

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

**LS 6962**

**BILL NUMBER:** HB 1288

**NOTE PREPARED:** Jan 4, 2026

**BILL AMENDED:**

**SUBJECT:** Local Government Finance.

**FIRST AUTHOR:** Rep. Prescott

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

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

**IMPACT:** State & Local

**Summary of Legislation:** This bill abolishes the assessment of tangible property after December 31, 2026, and the imposition of property taxes after December 31, 2027. It provides that a political subdivision may not issue any new bonds, notes, or warrants, or enter into any leases or obligations to be paid from property tax revenue, or that include a pledge to levy property taxes if other funds are insufficient.

The bill provides that: (1) no property tax increment financing (TIF) district or allocation area may be established, amended, or renewed; and (2) no bonds, leases, or other obligations may be issued, entered into, or extended for a property tax increment financing district or allocation area.

This bill provides that a school corporation may impose an annual fee to replace the loss of revenue previously collected by the school corporation from the imposition of an operating referendum tax levy or school safety referendum tax levy.

The bill prescribes procedures for the fixing and reviewing of a political subdivision's budget. It prohibits the imposition of new levies for controlled projects, operating referenda, and school safety referenda.

This bill abolishes the offices of county assessor and township assessor.

The bill extends the sales and use tax application to transactions involving services, except for health care or mental health services (including insurance premiums for policies covering these services) and services provided for charitable tax exempt purposes. It establishes the Local Revenue Sharing Fund into which revenue from the portion of revenue from the extended sales and use tax is to be deposited and requires the State Comptroller to distribute to taxing units the portion of all the state sales and use tax revenue attributable to services from the fund. The bill continually appropriates money from the fund.

The bill requires the Legislative Services Agency to prepare legislation for introduction in the 2027 regular session of the General Assembly to make appropriate required changes in statutes. It also makes corresponding changes.

**Effective Date:** Upon passage; July 1, 2026; July 1, 2027; January 1, 2028.

**Explanation of State Expenditures:** Beginning January 2028, on a monthly basis, the State Comptroller will allocate, and the State Treasurer will distribute, the balance in the Local Revenue Sharing Fund to civil taxing units and school corporations. The net state revenue and expenditure impact will be zero.

*Debt Payment Guarantee:* If a taxing unit does not receive enough revenue from the Local Revenue Sharing Fund to meet debt obligations, the State Treasurer will pay the obligations from money in the state's possession that would otherwise be available for distribution to the unit. If those funds are insufficient, the State Comptroller will make a supplemental distribution from the state General Fund to fund the deficit. Based on CY 2025 debt levies, the estimated distributions to almost all taxing units will be sufficient to pay obligations. The total estimated shortage is between \$1 M and \$2.5 M per calendar year. This amount is subject to change based on debt incurred by taxing units in CY 2026 and CY 2027.

*Department of State Revenue (DOR):* The DOR would incur significant staffing and technology costs to implement the expansion of sales tax to services. 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.

*Tax Administration Savings:* The estimated personnel cost for administering property tax at the state level is approximately \$2.5 M annually. This figure includes salary and benefits for the Department of Local Government Finance's (DLGF) assessment division and the Indiana Board of Tax Review (IBTR). Beginning in FY 2028, the DLGF will no longer have assessment duties. The IBTR will have no expenses after it completes all open property tax appeals for pre-2027 assessments.

**Explanation of State Revenues:** *Sales Tax on Services:* The bill extends the 7% sales and use tax to services beginning July 1, 2027. This provision would increase revenue by an estimated \$13,303 M to \$15,379 M in FY 2028 and \$15,262 M to \$17,646 M in FY 2029. The FY 2028 estimate assumes that revenue will be collected beginning in August 2027.

Ninety percent of the revenue will be deposited in the Local Revenue Sharing Fund. Ten percent will be deposited into the Local Revenue Sharing Reserve Account. If the State Treasurer determines that the balance in the reserve fund is sufficient to make 12 months of distributions, then the tax rate will be reduced to 6.75%. If the reserve fund drops below a six-month balance, then the tax rate will be raised back to 7%.

*Additional Information* - The estimated revenue impact is based on 2024 Bureau of Economic Analysis input-output data and 2022 Economic Census data on sales by certain industries. The estimation excludes sales of goods and services that are currently subject to sales tax. The estimated range is based on assumptions about the price elasticity of demand for services, which measures the impact of price changes on demand for services.

**Explanation of Local Expenditures:** *Tax Administration Savings:* According to the CY 2025 budget download for county units on Gateway, county assessors and township assessors (for the approximate dozen that remain) had a total budget of \$67.9 M. Much of this expense will be eliminated with the elimination of the property tax assessment system and the offices of the county and township assessors. The employment positions, property, obligations, and fund balances of the county and township assessors will be transferred to the county auditor.

Additionally, the county auditor will no longer have to maintain a property tax billing system or prepare and mail property tax statements, and the county treasurer will no longer collect property tax payments with the exception of late payments for pre-2028 taxes, and payments for the remaining terms of existing school referenda.

*New Debt:* Taxing units will not be permitted to incur new debt after May 9, 2026.

*Tax Increment Financing (TIF):* TIF districts will not be permitted to be created or expanded under the bill. Additionally, no new debt may be incurred in a TIF district after May 9, 2026. TIF districts will receive distributions of sales tax revenue in the amount needed to pay current debt obligations.

**Explanation of Local Revenues:** Beginning January 1, 2028, property tax will no longer be imposed by civil taxing units and school corporations. Instead, these taxing units will receive monthly distributions of sales tax on services revenue from the state Local Revenue Sharing Fund. The following table summarizes the estimated sales tax revenue and the estimated loss of property tax net levy.

**Estimated CY 2028 Revenue Change (\$ Millions)**

<b>Unit Type</b>	<b>Sales Tax on Services</b>			<b>Net Revenue Change</b>			
	<b>Low</b>	<b>to</b>	<b>High</b>	<b>Net Levy</b>	<b>Low</b>	<b>to</b>	<b>High</b>
Counties	2,281	to	2,670	-1,990	291	to	680
Townships	423	to	495	-376	46	to	118
Cities and Towns	2,654	to	3,105	-2,303	350	to	802
Traditional School Corporations	5,236	to	6,053	-4,532	704	to	1,522
Libraries	477	to	558	-420	58	to	139
Special Units	784	to	918	-725	60	to	193
<b>Total Units (Without TIF, Charter Schools, Choice Scholarships)</b>	<b>11,856</b>	<b>to</b>	<b>13,799</b>	<b>-10,346</b>	<b>1,510</b>	<b>to</b>	<b>3,453</b>
Charter Schools	163	to	188	0	163	to	188
Choice Scholarships	504	to	583	0	504	to	583
TIF	595	to	595	-1,222	-627	to	-627
<b>Grand Total (Taxing Units plus TIF, Charters, Choice Scholarships)</b>	<b>13,118</b>	<b>to</b>	<b>15,165</b>	<b>-11,568</b>	<b>1,549</b>	<b>to</b>	<b>3,597</b>

*Townships and Fire Protection Territories:* The distribution of sales tax revenue on behalf of townships and fire protection territories where a township is the provider unit will be made to the county auditor. The county council will determine how to allocate the money among the townships in the county. The county council may also consider whether one or more townships located in the county will merge with any other township in the county.

*School Referendums:* Referendum levies for school operating, school safety, or school controlled projects that are still in force will be converted to a fee for the remainder of the referendum term. The fee for each property owner will equal a pro-rata portion of the amount received by the school corporation in 2027, based on a taxpayer's 2027 net AV. The fee will be billed and collected by the county treasurer.

*Local Income Tax:* Beginning in CY 2028, counties will not be permitted to impose a local income tax (LIT) to fund property tax relief credits (PTRC) under the bill. Fifty-eight counties currently provide LIT-PTRC. However, under current law, all LIT-PTRC rates will already expire at the end of CY 2027.

*Additional Information - Sales Tax on Services Distribution:* Ten percent of the sales tax on services revenue will be deposited into the Local Revenue Sharing Reserve Account to be used to make local distributions in the event of an economic downturn.

The remaining 90% will be deposited into the state Local Revenue Sharing Fund. The entire balance in this fund will be distributed each month as follows:

- I. 45% of the revenue will be distributed to traditional school corporations, charter schools, and Choice scholarship, based on non-virtual student count (ADM).
- II. The remaining 55% of revenue will be distributed to civil units.
  - A. Distributions will be made in the amount needed to make TIF debt payments.
  - B. The remainder of the available revenue will be apportioned statewide by taxing unit type, based on the aggregate five-year average net levy for each unit type.
    1. Each county and municipality will receive a proportional distribution of that unit type's total amount, weighted at 75% on population and 25% on road miles.
    2. Each library will receive a proportional distribution of the libraries' total amount, based on population.
    3. An amount will be calculated for each township based on a proportional distribution of the townships' total amount, based on population. The township distributions will be paid to the county auditor for distribution as directed by the county council.
    4. Other types of taxing units will receive a proportional distribution of that unit type's total amount, based on the unit's five-year average net levy.

**State Agencies Affected:** Department of Local Government Finance; Indiana Board of Tax Review; Department of State Revenue; Comptroller of State; Treasurer of State.

**Local Agencies Affected:** County and township assessors, County auditors, County treasurers, civil taxing units and school corporations.

**Information Sources:** LSA property tax database; Indiana Gateway; U.S. Census Bureau, 2022 Economic Census; U.S. Bureau of Economic Analysis, *The Use of Commodities by Industries - Summary*, 2024.

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