HB 1402 – Local Government Finance

Representative Jeff Thompson

Local Income Taxes (LIT)

Summary

- Raises the county-wide expenditure rate cap to 2.9% starting in 2027
  - 1.2% of the rate is reserved for county services
  - 0.4% of the rate is reserved for fire protection and EMS services
  - 0.2% of the rate is reserved for nonmunicipal taxing units (like conservancy districts, solid waste management districts, etc.)
  - 1.2% of the rate is reserved for general revenue for municipalities under 3,500 in population (distributed by population)
  - Allows municipalities over 3,500 in population to adopt a LIT rate up to 1.2% for general purpose revenue.
- Eliminates the PTRC rate
- Eliminates the LIT reserve and allows supplemental distributions from the LIT reserve over time to local government taxing units.
- Provides a process for a municipal operating referendum for communities under 3,500 if they cannot provide enough funding to provide their essential services and the county has not adopted a LIT rate that distributes to the smaller municipalities.

Aim Comments

- The above provisions represent a good framework for allowing municipalities to control their own LIT rates.
- More work needs to be done on the specifics of how the rates are broken up to ensure equitable revenue sharing.
- The operating referendum being used to cover the possibility of no revenue being shared with smaller municipalities is not the best mechanism. An automatic revenue sharing mechanism from the county rate is preferable.

Business Personal Property Tax (BPPT)

Summary

- Increases the de minims BPPT exemption over several years (currently set at $80,000):
  - $100,000 in 2025
  - $120,000 in 2026
  - $140,000 in 2027
  - $160,000 in 2028
  - $180,0000 in 2029

    - $200,000 in 2030
- Phases down the minimum valuation (depreciation floor) over several years (currently set at 30% of acquisition cost):
    - 25% in 2027
    - 20% in 2028
    - 15% in 2029
    - 10% in 2030
    - 5% in 2031
    - 0% starting in 2032
- Removes the minimum valuation on personal property put into use after January 1, 2025.
- Adds a property tax exemption to personal property put into use after January 1, 2025.
    - 20% in 2026
    - 40% in 2027
    - 60% in 2028
    - 80% in 2029
    - Personal property would be exempt from taxation starting in 2030.

<u>Aim Comments</u>

- This proposal includes phaseouts both for the depreciation floor and personal property tax entirely, which are in some ways conflicting.
- Either proposal represents an extremely large reduction of the tax base with no state implemented revenue replacement.
- The LIT changes may not be large enough to cover the loss in tax revenue from eroding the property tax base.
- Even if maximizing the LIT rates could cover the loss, LIT is a far more volatile revenue source than property taxes.
- LIT is also much more difficult to bond against than property taxes because it is not guaranteed by law.
- Significant amounts of the AV in TIF allocation areas are in personal property. Significantly eroding this tax base could impair economic development bonds.

Property Tax Deductions

<u>Summary</u>

- Phases down the standard homestead deduction (currently $48,000 or 60%, whichever is less):
    - $40,000 in 2026
    - $30,000 in 2027
    - $20,000 in 2028
    - $10,000 in 2029
    - Eliminated in 2030
- Phases up the supplemental homestead deduction (currently 35%)
    - 43% in 2026
    - 48% in 2027
    - 53% in 2028

    - 58% in 2029
    - 62% in 2030
    - 66.7% in 2031 and going forward
- Adds a new property tax deduction for all property in the 2% property tax bucket (agriculture land and non-homestead residential property):
    - 7% in 2026
    - 14% in 2027
    - 21% in 2028
    - 26% in 2029
    - 30% in 2030
    - 33.3% in 2031 and going forward
- Adds a new property tax credit of $150 for all homeowners aged 65 or over.
- Adds a new property tax credit of $125 for disabled homeowners.
- Adds a new property tax credit of $250 for disabled veterans.

<u>Aim Comments</u>

- These new credits and deductions are added to blunt the shift from business property to residential and agricultural property created by phasing out the business personal property tax.
- This protection for other taxpayers compounds the loss of revenue for local units of government requiring an even larger revenue replacement mechanism to cover the policy change.

Tax Increment Financing (TIF) Neutralization

<u>Summary</u>

- Allows DLGF to neutralize windfalls for TIFs resulting from large rate increases stemming from the AV cuts in this bill.
- Allows DLGF to increase TIF rates to guarantee bonds that could be impaired by AV cuts in the bill, particularly with personal property.

<u>Aim Comments</u>

- Considering how these changes would affect TIFs is appreciated.
- The proposed protection in this language is not sufficient to deal with the problem of greatly reduced TIF AV from a phase-out of personal property.