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

LS 6420
BILL NUMBER: SB 81

NOTE PREPARED: Dec 8, 2025
BILL AMENDED:

SUBJECT: Various Tax Matters.

FIRST AUTHOR: Sen. Qaddoura
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Debt for Local Units*: The bill repeals the debt limitation for political subdivisions. The bill amends revenue distribution provisions for certain debt service levies to include the supplemental homestead credit and the local property tax credits for disabled individuals and seniors added in SEA 1 in the 2025 session for purposes of the distribution determination. The bill clarifies provisions added in SEA 1 in the 2025 session that place restrictions on the issuance of certain general obligation bonds.

TIF Neutralization: The bill amends provisions added in SEA 1 in the 2025 session that require the Department of Local Government Finance (DLGF) to neutralize the effect of certain property tax provisions enacted in that bill.

Disabled Veteran Deduction: The bill provides a property tax deduction for permanently disabled veterans based on the percentage of the permanently disabled veteran's service connected disability.

Standard Homestead Deduction: The bill restores the standard deduction for homestead property in the case of a homestead with an assessed value of $125,000 or less, and retains the supplemental homestead deduction as enacted in SEA 1 in the 2025 session.

School Operating Referenda: The bill caps the total operating referendum tax that may be levied by a school corporation for referendums approved by the voters after December 31, 2025, to not more than the school corporation's maximum operating referendum tax levy in the immediately preceding year, multiplied by the maximum levy growth quotient.

Public Hearings: The bill repeals provisions enacted in SEA 1 in the 2025 session that require a political subdivision to hold a separate public hearing before increasing its tax levy from the preceding year.

MLGQ Changes: The bill amends the calculation of the maximum levy growth quotient (MLGQ) to provide an increased MLGQ for those taxing units with assessed value growth over a three year average that exceeds 20%.

Excess Levy Appeals: The bill reinstates provisions regarding excess tax levies that were repealed in SEA 1 in the 2025 session.

Controlled Project Thresholds: The bill removes project costs as a determination threshold under the controlled projects statute. It provides for an increase in the tax rate thresholds under the controlled projects statute based on any increase in a political subdivision's tax rate that results solely from the statutory changes to property tax deductions and exemptions enacted in SEA 1 in the 2025 session.

Low Income Seniors Property Tax Credit: The bill provides a property tax liability credit to freeze the homestead property tax liability for low income seniors.

Renter's Income Tax Deduction: The bill increases the maximum renter's deduction for income tax purposes from $3,000 to $6,000 per taxable year.

Theft Losses Income Tax Deduction: The bill provides an income tax deduction for theft losses that result from certain financial transactions induced by third parties and that cause the individual to incur federal gross income as a result of the theft. It requires the Department of State Revenue (DOR) to first certify the theft loss deduction before a taxpayer may claim the deduction in a taxable year.

Child Care Income Tax Credit: The bill provides an income tax credit for small businesses that make contributions to a qualified employee for use toward a qualified employee's cost for child care. It provides that the tax credit may not be carried forward to a succeeding taxable year, carried back to a preceding taxable year, or refunded.

First-time Home Buyer Income Tax Credit: The bill provides an income tax credit for first time home buyers with a mortgage applicable for the first taxable year in which the home buyer first takes ownership of a homestead with respect to which a first time home buyer mortgage is granted. It provides that the tax credit is equal to $3,000 for that taxable year and may not be carried forward to a succeeding taxable year, carried back to a preceding taxable year, or refunded.

Low-Income Household Income Tax Credit: The bill provides an income tax credit for households whose income is at or below 200% of the federal poverty guidelines for a household of its size. It provides that the tax credit is equal to $3,000 for the taxable year and may not be carried forward to a succeeding taxable year, carried back to a preceding taxable year, or refunded.

LIT Rate Increase: This bill increases the overall local income tax (LIT) rate as enacted in SEA 1 in the 2025 session from 2.9% to 3.75%.

LIT Rate Re-adoption: The bill repeals provisions that require counties and municipalities to re-adopt their LIT rate each year beginning in 2031.

Marion County LIT: The bill requires LIT revenue from a fire protection and emergency medical services rate adopted by a consolidated county to be distributed to the fire special service district established under the UNIGOV statute. It specifies that an included town that is part of the consolidated city under the UNIGOV statute is not a separate municipality for purposes of the LIT provisions enacted in SEA 1 in the 2025 session. It repeals a provision regarding Marion County's allocation of LIT revenue.

Central Indiana Public Transportation LIT: The bill decouples the special purpose LIT rate for central Indiana public transportation projects from the LIT expenditure rate. (Under current law, the special rate for transportation projects is included in a county's total expenditure rate.)

Municipal LIT Population Thresholds: The bill expands the population threshold parameters under which a municipality may elect to be treated as if it were not eligible to adopt a municipal LIT (and instead potentially receive a LIT distribution under a county adopted LIT rate). It requires the population count for purposes of the LIT to include any federal special census count requested by a city or town.

LIT Distributions: The bill makes changes to LIT distribution provisions.

Effective Date: Upon passage; January 1, 2024 (retroactive); January 1, 2026 (retroactive); July 1, 2026; January 1, 2027; July 1, 2027; January 1, 2028.

Explanation of State Expenditures: *Excess Levy Appeals, MLGQ Changes, & Controlled Project Thresholds*: These provisions will increase administrative workload for the DLGF but should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Renter's Income Tax Deduction, *Theft Losses Income Tax Deduction*, *& Child Care Income Tax Credit*: The DOR will experience additional workload and expenses to put the bill's changes in place. The DOR should be able to make these changes within current resource levels.

LIT Rate Re-adoption: The DLGF will experience a decrease in workload. The DLGF will no longer need to review LIT rate re-adoption ordinances from all counties and certain municipalities (that choose to enact a LIT rate) on an annual basis.

LIT Distributions: The State Budget Agency will experience a temporary increase in workload to make special distribution to counties from the LIT trust accounts before December 31, 2027.

Explanation of State Revenues: *Summary* - The following table summarizes the estimated revenue impact of the income tax provisions.

Income Tax Provision	FY 2026	FY 2027	FY 2028
Low-Income Household Credit	N/A	N/A	($713 M)
Renter's Deduction	N/A	($49.5 M)	($48.7 M)
Theft Losses Deduction	($1.9 M)	($1.9 M)	($1.9 M)
Child Care Credit	N/A	(*)	(*)
First-Time Home Buyer Credit	N/A	N/A	(*)

* *Indeterminable.*

Low-Income Household Income Tax Credit: The credit could reduce state General Fund revenue by an estimated $713 M beginning in FY 2028. This is a high end estimate based on the tax liability for 2023 tax filers whose state taxable income is less than or equal to 200% of the federal poverty level. The actual revenue impact could be less than estimated since some individual tax filers who meet the income threshold may be part of a household with income that exceeds the eligibility threshold.

Renter's Income Tax Deduction: The increase in this deduction will decrease annual revenue to the state General Fund from individual income tax by an estimated $49.5 M in FY 2027 and $48.7 M in FY 2028.

Theft Losses Income Tax Deduction: The deduction could reduce state General Fund revenue by an estimated $1.9 M annually beginning in FY 2026.

Child Care Income Tax Credit: The tax credit would reduce state General Fund revenues by an indeterminable amount depending on the number of small employers who pay for their employees' child care expenses. The tax credit is available beginning in tax year 2026, and the revenue impact would begin in FY 2027.

First-time Home Buyer Income Tax Credit: The credit may decrease state General Fund revenue from individual income tax beginning in FY 2028. The impact is likely minimal.

<u>*Additional Information*</u> - *Low-Income Household Income Tax Credit*: The bill establishes a nonrefundable income tax credit for households earning at or below 200% of the federal poverty level beginning in tax year 2027. The credit is equal to the lesser of $3,000 or the tax filer's income tax liability. The bill only allows one member of the household to claim the credit even if there are multiple tax filers per household. However, married couples filing separately may choose to split the credit. The estimate accounts for certain taxpayers having insufficient tax liability to claim the maximum credit.

Renter's Income Tax Deduction: The estimate is based on individual income tax returns filed for tax year 2023 and estimates of the amount of contract rent paid in Indiana from the American Community Survey.

Theft Losses Income Tax Deduction: The estimate is based on the number and amount of claims for the federal casualty and theft loss deduction before and after federal changes to the deduction went into effect in 2018. The estimate was adjusted for Indiana's share of federal adjusted gross income. In 2024, over 30,000 Indiana residents reported $112 M in losses due to fraud to the Federal Trade Commission.

Child Care Income Tax Credit: As of the first quarter of 2025, there were 163,686 private sector businesses with 19 or fewer employees in Indiana. An additional 16,071 businesses had between 20 and 49 employees.

First-time Home Buyer Income Tax Credit: The credit may only be claimed by first-time home buyers with income at or below 200% of the federal poverty level. In tax year 2023, only six out of the nearly 1.5 million state income tax filers who claimed Indiana's homeowner's property tax deduction also had state taxable income at or below 200% of federal poverty. If so few filers meeting the income threshold are home owners and are able to claim the homeowner's property tax deduction, it is unlikely that new Indiana home buyers will meet the income qualification for the credit. The nonrefundable credit amount is equal to the lesser of $3,000 or the tax filer's income tax liability.

<u>**Explanation of Local Expenditures:**</u> *Debt for Local Units - 2% Debt Limitation*: This provision will triple the limit of indebtedness that a taxing unit may incur. Under the Indiana Constitution, a unit's indebtedness is limited to 2% of the value of property within the unit. By statute, debt is further limited to one-third of the true tax value (TTV) of property. [Prior to 2002, AV was equal to one-third of true tax value. The statutory debt limit was enacted in 2002 when the definition of AV was changed to 100% of TTV.]

Debt for Local Units - Waiting Period: Current law requires taxing units to wait at least one year after the expiration of short-term bonds to issue new bonds. This provision clarifies that the one-year waiting period applies only to new short-term bonds and not to other new bonds.

Disabled Veteran Deduction: This provision may result in a minor increase in workload for county auditors to administer the new deduction.

Public Hearings: This provision will result in a minor decrease in workload and costs for fiscal bodies of civil taxing units and school corporations. It decreases the number of required public hearings during the budget adoption process.

Controlled Project Thresholds: The fiscal impact on local expenditures from this provision is indeterminable. This provision removes the cost thresholds in favor of the debt service tax rate thresholds. Additionally, this provision requires the DLGF to adjust the tax rate thresholds for each unit to negate any change in the tax rate caused by changes in deductions and exemptions contained in SEA 1 (2025). Since the uncontrolled project, petition and remonstrance, and referendum processes all have different levels of public vetting, this bill could affect the likelihood that some projects ultimately get approved.

LIT Rate Re-adoption: This provision will result in a minor decrease in workload for county and municipal fiscal bodies. Additionally, this provision may potentially provide greater surety to lending institutions, resulting in lower borrowing cost for local units that have debt paid by LIT revenues.

LIT Distributions: This provision may result in a temporary increase in workload for the fiscal bodies of certain non-municipal units and municipalities in CY 2027 should these units wish to receive a LIT distribution in CY 2028.

Explanation of Local Revenues: *Debt for Local Units*: This provision requires that the new SEA 1 (2025) credits for homesteads, seniors, and blind or disabled taxpayers be allocated first to unprotected funds (i.e. non referendum and non debt service funds). The result is that referendum fund and debt service fund receipts will not, in most cases, be reduced and that debt service fund levies will not have to be increased to service the debt.

TIF Neutralization: Beginning with taxes payable in CY 2027, this provision will eliminate some of the changes in TIF net revenue that may occur because of the changes to deductions and credits contained in SEA 1 (2025). Current law requires the DLGF to neutralize TIF AV in order to negate the changes in revenue that will occur due to the tax rate changes caused by the changes in the homestead standard deduction and the new deduction for property with taxes capped at 2% of AV. This provision will also neutralize TIF for changes in the following:
- all deductions;
- the personal property de minimis exemption; and
- the new credits for homesteads, seniors, and blind or disabled taxpayers.

Overall, this provision may increase or reduce TIF AV, which will have the opposite effect on tax rates and tax cap losses for local units.

Disabled Veteran Deduction: According to 2023 data from the American Community Survey, there are approximately 83,000 homeowners with veteran wartime service connected disability ratings. Multiplying the net tax for permanently disabled veterans by the connected disability rating shows that the exemption would be worth roughly $68.9 M in net tax. More exemptions will result in a shift of property taxes from those properties eligible to receive the exemption to all other properties. Local units of government could potentially lose revenue due to increased tax cap credits.

Standard Homestead Deduction: Beginning with taxes payable in CY 2027, this provision will increase the homestead standard deduction for homeowners whose gross AV equals $125,000 or less. Under SEA 1 (2025), the standard deduction is phased out for a larger supplemental standard deduction. Homesteads at or under $125,000 AV will receive both deductions. The larger deduction for some homeowners will shift taxes from those homeowners to other property owners. Tax rates will increase as well as revenue losses due to tax caps.

School Operating Referenda: Beginning with school operating referenda approved after CY 2025, this provision could reduce the growth in some referendum levies. Currently, referendum funds are rate-based funds where the school corporation sets the tax rate and the resulting levy is dependent on the school's AV. As AV grows, so does the levy unless the rate is reduced. If a school corporation's AV grows at a higher rate than the MLGQ, then this provision will limit levy growth.

The limitation would first apply to taxes payable in CY 2028 for referenda approved in CY 2026. MLGQ growth is currently estimated at 5.5% for CY 2028 and 4.5% for CY 2029. Referendum funds are not subject to tax caps, so this provision will not affect revenue losses due to tax caps.

MLGQ Changes: Beginning with taxes payable in CY 2027, this provision will increase the maximum levy limit for taxing units with rapid AV growth. It will increase maximum levies by an additional 1% for units with a three-year average AV growth of more than 20% and up to 30%. Units that have more than 30% average AV growth will receive an extra 2% in maximum levy growth. If adopted, the higher levies will increase tax rates and will potentially reduce revenue for intersecting taxing units due to tax caps.

Excess Levy Appeals: This provision may result in higher maximum levy limits, permitting taxing units to impose higher property tax levies. The actual fiscal impact will vary by county and will depend on the number of excess levy appeal requests approved for a particular budget year.

Low Income Seniors Property Tax Credit: The credit for homeowners age 65 and over is estimated at $244 M per year beginning in CY 2027. The credit reduces both senior homeowner property tax bills and local unit revenues.

For senior homeowners with AGI of up to 200% of the federal poverty level, the credit is equal to the lesser of the current year net tax billing or the taxes billed in the year prior to the credit taking effect. After the first year, the credit is equal to the lesser of the current year net tax billing or the taxes billed in the first year in which the credit was applied. Roughly 20.5% of senior homesteads will receive this credit.

Renter's Income Tax Deduction: The change in the renter's deduction will decrease taxable income, so counties may experience a reduction in LIT revenues. Based on an average LIT rate of 1.68%, the statewide revenue loss for LIT may be approximately $28.1 M in FY 2027 and in FY 2028.

Theft Losses Income Tax Deduction: The deduction could reduce LIT revenues by an estimated $1 M. The estimate is based on an average LIT rate of 1.68%.

LIT Rate Increase: This change increases the total LIT rate cap (excluding any special purpose LIT rate where applicable) from 2.9% to 3.75% for the new rate structure starting in CY 2028. Additionally, the rate caps for the county services rate and the municipal rates, which are separate components of the total LIT rate, both increase from 1.2% to 1.625%. Based on the projected CY 2028 countywide LIT base estimates, the increase in the county services rate cap from 1.2% to 1.625% could generate an additional $1.2 B in LIT revenue for CY 2028. Since municipalities are not yet allowed to adopt their own municipal LIT rate under the current LIT structure, accurate LIT base data for cities and towns is not currently available.

Marion County LIT: These provisions ensure the following when the new LIT rate structure goes into effect for CY 2028:

- The Indianapolis Fire Department may receive a LIT revenue distribution from the fire and EMS rate.
- The eight included cities and towns in Marion County (Clermont, Cumberland, Homecroft, Meridian Hills, Rocky Ripple, Warren Park, Williams Creek, and Wynnedale) will receive any revenue from a municipal LIT rate that is adopted by the city-county council rather than by their individual fiscal bodies.

[The Indianapolis Fire Department is part of the Indianapolis Fire Special Service District as opposed to a fire protection district, fire protection territory, or municipal fire department, which are the entities that are allocated a share of the revenue from a fire and EMS LIT rate. For CY 2026, the Indianapolis Fire Special Service District will receive a certified LIT distribution of approximately $7.8 M. The eight included cities and towns will receive a certified distribution of approximately $184,000 total.]

Central Indiana Public Transportation LIT: This change ensures that the special purpose LIT rate of up to 0.25% for central Indiana public transportation continues to be treated as being in addition to the expenditure rate cap for a county that adopts this special purpose rate. [Marion County is the only county that has adopted a central Indiana public transportation special purpose LIT rate. For CY 2026, this special purpose LIT rate is 0.25% with a certified distribution of approximately $81.4 M.]

Municipal LIT Population Thresholds: This change increases the number of municipalities that may potentially elect to receive a revenue distribution from a municipal LIT rate adopted by the county fiscal body as opposed to adopting their own individual municipal LIT rate. Based on the 2020 Census, there would be an additional 68 municipalities that could qualify for receiving a distribution from a municipal LIT rate adopted by the county fiscal body.

LIT Distributions: This change will result in a temporary increase in LIT revenue for local units, assuming that a county meets the percentage threshold for receiving a distribution made before December 31, 2027, from the currently-used LIT trust accounts. The actual fiscal impact will vary from county to county and will be contingent on a county's trust account balance as of December 31, 2026, and the amount of a county's certified LIT distribution for CY 2028.

Additionally, the bill's provisions pertaining to LIT distributions to non-municipal units and to municipalities will permit these local units to potentially start receiving revenue in CY 2028 under the new LIT rate structure that takes effect on July 1, 2027. [In current law, there is a year lag (i.e., CY 2029) before they can start receiving a LIT distribution from the new LIT rate structure.]

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

Local Agencies Affected: County auditors; Civil taxing units and school corporations.

Information Sources: Congressional Research Service. (2025, July 24). The Nonbusiness Casualty Loss Deduction. Retrieved from: https://www.congress.gov/crs-product/IF12574; Federal Trade Commission. (2025). Fraud Report Subcategories: Indiana, 2024. Retrieved from FTC Fraud Sentinel Network: https://public.tableau.com/app/profile/federal.trade.commission/viz/FraudReports/StateSubcategories; IRS. (2013-2022). SOI Tax Stats - Individual income tax returns complete report (Publication 1304). Retrieved from:
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LSA Income Tax Database; U.S. Census Bureau, American Community Survey, 2024. ACS Indiana 1-Year Estimates Detailed Tables, Contract Rent; LSA Property Tax Database; CY 2026 LIT Distributions Certified November 25, 2025:https://www.in.gov/sba/files/2026-Certification-Calculations-November-Release.pdf.

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