

Members

Rep. Peggy Welch, Chairperson
Rep. William Crawford
Rep. Eric Turner
Sen. Luke Kenley
Sen. John Broden



COMMISSION ON STATE TAX AND FINANCING POLICY

Legislative Services Agency
200 West Washington Street, Suite 301
Indianapolis, Indiana 46204-2789
Tel: (317) 233-0696 Fax: (317) 232-2554

LSA Staff:

George Angelone, Attorney for the Commission
Ross Hooten, Attorney for the Commission
Edward Gohmann, Attorney for the Commission
Diane Powers, Fiscal Analyst for the Commission
James Landers, Fiscal Analyst for the Commission
Robert Sigalow, Fiscal Analyst for the Commission

Authority: IC 2-5-3-2

MEETING MINUTES¹

Meeting Date: September 10, 2008
Meeting Time: 9:00 A.M.
Meeting Place: State House, 200 W. Washington St., Room 233
Meeting City: Indianapolis, Indiana
Meeting Number: 3

Members Present: Rep. Peggy Welch, Chairperson; Rep. William Crawford; Rep. Eric Turner; Sen. Luke Kenley; Sen. John Broden.

Members Absent: None.

Rep. Welch called the meeting to order at approximately 9:10 a.m. The Commission heard testimony on two issues: (1) proposals to eliminate property taxes on homesteads; and (2) distribution of the various local option income taxes.

Elimination of Property Taxes on Homesteads

Ms. Melyssa Donaghy urged the General Assembly to move beyond eliminating property taxes on homesteads in favor of eliminating property taxes all together. Ms. Donaghy questioned the fairness of the circuit breakers enacted in 2008 (Exhibit A).

Mr. Dave Bond also supported the total elimination of property taxes. Mr. Bond favored replacing the property tax revenue with revenue raised from the following tax changes:
(1) Add two percentage points to the state sales tax.

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.in.gov/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

- (2) Add two percentage points to the adjusted gross income tax imposed on corporations.
- (3) Authorize county governments to impose additional local option income taxes.

Mr. Bond stated that for the average county the increase in the local option income tax rate necessary under this plan is two percentage points (Exhibit B).

Mr. Steve Keltner offered two suggestions. First, he suggested that the General Assembly should not limit the discussion of replacement revenues to income and sales taxes. Mr. Keltner advocated raising a broad range of smaller taxes and fees. Mr. Keltner also testified in support of imposing a strict state spending cap and replacing property taxes with two additional percentage points on the state sales tax and an additional percentage point on income taxes (Exhibit C).

Mr. Bob Dutton favored eliminating all property taxes as well. His replacement plan includes the following elements:

- (1) Add two percentage points to the state sales tax.
- (2) Add one percentage point to the adjusted gross income tax imposed on corporations.
- (3) Replace the current individual adjusted gross income tax structure with a graduated tax that would not be imposed on taxpayers having less than \$20,000 of adjusted gross income (Exhibit D).

Mr. Conrad Urban also urged the General Assembly to eliminate all property taxes. He indicated that he would support reasonable increases in the sales and income taxes if they were used to fund more frugal governments at the state and local level.

Mr. Aaron Smith proposed allowing local taxing units to replace some property taxes with a pair of new local option income taxes (LOITs). A property tax cap LOIT would allow units to replace property taxes lost from the imposition of the circuit breakers. Units could also impose a property tax replacement LOIT to replace the property taxes imposed on real property other than real property directly or indirectly owned by a corporation, a public utility, or certain trusts. Mr. Smith explained that the plan's authority to impose the new LOITs would be bestowed upon any taxing unit that currently has the authority to impose property taxes (Exhibit E).

State Senators R. Michael Young and Brent Waltz presented a plan to replace homestead property taxes with revenue derived from the sales tax. The Senators' plan differed from the other plans in calling for the extension of the sales tax to services while reducing the sales tax rate. Senator Young testified that the rate could be reduced to 4.5% if medical and legal services are taxed or to 5.5% if medical and legal services are exempted from the sales tax on services (Exhibit F).

The Senators compared Indiana's current tax treatment of services to the tax treatment of services by other states (Exhibit G).

Sen. Kenley distributed hard copies of the slides that he presented at the National Conference of State Legislatures annual meeting in July. The slides describe Indiana's recent experience with property tax reform (Exhibit H).

Mr. Andrew Berger, Association of Indiana Counties (AIC), described the Association's concern about the loss of balance within the tax structure that may result if homestead property taxes are eliminated. Mr. Berger testified that the AIC is also concerned about the

reliability and efficiency of using LOITs to replace property taxes.

Mr. Mark Cahoon, Indiana Manufacturers Association (IMA), highlighted the importance of manufacturing to the Indiana economy and presented the IMA's concerns about the possible removal of homesteads from the property tax base (Exhibit I).

Mr. Bill Waltz, Indiana Chamber of Commerce, submitted a memorandum expressing the Chamber's concern with a tax property tax base that does not include homestead property (Exhibit J). Mr. Waltz asserted that the property tax burden of a \$100,000 homestead will be about one-third of the burden of a \$100,000 business property as a result of the recent property tax reforms.

Ms. Barbara Quandt, Indiana State Director of the National Federation of Independent Businesses (NFIB), described the characteristics of the Indiana small businesses which belong to the NFIB. Ms. Quandt testified that the members are particularly sensitive to changes in the tax structure and that they do not want the overall tax burden to be increased. She testified that the members are overwhelmingly opposed to the elimination of homestead property taxes.

Ms. Katrina Hall, Indiana Farm Bureau, explained that farmers have advocated eliminating all property taxes over the years but cannot support eliminating only homestead property taxes.

Ms. Rhonda Cook, Indiana Association of Cities and Towns (IACT), urged the General Assembly to let the dust settle before considering the elimination of homestead property taxes. She added that cities and towns would like more home rule taxing power to respond to the impact of the circuit breakers. Ms. Cook assured the Commission that IACT was working with the AIC to facilitate talks about consolidation, joint purchasing, and other avenues to cut local spending

Distribution of County Income Taxes²

Mr. David Bottorff, AIC, addressed the effects that municipal annexation and the relative size of property tax levies have on the distribution of the county income taxes. Mr. Bottorff submitted suggestions for mitigating the impact of municipal annexation on distributions to the county unit (Exhibit K).

Ms. Rhonda Cook, IACT, suggested that the General Assembly could craft a fairer distribution system if the state would require more data on the income tax return in order to identify from which communities the county income taxes are being paid.

Mr. Richard Miller, President of the Howard County Council, described how the City of Kokomo's annexations and levy growth have impacted income tax distributions to the county unit in Howard County.

Mr. Nelson Peters, Allen County Commissioner, testified in favor of connecting distributions to the services provided by the respective units.

Rep. Welch adjourned the meeting at approximately 2:05 p.m.

²See IC 6-3.5-1.1 for the County Adjusted Gross Income Tax (CAGIT); IC 6-3.5-6 for the County Option Income Tax (COIT); and IC 6-3.5-7 for the County Economic Development Income Tax (CEDIT).