

Simplicity ≠ Competitiveness

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June 24, 2014

We have often heard the acronym “K.I.S.S.” quoted as an axiom intended to promote overall simplicity, with the implication being that those who do not subscribe to that concept are lacking intelligence. Nearly everyone will agree that tax policies are complicated, but the real question is whether the goals of those policies can be realized without a certain degree of complexity. Certainly it is not too difficult to understand the basic concept of a 1%, 2% and 3% cap on Indiana property taxes, but the consequences of what this elemental idea can impose upon the funding of other time-honored institutions of government are startling.

Many Indiana school corporations are now struggling with how to continue to provide for basic bus transportation for students because they no longer have control over the funding mechanisms which they have employed in the past. Lost revenue, due to a significant number of the parcels in their districts hitting the above-mentioned caps, leaves them with no alternative but to curtail or completely discontinue running school buses. With very little control over the future of their finances, these schools are also obliged to drop many worthwhile subjects other than science, math or English because those are the ones which directly contribute to test scores. The cause of the financial crisis for these schools is not complicated, but because property tax caps are now part of the Indiana Constitution, the solution to the problem will probably require a great deal of complexity.

Cities and towns which are hitting the caps find that annexation which results in increased property taxes for any annexed parcels causes a loss to other taxing units – notably local school corporations. In a stagnant real estate market, assessment-based tax caps have established the maximum size of the property tax pie. In counties which are hitting caps significantly, any municipality which increases the size of their slice causes all other municipalities in that county to decrease their slices. Unless prices for real estate are trending upward, local governments cannot keep up with the increasing cost of providing necessary services for taxpayers. The financial stability of many local governments is now inextricably linked to cyclical economic factors.

Of course, local governments have other local option income tax (LOIT) alternatives, but these options are not designed to be quickly and easily raised or lowered to benefit economic cycles. Once the LOIT maximum rate is established in a county, lowering it when the economy

improves is frequently difficult to accomplish given differing political views within the particular fiscal body that has the authority to do so. The higher rate has served to establish a new ceiling on expenditures, regardless of the now-cyclical nature of the revenue stream. When the economy recedes, the fiscal body then has to make some tough choices as to which taxpayer services are to be cut. For many local governments, the financial stability to which they were accustomed has become a thing of the past.

The sizes of police forces, fire departments and school faculties should not be dictated by cycles in the local real estate market, yet that is the reality for many Indiana municipalities. Therefore, the simplicity of property tax caps is frequently at odds with the complexity of the overall policy of providing fundamental services to taxpayers. If taxes are to provide these services and yet be fair and not in conflict with taxpayers' economic success, then the policies which we establish should promote those goals first and foremost. This means that there will be some who will not be able to understand the complexities which are required in order to accomplish our goals, but that is not necessarily bad. Those who wish to apply themselves towards an understanding of the complexities have ways of doing so. Precision is necessarily complex, and sometimes it is required that we be very precise in the manner in which we handle taxation. When political and special interest groups identify certain taxpayers who are in need of subsidies and the legislature decides that tax policy should be altered, sometimes the devil is in the details, and there are always unintended consequences lurking in the background for statutes which are imprecise.

There is often the temptation to compare our tax policies with those of other states. We enjoy a degree of satisfaction whenever we are able to perform better than a neighboring state when it comes to an indicator which may attest to our economic prowess. This, we tell ourselves, demonstrates that we are competitive, but upon whom does that comparison make an impression? Because of other variables, over which we may have no control, such comparisons may be of little consequence in the decision-making process by a prospective employer when they are determining where they are going to relocate. We need to think the process through on our own and be able to provide a rationale for why we make our tax policy choices rather than just say that it is because another state has been successful with the same policy. If our tax policy makes sense and accomplishes what we want it to, then the degree of complexity does not make that policy any better or worse.