

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

LS 6925

BILL NUMBER: SB 218

NOTE PREPARED: Jan 2, 2026

BILL AMENDED:

SUBJECT: Circuit Breaker Credits for Homesteads.

FIRST AUTHOR: Sen. Buck

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill authorizes the fiscal body of a county, city, or town (municipality) to reduce its homestead property tax cap. It requires the reduced property tax cap to apply only in determining the net property tax revenue of the municipality that adopted it and not to any other taxing unit within the taxing district.

The bill authorizes a municipality that has adopted a reduced homestead property tax cap to adopt any of the following local option taxes, either singly or in combination, the revenue from which must be used as property tax replacement revenue due to the reduced homestead property tax cap: (1) Local option sales tax. (2) Supplemental local income tax. (3) Supplemental innkeeper's tax. (4) Supplemental food and beverage tax.

The bill makes an appropriation, makes conforming changes, and removes obsolete provisions.

Effective Date: July 1, 2026.

Explanation of State Expenditures: *Homestead Property Tax Cap:* The bill requires the Department of Local Government (DLGF) to receive any county ordinances that either adopt or rescind the reduction in the homestead property tax liability percentage cap. This requirement can be accomplished within the agency's existing resources and staff.

Local Option Sales Tax: The bill's requirements would increase the Department of State Revenue's (DOR) workload and expenditures by an estimated \$300,000 to \$395,000 in FY 2027. The annual cost after implementation could be \$300,000 to \$600,000. The bill requires the DOR to administer local sales taxes and maintain databases related to local sales taxes. The DOR may contract with a vendor to maintain the databases. The DOR must also provide local fiscal officers with local option sales tax collection information annually.

The bill establishes a nonreverting account within the General Fund for each county or municipality that imposes the local sales tax. The local sales tax revenue is deposited in each local authority's account. The

State Comptroller must distribute the revenue monthly to the county or municipality that adopts the tax. This requirement can be accomplished within existing resources and staff.

Supplemental Food and Beverage Tax: The supplemental food and beverage taxes would be collected and remitted to the DOR in the same manner as the sales tax. The increased workload would depend on the number and size of the cities, towns, and counties that adopt the supplemental food and beverage tax. The DOR should be able to implement these requirements within existing levels of staff and resources.

Explanation of State Revenues: *Local Option Sales Tax:* The bill could decrease state sales tax revenue by an indeterminate amount. The local sales tax would increase the cost to consumers, which could reduce demand for taxable goods and services. The actual impact depends on the number of counties and municipalities that adopt the local sales tax.

Sales tax is distributed as follows:

- 99.838% to the General Fund
- 0.131% to the Commuter Rail Service Fund
- 0.031% to the Industrial Rail Service Fund

Additional Information: The estimated state revenue decrease could range between \$32.5 M and \$216.7 M, assuming all counties impose a 1% local sales tax. In FY 2025, the state received \$10.65 B in total sales tax revenue.

Explanation of Local Expenditures: The bill's provisions may result in a temporary increased workload for county and municipal fiscal bodies should a county or municipality choose to adopt the credit and/or one or more of the taxes authorized in the bill.

Additionally, the workload will increase for the applicable county auditors and municipal fiscal officers to administer the tax(es). County auditors and municipal fiscal officers can likely implement these provisions within existing resource levels.

Explanation of Local Revenues: *Homestead Property Tax Cap:* The general impact of a county or municipality's action to lower the homestead property tax cap percentage to an amount between 0% and 1% would result in lower property tax bills for eligible homestead taxpayers and a reduction in property tax revenue to the applicable county or municipality. The new credits, though, would not result in a shift of property tax liability between different types of taxpayers. The actual fiscal impact will vary among counties and municipalities and will depend on what level of reduction a fiscal body decides to adopt.

[For CY 2027, counties and municipalities are estimated to have a combined revenue loss from property tax caps of \$731.9 M statewide. These estimated property tax cap losses are for all property types - not just homestead properties.]

Local Option Sales Tax: The bill allows counties and municipalities that reduce the homestead property tax cap within their jurisdictions to adopt a local sales tax at a rate of 1%. The bill could increase local revenue by an indeterminate amount. The actual local sales tax revenue depends on economic conditions, local population, tourism attraction, and shopping destination.

[The estimated potential revenue increase could range between \$1,517 M and \$1,543 M, assuming all counties impose a 1% local sales tax.]

Supplemental Local Income Tax: This bill allows counties and municipalities that adopt an ordinance to reduce the homestead property tax cap within their jurisdictions to adopt a supplemental local income tax (LIT) up to a rate of 0.5%. This supplemental LIT would be outside the total LIT rate cap of 3.75% (4% in Marion County) in CY 2027 and the total LIT rate cap of 2.9% in CY 2028 forward. The individual municipal revenue impact is indeterminable since accurate data for municipal LIT bases is not currently available. However, we can use the projected CY 2027 county LIT base to estimate the magnitude of the potential increase if all counties adopt the maximum rate. Applying the 0.5% maximum rate to the estimated CY 2027 countywide base would generate about \$1.35 B in county LIT revenue statewide in CY 2027.]

Supplemental Innkeeper's Tax: This bill allows counties and municipalities that adopt an ordinance to reduce the homestead property tax cap within their jurisdictions to establish a supplemental innkeeper's tax up to a rate of 5%. This tax is in addition to the state sales tax, county innkeeper's tax, and food and beverage taxes. The estimated potential increase in county revenue could be roughly \$126.4 M statewide in CY 2027. This estimate excludes counties that do not currently impose an innkeeper's tax. Municipal innkeeper's tax revenue is indeterminate. Actual revenues may be lower if consumer demand for lodging decreases due to the price increases from the taxes.

[In CY 2024, the 80 counties that had innkeepers taxes collected \$177 M in revenues.]

Supplemental Food and Beverage Tax: This bill allows counties and municipalities that adopt an ordinance to reduce the homestead property tax cap within their jurisdictions to establish a supplemental food and beverage tax up to a rate of 1%. The estimated potential increase in county revenue could be roughly \$182.1 M statewide in CY 2027. Municipal food and beverage tax revenue is indeterminate. Actual revenues may be lower if consumer demand for food and beverages decreases due to the price increases from the taxes.

[In CY 2024, the 14 counties with a food and beverage tax collected \$125 M in revenues.]

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

Local Agencies Affected: Counties and municipalities.

Information Sources: LSA Property Tax Database; LSA Local Income Tax Database; Collins, Clay G. & Stephenson, E. Frank, 2017. "Taxing the Travelers: A Note on Hotel Tax Incidence," Journal of Regional Analysis and Policy, Mid-Continent Regional Science Association, vol. 48(01), January, <https://ideas.repec.org/a/ags/jrapmc/339895.html>; Legislative Services Agency, *Indiana Handbook of Taxes, Revenues, and Appropriations*, FY 2025; OFMA Quarterly Census of Employment and Wages Data; Department of State Revenue; Revenue Forecast Technical Committee, April 2025 Revenue Forecast; Bureau of Labor Statistics, Consumer Price Index - August 2025, <https://www.bls.gov/news.release/pdf/cpi.pdf>; Fujita, K. Sydny. "Estimating price elasticity using market-level appliance data." (2015), <https://eta.lbl.gov/publications/estimating-price-elasticity-using>; Dale, Larry. "An analysis of the price elasticity of demand for household appliances." (2008). <https://escholarship.org/uc/item/5qr2f2nz>; Gowrisankaran, Gautam, and Marc Rysman. "Dynamics of consumer demand for new durable goods." *Journal of political Economy* 120.6 (2012): 1173-1219. https://www.nber.org/system/files/working_papers/w14737/revisions/w14737.rev1.pdf; Andreyeva, T., Long, M. W., & Brownell, K. D. (2010). The impact of food prices on consumption: a

systematic review of research on the price elasticity of demand for food. American journal of public health, 100(2), 216-222. <https://pmc.ncbi.nlm.nih.gov/articles/PMC2804646/>.

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