT levy freeze distribution amounts to \$73.3 M. The elimination of this distribution will cause an estimated increase in property tax levies for the 11 tax freeze counties totaling \$169.3 M in CY 2027 and \$347.8 M in CY 2028.

Municipal Referendum: This provision allows cities and towns with a population less than 3,500 in a county that does not adopt a municipal LIT rate for small cities and towns, to place a referendum on the ballot to authorize an additional property tax rate for operating purposes. A municipality will continue to be eligible if the population rises above 3,500 in a future census if the municipality chooses to continue using population from the prior census for purposes of county LIT distributions.

The referendum levy may be imposed for up to eight years. There is no maximum tax rate. Levies imposed as the result of a successful referendum do not affect tax cap losses. Any fiscal impact depends on the number of municipalities that seek a referendum tax, the public vote, and the tax rate imposed.

LIT Trust Account Special Distributions: The bill requires the State Budget Agency to determine the difference between the balance in a county's LIT trust account as of December 31, 2025, minus the county's certified distribution amount for 2027, and beginning in 2027, make five consecutive special distributions to counties over a five year period equal to 20% of that amount each year of changing the trust account balance. This change will result in a temporary increase in local income tax (LIT) revenue for local units. The actual fiscal impact will vary by county and will be contingent on the trust account balances as of December 31, 2025, and the amount of certified LIT distributions for CY 2027 for each county.

Additional Information - Rate Effective Dates: The bill changes the dates the tax rates go into effect depending on when an ordinance is adopted. An ordinance adopted on or before October 1 of a calendar year will take effect on January 1 of the next calendar year. An ordinance adopted after October 1 of a calendar year will go into effect on January 1 of the second succeeding year. [In current law, ordinances adopted before September 1 go into effect on October 1 of the calendar year, and ordinances adopted after August 31 and before November 1 take effect on January 1 of the next calendar year. Ordinances adopted after October 31 take effect on October 1 of the next calendar year.]

State Agencies Affected: Department of Local Government Finance; Department of State Revenue; State Budget Agency.

Local Agencies Affected: Local civil taxing units and school corporations.

Information Sources: LSA property tax database; Department of Revenue local income tax database; Local Government Database; Estimated CY 2025 Certified LIT Distributions (Certified November 27, 2024) - State Budget Agency; CY 2025 Local Income Tax Estimated Certified Distributions and the Estimated Remaining Capacity Report - LSA; U.S. Census's American Community Survey, 5-Year Estimates 2022.

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