SB 443 – Business Personal Property Tax

Senator Aaron Freeman

Summary

- Raises the de minimis business personal property tax exemption from $80,000 to $160,000.
- Phases down the BPPT minimum valuation (depreciation floor) over three years:
  - 25% in 2025
  - 18% in 2026
  - 0% in 2027 and thereafter
- Creates a tax credit for all other taxpayers on real property to grant a tax credit for the difference between what they would pay with the depreciation floor removed and what they would have paid with the depreciation floor in place.

Talking Points

- When fully phased in, the changes in the bill would result in a combined revenue loss of $383.6M for local government, of which $84.6M would come from cities and towns.
- Aim is agnostic whether personal property taxes is good tax policy. However, they are a very large portion of the tax base and removing significant portions of the AV will have negative effects on the ability to provide services.
- Any reduction in business personal property tax should be matched with a stable revenue replacement source.
- Cities and towns across the state have very different tax bases. Many are bedroom communities with little personal property in their base while others are manufacturing or commercial hubs with significant personal property in their base. It will not be easy to construct a replacement mechanism that accounts for these idiosyncrasies.
- Local Incomes Tax (LIT) is not an adequate backfill for significant personal property tax cuts:

    - Cities and towns cannot pass their own LIT rate, they must get county approval and distributions of LIT are based on tax levy, not how much the unit would lose from this targeted cut.
    - Even if cities and towns were to get their own LIT approval, the units with the highest concentration of BPPT have some of the lowest capacity for income taxes as they tend to be commercial or manufacturing heavy and don't have as many residents that pay LIT.
- Personal property is one of the few types of AV that can be reliably captured in TIF, and, as a result, there are many TIF bonds around the state which the financing is tied to BPPT projections. A significant decrease in BPPT could place the funding of these bonds in question.
- Indiana's 30% depreciation floor is somewhat unique nationwide, as well as the low ceiling on the assessment of personal property (starting between 55% and 60%, where most schedules start above 90%). This is an intentional policy decision to incentivize investment on the front-end of development but provide local revenue stability on the back-end.

Section by Section

Section 1

- Raises the de minimis business personal property tax exemption from $80,000 to $160,000.

Section 2

- DLGF may amend their administrative code to comply with the removal of the depreciation floor.

Section 3-4

- Conforming changes.

Section 5

- Phases down the BPPT minimum valuation (depreciation floor) over three years:
    - 25% in 2025
    - 18% in 2026
    - 0% in 2027 and thereafter

Section 6

- Conforming changes for Section 2

Section 7

- Conforming changes for Section 5

Section 8-10

- Conforming changes.

Section 11

- Creates a tax credit for all other taxpayers on real property to grant a tax credit for the difference between what they would pay with the depreciation floor removed and what they would have paid with the depreciation floor in place.
- The effected property taxes would be shifted to other taxpayers as a result of removing the floor, and will instead be credited, due to this being a loss to local units.

Section 12-14

- Conforming changes for Section 5.