

Understanding and Implementing the Local Income Tax

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What is the Local Income Tax (aka “LIT”)

- ➔ Legislation enacted in 2015 and amended in 2016:
 - ➔ repealed, effective January 1, 2017:
 - ➔ IC 6-3.5-1.1 (CAGIT/LOIT);
 - ➔ IC 6-3.5-6 (COIT/LOIT);
 - ➔ IC 6-3.5-7 (CEDIT or EDIT); and
- ➔ Froze in place all existing income tax rates in effect on May 1, 2016 and consolidated the former taxes to a new, single tax

Understanding the Local Income Tax

- ➔ October 2016 – the Office of Management and Budget prepared a report detailing for each taxing unit the categorization of the taxing unit’s revenues under the LIT and the uses of that revenue under the new statute as compared to the former statutes.
- ➔ Transition to the consolidated LIT was to be completed by 8/1/2016, for purposes of:
 - ➔ 2017 budgets; and
 - ➔ Distribution and allocation of revenue after 12/31/2016.

Understanding the Local Income Tax

- ➔ Although the Local Income Tax is referred to as a single consolidated tax, it is actually comprised of 3 different rates:
 - ➔ Property tax relief rate;
 - ➔ Expenditure rate; and
 - ➔ Special purpose rate.

Understanding the Local Income Tax

- ➔ Property Tax Relief Rate
- ➔ Maximum amount – 1.25%
- ➔ Uses of revenue
 - ➔ Homestead credits (including homestead credits from COIT) for property eligible for 1% tax cap;
 - ➔ Property tax credits for residential property, long term care property, and agricultural land for property eligible for 2% tax cap; and
 - ➔ Nonresidential real and personal property for property eligible for 3% tax cap.

Understanding the Local Income Tax

- ➔ Expenditure Rate
- ➔ Maximum amount – 2.5% for 91 counties; 2.75% for Marion County
- ➔ Uses
 - ➔ In CAGIT counties, revenue from first 0.25% rate is distributed “off the top” to each taxing unit, including school corporations
 - ➔ Additional revenue
 - ➔ Public safety;
 - ➔ Economic development; and
 - ➔ Certified shares.

Understanding the Local Income Tax

- ➔ Special Purpose Rate
- ➔ Not available in every county
 - ➔ Authorized for specific counties under the former statutes
- ➔ Maximum rate varies, depending upon the maximum established under the former statutes

Implementing the Local Income Tax

- ➔ Beginning July 1, 2016, county adopting bodies can adopt ordinances with respect to tax rates under the Local Income Tax
 - ➔ Adopted prior to September 1, ordinance takes effect October 1 of current year
 - ➔ Adopted between September 1 and October 31, ordinance takes effect January 1 of following year
 - ➔ Adopted between November 1 and December 31, ordinance takes effect October 1 of following year

Implementing the Local Income Tax

- ➔ Beginning July 1, 2016, county adopting bodies can adopt ordinances that grant or change a property tax credit
- ➔ Adopted between January 1 and November 1, ordinance takes effect January 1 of the immediately following year
- ➔ Adopted between November 2 and December 31, ordinance takes effect January 1 of the second year following adoption

Implementing the Local Income Tax

- ➔ Beginning July 1, 2016, county adopting bodies can adopt ordinances that grant or change a distribution or allocation of taxes to a governmental entity other than the county
- ➔ Adopted between January 1 and November 1, ordinance takes effect January 1 of the immediately following year
- ➔ Adopted between November 2 and December 31, ordinance takes effect January 1 of the second year following adoption

Implementing the Income Tax

- ➔ Adopting body is either:
 - ➔ County Council, in former CAGIT counties; or
 - ➔ Local Income Tax Council, in former COIT counties
 - ➔ Former CEDIT only counties, whichever body imposed CEDIT is the adopting body
- ➔ Local Income Tax Council
 - ➔ Members are each of the fiscal bodies in the county
 - ➔ 100 votes apportioned on the basis of population
 - ➔ County's population is based on unincorporated areas

Implementing the Local Income Tax

- ➔ If the adopting body is the county council, it may adopt an ordinance only after a public hearing for which notice has been given under IC 5-3-1
 - ➔ One time, at least 10 days before the hearing
 - ➔ In accordance with the procedures set forth in IC 36-2-4
 - ➔ Ordinance may not be adopted on the same day or at same meeting at which it is introduced unless there is unanimous consent of all the members in attendance
 - ➔ A majority vote of the elected members (4) is required to adopt an ordinance

Implementing the Local Income Tax

- ➔ If the adopting body is the local income tax council, one member must adopt a resolution, after a public hearing, with notice given in accordance with IC 5-3-1, proposing an ordinance of the local income tax council
 - ➔ Adoption of ordinance casts all of the member's votes in favor of the proposed ordinance
 - ➔ The member must provide the county auditor the adopted resolution after passage
- ➔ County auditor must then distribute the resolution containing the ordinance to the other members of the local income tax council

Implementing the Local Income Tax

- ➔ After receiving the resolution containing the proposed ordinance, each member of the local income tax council may adopt a resolution containing the same ordinance, after a public hearing with notice given under IC 5-3-1

Implementing the Local Income Tax

- ➔ An ordinance prescribe and make electronically available uniform notices, ordinances and resolutions for use by governing bodies
 - ➔ Adoption of ordinance casts all of the member's votes in favor of the proposed ordinance
 - ➔ The member must provide the county auditor the adopted resolution after passage
- ➔ After receiving resolutions casting a majority of the votes of the local income tax council, the county auditor must electronically submit the ordinance, together with the votes cast, to the DLGF and the Department of Revenue

Implementing the Local Income Tax

- ➔ Under the LIT statute, the DLGF was given the authority and responsibility to prescribe and make electronically available uniform notices, ordinances and resolutions for use by an adopting body to implement the local income tax
- ➔ Templates were distributed by the DLGF on August 11, 2016

Implementing the Local Income Tax

- ➔ The LIT statute authorizes adopting bodies (and members of adopting bodies) to submit proposed resolutions, ordinances and notices to the DLGF for review
- ➔ The DLGF is required to provide a determination of the appropriateness of the proposed notice, ordinance or resolution, including recommended modifications, if any, within 30 days of receipt
- ➔ The DLGF was also required to prescribe hearing requirements and procedures that comply with the LIT statute to be used for:
 - ➔ Submitting a notice and vote results on ordinances; and
 - ➔ Adopting and submitting an ordinance or resolution

Implementing the Local Income Tax

- ➔ An action taken by an adopting body that does not satisfy all the requirements prescribed by the DLGF is not effective and is void.

Implementing the Local Income Tax

- ➔ On August 1, 2016, the DLGF provided the estimate of LIT revenues to be distributed in 2017 to each county
- ➔ Based upon the CAGIT, COIT, and CEDIT and any rates of LOIT in place on May 1, 2016
- ➔ Beginning in 2018, this information must be provided BEFORE June 1

Implementing the Local Income Tax

- ➔ On August 18, 2016, the DLGF provided to each county auditor the breakdown of the estimated LIT revenues for each taxing unit of: property tax credits, school distributions, public safety revenue, economic development revenue, certified shares and special purpose revenue (if any) to be received in 2017. Based upon the "allocation" of CAGIT/COIT, CEDIT and any rates of the LOIT in place on May 1, 2016
- ➔ Beginning in 2018, this information must be provided by July 1

Implementing the Local Income Tax

- ➔ Before October 1, the DLGF will provide the certified distribution of LIT revenues to be distributed in 2017 to each county
- ➔ By October 15, DLGF will provide to each county auditor the breakdown of the certified LIT revenues for each taxing unit of: property tax credits, school distributions, public safety revenue, economic development revenue, certified shares and special purpose revenue (if any) to be received in 2017.
- ➔ County auditors must provide this information to each taxing unit by September 17, 2016
 - ➔ Beginning in 2018, this information must be provided before November 1.

Applying the Local Income Tax Revenues

- ➔ Revenues from the Property Tax Relief Rate (IC 6-3.6-5)
 - ➔ A credit payable from the PTRR revenues shall be applied BEFORE the application of a property tax credit under the tax caps statute(s).
 - ➔ Revenues may be used only for the purpose of funding a property tax credit on a percentage basis to reduce the property tax liability of taxpayers in the county.
 - ➔ Referendum property taxes are not eligible for the credit

Applying the Local Income Tax

- ➔ Expenditure Rate Revenues (IC 6-3.6-6)
 - ➔ In former CAGIT counties, revenues from the first 0.25% must be distributed "off the top" to each taxing unit and school corporation
 - ➔ In former COIT counties where a county council has imposed a rate of the LIT, not to exceed 0.1% to be used for the PSAP, revenues from that rate must be distributed "off the top" directly to the county.
 - ➔ All remaining expenditure rate revenue is deemed to be additional revenue

Applying the Local Income Tax

- ➔ Beginning in 2017, the adopting body must adopt an ordinance specifying the allocation of additional revenue, which **MUST** be allocated among the following purposes:
 - ➔ Public safety;
 - ➔ Economic development projects (using the old CEDIT definition); and then
 - ➔ Certified shares
- ➔ The ordinance allocating the use of additional revenue remains in effect until it is amended or rescinded

Applying the Local Income Tax

- ➔ Before allocating additional revenue, the adopting body must first determine the amount of expenditure rate revenue that has been pledged to bonds, leases, or other obligations by any civil taxing unit and which is required to make payments in the following year
 - ➔ The adopting body may not change the allocation among the uses in a year if the reduction would allocate less to a civil taxing unit than the amount pledged and payable or is required to be deposited in a sinking or reserve fund in that year
- ➔ Such pledged revenue must be included within the uses to which additional revenue is allocated

Applying the Local Income Tax

- ➔ Special Purpose Rate Revenues (IC 6-3.6-7)
 - ➔ These are revenues authorized under specific legislation to fund capital projects, and in some counties, operations.
 - ➔ Revenues from the special purpose rate can only be used for the purpose for which the rate was originally authorized.