

What Fayette County Officials and Residents Might Consider in Making the New County Income Tax Decision

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The Property Tax Problem

Before the 2007 Session of the General Assembly

- Expected increase in tax bill for the average homeowner statewide was 24% for 2007, 11% in 2008
 - Homestead credit on eligible tax levies drops from 28% back to 20%
 - Homestead deduction rises to \$45,000; scheduled to drop back to \$35,000 in 2008
 - 51 remaining counties eliminate property taxes on inventories in 2007
 - 2007 trending of assessed values for six-year market value changes, 1999-2005; affects land and buildings including homesteads, not business equipment; some counties erroneously trend residential property but not business property
 - Cap on state appropriations for property tax relief reduces credits, 2007-08
- Agricultural property owners expected to see double-digit tax bill increases in both years
 - Base rate for farm land acre rising 30% in 2008 due to commodity price increases
- Tax bills for commercial, industrial and utility businesses expected to decline or increase by small amounts

What the General Assembly Did in 2007

- Appropriated \$300 million for homestead end-of-year rebates for 2007, \$250 million for tax bill credits in 2008, funded by up-front payments from “racinos
- Kept homestead deduction at \$45,000 for 2008, phased down to \$40,000 by 2013
- Authorized local governments to raise local income taxes to reduce property taxes
 - To freeze the civil government operating levy, replace annual levy increases and establish stabilization fund
 - For property tax relief, allocated to all property owners, just homeowners or homeowners and rental housing owners
 - For new public safety expenditures

Results of the General Assembly’s Actions

- Expected increase in tax bill for average homeowner statewide reduced to 8% in 2007 and 2008
- Agricultural property owner tax bill increases lower in 2007, higher in 2008
- Business tax bills unaffected in 2007, slightly higher increases in 2008

What Happens in 2009?

- Homestead credit funding runs out; the average homeowner tax bill will increase more than 10%
- *Will the General Assembly come up with another \$250 to \$300 million each year to reduce homeowner tax bills?*
- *Or will the General Assembly point to the new local income tax options, and say to local governments: “property tax relief is your problem now”?*

Estimated Property Tax Bill Changes 2006-2007

	Agricultural	Residential	All Residential	Homestead	Commercial	Industrial	Utility	All Property	Average Homestead **
Baseline	9.3%	8.8%	8.8%	8.8%	7.1%	7.7%	6.7%	8.1%	6.1%
Effects of Individual Policy Changes, added to baseline Assessment, Deduction and Exemption Changes									
Homestead Deduction to \$45,000 in 2007	2.8%	-4.1%	-4.1%	-8.3%	5.6%	5.5%	5.8%	0.8%	-5.1%
County Inventory Exemptions	1.8%	4.0%	4.0%	4.0%	-6.8%	-8.9%	4.0%	-0.9%	3.7%
Trending	-4.7%	8.7%	8.7%	11.8%	-10.3%	-10.7%	-16.8%	-1.3%	10.5%
Levy and Credit Changes									
Homestead Credit 28% in 2006; 20% in 2007	1.2%	3.8%	3.8%	5.4%	0.0%	0.0%	0.0%	1.9%	5.5%
State Property Tax Relief Cap	3.3%	3.7%	3.7%	4.0%	2.1%	1.7%	1.3%	2.8%	3.7%
Total Change, Prior to 2007 session*	12.3%	26.8%	26.8%	29.3%	-4.1%	-6.0%	-3.0%	11.5%	23.6%
State Policy Changes, 2007 session									
\$300 million Homestead Credit rebate	-3.3%	-10.8%	-10.8%	-15.3%	0.0%	0.0%	0.0%	-5.3%	-15.3%
Total Change, After 2007 session	9.0%	16.0%	16.0%	14.0%	-4.1%	-6.0%	-3.0%	6.1%	8.3%

* Individual policy effects may not add to total changes because of interactions among policies

** Average homestead with market value of \$122,000 in 2006 and \$156,000 in 2008, after trending. Assumes mortgage and standard deductions only.

Results differ from Residential Homestead column because average homestead does not include effects of new construction, nor the effects of other residential deductions.

Administrative Rules and Procedures for the Three Local Option Income Taxes

Three New Local Income Taxes

- To fund the annual increase in civil government operating levies, freezing the property tax levy
- To provide property tax relief
 - For property owners generally
 - For homeowners only
 - For homeowners and rental housing owners
- To fund county, city and town public safety expenditures
- Adoption dates for all local income taxes: April 1 to July 31 (extended to December 31 in 2007)
- For newly adopted taxes or rates, tax withholding starts on October 1 (if adopted by July 31)
- Revenue collected and/or property taxes reduced in the following calendar year
- Counted as part of property tax levy for distribution of other local income tax revenue

Income Tax to Freeze Annual Civil Operating Levies

- Department of Local Government Finance (DLGF)
 - estimates the increase in a county's non-debt service levies for all civil units
 - Calculates the income tax rate needed to fund this increase, rounded up to next tenth percent
 - Maximum rate is 1%
 - Notify county by July 1
 - *Fayette's rate was set at 1%; generally considered too high; DLGF may reconsider if asked*
- In Fayette, the COIT council decides whether to fund the increase with income or property taxes each year. Connersville has the majority of votes on the COIT council. In CAGIT counties, the county council decides.
- Adopt by July 31 (December 31 in 2007), withholding starts Oct. 1 (later if adopted after July 31), revenue distributed in the following year
- If adopted, that year's levy increase will always be funded with an income tax
- The property tax levy is frozen for that year
- The income tax rate cannot be decreased or rescinded
- COIT Council can fund future levy increases with property or income tax

- In the first year of adoption
 - Civil operating levies are frozen for two years
 - Tax rates are set for two years to replace each year's levy increase
 - First year's income tax rate is doubled
 - Extra revenue used to start stabilization fund
- Stabilization Fund
 - Administered by county auditor

- Receives half the revenue from first year and excess revenue above levy increase in following years
- Used if
 - Income tax revenue is less than levy increase
 - Income tax revenue declines (not counting the second year)

Income Tax to Provide Property Tax Relief

- COIT council decides, in Fayette County Connersville has the majority of votes
 - Income tax rate, up to 1%, in 0.05% increments
 - How property tax relief is allocated
 - To all taxpayers
 - To homeowners only, as local homestead credits
 - To homeowners and owners of rental housing
 - Any combination of the three
- Decision must be made by July 31 (December 31 in 2007), withholding starts on October 1 (later if adopted after July 31), property taxes reduced in following year

Income Tax for Public Safety Costs

- COIT council decides, Connersville has the majority of votes in Fayette County
 - Income tax rate, up to 0.25%
 - To add to budgets for public safety, broadly defined
 - Police, firefighting, ambulance services, emergency medical, probation, corrections, juvenile detention, jail, emergency communications
 - Operating costs, capital costs, pensions
- Must adopt the tax freeze and tax relief income taxes to be eligible to adopt the public safety income tax
- Distributed to county, cities, towns
- Adopt by July 31 (December 31 in 2007), withholding starts Oct. 1 (later if adopted after July 31), revenue distributed in the following year

Some Questions to Consider

Revenue adequacy: “Will the income tax provide the same revenue as the property tax?”

This question is important for the first local income tax, the levy freeze income tax. If adopted this year, the non-school, non-debt service property tax levy increases in 2008 and 2009 will be funded with an income tax instead. DLGF has set each county’s levy freeze income tax rate for both 2008 and 2009. These rates must be used if the levy freeze income tax is adopted. *Will the income tax raise enough revenue to fund the levy increase?*

Suggested analysis

Estimate how much the DLGF rates will raise, by comparing this rate to the existing local income tax rate and revenue in your county. Project forward to 2008 and 2009 based on past trends.

Estimate how much the non-school, non-debt service levy will increase in 2008 and 2009. Budget documents for 2008 could be used for this purpose. Compare the increase in 2008 to the revenue raised in 2008 from the new income tax rate. Compare the combined levy increases in 2008 and 2009 to the revenue raised in 2009 from the new income tax rate. If the income tax revenue exceeds the levy increases, revenue should be adequate.

This analysis is done for Fayette County, 2007, on page 9. DLGF set the Fayette levy freeze income tax rate at 1%--the highest rate in the state. Apparently welfare levy increases were estimated to be very large. In 2007 an income tax rate of 0.14% would have been enough. Doubled in the first year, and rounded up, gives a rate of 0.3%. The DLGF may consider a downward revision of its 1% certified rate for Fayette County.

In 2007 the civil operating levy increase was almost \$497,000. A 1% income tax would raise about \$3.5 million in Fayette County. In 2007 a 1% income tax rate would have been far more than needed to fund the civil operating levy increase. A 0.3% income tax rate would raise just over \$1 million. The 2007 levy increase would have been covered by this rate, and a stabilization fund of \$557,000 accumulated.

Revenue stability: “Will income tax revenues be less stable or predictable than property tax revenues?”

This question is important for the first local income tax, the levy freeze income tax. Income taxes are less stable than property taxes. This is why the levy freeze income tax requires the accumulation of a stabilization fund, which can be used if income tax revenue falls short of the levy increase, or if income tax revenue declines from one year to the next. Counties have experience with declines in income tax revenue—most saw decreases in the 2003-2005 period. The state has changed the method it uses to distribute local income taxes, so such declines may not be frequent in future years. Still, the stabilization fund exists to support levy increases when income taxes fall short. *Will the stabilization fund be big enough?*

Suggested analysis

Calculate the size of the stabilization fund as suggested above, by subtracting the first year’s levy increase from the first year’s income tax collections.

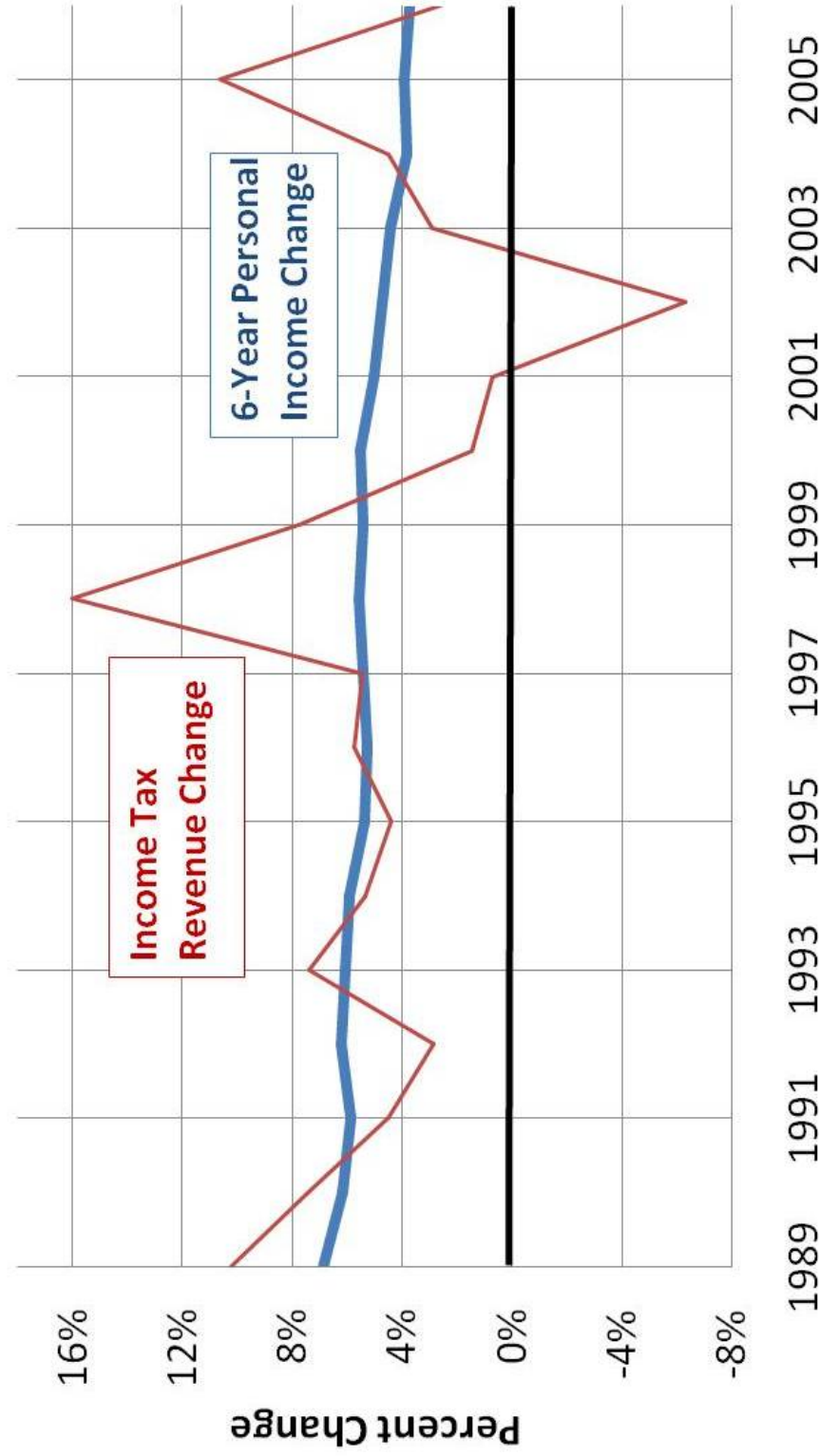
Calculate the largest single year decline in income tax revenue experienced by the county during the 2003-2005 period. Adjust this decline for the DLGF certified income tax rate (for example, if the DLGF certified rate is 0.5%, and the county rate was 1% during 2003-05, take half of the biggest decline during that period.)

If this income tax decline occurs again, will the stabilization fund be large enough to cover it? If so, the stabilization fund protects local budgets from the greater instability of the income tax.

(Note that the greater instability of the income tax has a cost to taxpayers: the added income tax rate needed to accumulate the stabilization fund. The amount of revenue in the fund is money that could have been used for added public services, or returned to taxpayers in lower taxes, if the income tax was as stable as the property tax.)

This analysis is done for Fayette County, 2007, on page 9. The analysis assumes a levy freeze income tax rate of 0.3%. At that rate, by the end of 2007 Fayette County would have accumulated a stabilization fund of about \$557,000. The biggest decline of income tax revenues in Fayette occurred in 2003. Adjusted to a 0.3% rate, the decline would have been \$504,000. The stabilization fund is enough to cover the worst decline in Fayette income taxes experienced in this decade. A stabilization fund accumulated at a rate of 1% would be much bigger, and would be more than enough to cover the 2003 income tax decline.

Percent Changes in 6-Year Average Indiana Non-Farm Personal Income and State Individual Income Tax Revenue



FAYETTE COUNTY GROSS PROPERTY TAX LEVIES, 2006-07

	Civil Operating	2006	2007	Dollar Change	Percent Change	Share in 2007 Levy
Total, All Units		26,823,425	27,862,844	1,039,419	3.9%	100.00%
Total, Civil Operating (Non-School, Non-Capital)		13,504,391	14,001,090	496,699	3.7%	50.25%
STATE UNIT						
STATE FORESTRY TAX		13,079	13,666	587	4.5%	0.05%
STATE FAIR BOARD		6,539	6,833	294	4.5%	0.02%
STATE UNIT		19,618	20,499	881	4.5%	0.07%
FAYETTE COUNTY						
2006 REASSESSMENT	#	76,837	80,287	3,450	4.5%	0.29%
CEMETERY	#	75,202	42,706	(32,496)	-43.2%	0.15%
CHILDREN PSYCHIATRIC RESIDENTIAL TREATMENT	#	-	-			0.00%
COUNTY HOSP CARE INDIGENT	#	188,823	196,448	7,625	4.0%	0.71%
COUNTY WELFARE CSHCN	#	31,879	33,311	1,432	4.5%	0.12%
COUNTY WELFARE FAMILY AND CHILDREN	#	1,593,959	1,656,995	63,036	4.0%	5.95%
COUNTY WELFARE MAW	#	16,348	17,082	734	4.5%	0.06%
CUMULATIVE BRIDGE		315,522	367,272	51,750	16.4%	1.32%
CUMULATIVE CAPITAL DEVELOPMENT		216,615	227,196	10,581	4.9%	0.82%
CUMULATIVE COURT HOUSE		32,697	38,435	5,738	17.5%	0.14%
CUMULATIVE JAIL		35,966	37,581	1,615	4.5%	0.13%
DEBT SERVICE		465,927	486,849	20,922	4.5%	1.75%
GENERAL	#	3,357,941	3,472,857	114,916	3.4%	12.46%
HEALTH	#	134,056	146,055	11,999	9.0%	0.52%
FAYETTE COUNTY		6,541,772	6,803,074	261,302	4.0%	24.42%
COLUMBIA TOWNSHIP						
TOWNSHIP ASSISTANCE	#	-	1,997	1,997		0.01%
GENERAL	#	4,403	2,689	(1,714)	-38.9%	0.01%
FIRE	#	2,362	2,510	148	6.3%	0.01%
COLUMBIA TOWNSHIP		6,765	7,196	431	6.4%	0.03%
CONNERSVILLE TOWNSHIP						
FIRE	#	13,103	14,035	932	7.1%	0.05%
TOWNSHIP ASSISTANCE	#	69,664	71,200	1,536	2.2%	0.26%
GENERAL	#	29,710	31,953	2,243	7.5%	0.11%
CONNERSVILLE TOWNSHIP		112,477	117,188	4,711	4.2%	0.42%
FAIRVIEW TOWNSHIP						
GENERAL	#	5,287	5,018	(269)	-5.1%	0.02%
FIRE	#	1,103	1,133	30	2.7%	0.00%
TOWNSHIP ASSISTANCE	#	-	530	530		0.00%
FAIRVIEW TOWNSHIP		6,390	6,681	291	4.6%	0.02%

FAYETTE COUNTY GROSS PROPERTY TAX LEVIES, 2006-07

	Civil Operating	2006	2007	Dollar Change	Percent Change	Share in 2007 Levy
HARRISON TOWNSHIP						
TOWNSHIP ASSISTANCE	#	24,457	26,995	2,538	10.4%	0.10%
GENERAL	#	19,987	19,196	(791)	-4.0%	0.07%
FIRE	#	6,042	9,251	3,209	53.1%	0.03%
HARRISON TOWNSHIP						
FIRE	#	50,486	55,442	4,956	9.8%	0.20%
JACKSON TOWNSHIP						
GENERAL	#	6,134	3,491	(2,643)	-43.1%	0.01%
TOWNSHIP ASSISTANCE	#	-	3,006	3,006		0.01%
FIRE	#	4,155	4,363	208	5.0%	0.02%
JACKSON TOWNSHIP	#	10,289	10,860	571	5.5%	0.04%
JENNINGS TOWNSHIP						
FIRE	#	1,998	2,065	67	3.4%	0.01%
TOWNSHIP ASSISTANCE	#	-	-			
GENERAL	#	1,998	2,065	67	3.4%	0.01%
JENNINGS TOWNSHIP	#	3,996	4,130	134	3.4%	0.01%
ORANGE TOWNSHIP						
TOWNSHIP ASSISTANCE	#	-	482	482		0.00%
GENERAL	#	6,472	6,242	(230)	-3.6%	0.02%
FIRE	#	1,272	1,310	38	3.0%	0.00%
ORANGE TOWNSHIP	#	7,744	8,034	290	3.7%	0.03%
POSEY TOWNSHIP						
TOWNSHIP ASSISTANCE	#	-	1,804	1,804		0.01%
GENERAL	#	3,639	1,987	(1,652)	-45.4%	0.01%
FIRE	#	11,427	11,862	435	3.8%	0.04%
POSEY TOWNSHIP	#	15,066	15,653	587	3.9%	0.06%
WATERLOO TOWNSHIP						
TOWNSHIP ASSISTANCE	#	1,156	256	(900)	-77.9%	0.00%
FIRE	#	2,578	2,678	100	3.9%	0.01%
GENERAL	#	1,879	2,887	1,008	53.6%	0.01%
WATERLOO TOWNSHIP	#	5,613	5,821	208	3.7%	0.02%
CONNERSVILLE CIVIL CITY						
MOTOR VEHICLE HIGHWAY	#	519,852	599,564	79,712	15.3%	2.15%
CEMETERY	#	10,572	10,893	321	3.0%	0.04%
GENERAL	#	5,558,414	5,969,115	410,701	7.4%	21.42%
AVIATION/AIRPORT	#	54,237	54,936	699	1.3%	0.20%
POLICE PENSION	#	174,663	99,927	(74,736)	-42.8%	0.36%
PARK	#	474,347	474,536	189	0.0%	1.70%
FIRE PENSION	#	474,347	349,982	(124,365)	-26.2%	1.26%
CUMULATIVE CAPITAL DEVELOPMENT	#	81,816	80,510	(1,306)	-1.6%	0.29%
CONNERSVILLE CIVIL CITY	#	7,348,248	7,639,463	291,215	4.0%	27.42%
GLENWOOD CIVIL TOWN						
GENERAL	#	12,768	13,629	861	6.7%	0.05%
MOTOR VEHICLE HIGHWAY	#	-	-			0.00%
GLENWOOD CIVIL TOWN	#	12,768	13,629	861	6.7%	0.05%

FAYETTE COUNTY GROSS PROPERTY TAX LEVIES, 2006-07

	Civil	2006	2007	Dollar	Percent	Share in
	Operating		Change	Change	Change	2007 Levy
FAYETTE COUNTY SCHOOL CORPORATION						
BUS REPLACEMENT		264,842	237,446	(27,396)	-10.3%	0.85%
CAPITAL PROJECTS (School)		2,428,540	1,892,732	(535,808)	-22.1%	6.79%
TRANSPORTATION		1,744,364	1,881,629	137,265	7.9%	6.75%
GENERAL		6,336,601	6,353,807	17,206	0.3%	22.80%
SCHOOL PENSION DEBT		211,710	229,759	18,049	8.5%	0.82%
PRE-SCHOOL SPECIAL EDUCATION		22,888	22,207	(681)	-3.0%	0.08%
DEBT SERVICE		1,052,830	1,985,832	933,002	88.6%	7.13%
FAYETTE COUNTY SCHOOL CORPORATION		12,061,775	12,603,412	541,637	4.5%	45.23%
FAYETTE COUNTY PUBLIC LIBRARY						
LIBRARY IMPROVEMENT RESERVE		-	-	-		0.00%
LIBRARY CAPITAL PROJECTS		89,098	-	(89,098)	-100.0%	0.00%
RAINY DAY		-	-	-		0.00%
GENERAL	#	531,320	551,762	20,442	3.8%	1.98%
FAYETTE COUNTY PUBLIC LIBRARY		620,418	551,762	(68,656)	-11.1%	1.98%
FAYETTE COUNTY SOLID WASTE DISTRICT						
GENERAL	#	-	-	-		0.00%
FAYETTE COUNTY SOLID WASTE DISTRICT		-	-	-		0.00%

Data Source: Department of Local Government Finance, www.in.gov/dlgf/pdfs/CertifiedLeviesForTheWeb07022007.pdf
 Calculations by Larry DeBoer, Purdue University, October 2007

FAYETTE COUNTY, LEVY FREEZE AND STABILIZATION FUND CALCULATIONS, 2007

Income Tax Revenue at 1.37%, 2007	4,810,753
Revenue from 1%, 2007	3,511,499
Civil Operating Levy Increase, 2007	496,699
Inc Tax Rate for Levy Increase, 2007	0.14%
Doubled, Rounded up for first year	0.30% *
Income tax revenue from 0.30%	1,053,450
Less Civil Operating Levy Increase, 07	496,699
Stabilization fund by 2008	556,751

* The DLGF certified Fayette's rate at 1.0% for 2008 and 2009.

FAYETTE COUNTY, LOCAL INCOME TAX REVENUE, 2000-2007

	Rate	EDIT	COIT	Total	Revenue at 0.3%	Dollar Change at 0.3%
2000	1.00%	-	3,679,629	3,679,629	1,103,889	
2001	1.00%	-	4,010,795	4,010,795	1,203,239	99,350
2002	1.00%	-	5,685,844	5,685,844	1,705,753	502,515
2003	1.00%	-	4,004,477	4,004,477	1,201,343	(504,410)
2004	1.37%	1,278,181	3,454,543	4,732,724	1,036,363	(164,980)
2005	1.37%	1,278,181	3,281,506	4,559,687	998,472	(37,891)
2006	1.37%	1,254,303	3,507,024	4,761,327	1,042,626	44,155
2007	1.37%	1,303,729	3,507,024	4,810,753	1,053,450	10,823

Source: Legislative Services Agency, Indiana Handbook of Taxes, Revenues and Appropriations
www.in.gov/legislative/publications/handbook.html

Calculations by Larry DeBoer, Purdue University, October 2007

Tax incidence: “Which taxpayers pay more, which pay less if income taxes rise and property taxes fall?”

This question is especially important for the second local income tax, the property tax relief income tax. This income tax replaces part of the property tax dollar for dollar. Some taxpayers will pay less in total taxes, and some will pay more as a result. Who pays more and who pays less depends on the taxpayers’ mix of taxable income and taxable property, and the method that the county chooses to distribute the property tax relief. Data that combines taxpayers’ property tax payments and income tax payments would be needed to decide the net effect of the tax change. Unfortunately, such data are scarce. *How can counties estimate who will pay more and who will pay less if a property tax relief income tax is adopted?*

Suggested analysis

Calculate how much revenue a 1% local income tax would raise (any percentage could be used; 1% makes the calculation a little simpler)

Calculate the total net tax payments of the three groups of taxpayers who could receive tax relief: all property owners, owners of homesteads only, or homesteads and rental housing owners. Use the tax payments after all deductions and credits. For all property owners, include both real and personal property, agricultural, residential, commercial, industrial and utility property. For homesteads, include payments on homestead residential real property only. For homesteads and rental housing, include homesteads, rental residential property, and commercial rental apartments.

Divide the 1% income tax revenue estimate by the tax payments of each group. This gives the percentage decline in property tax payments that a taxpayer in each group would receive, if the tax relief is distributed uniformly to that group. (Statewide, distributing relief to all taxpayers cuts property tax bills by about one-fifth; to homesteads only, by about one-half; and to homesteads and rental housing, by about one-third.)

Take a sample of typical taxpayers in each group. Reduce their net tax bills by the percentages calculated above. The taxpayer will see a net tax reduction if his or her income tax increase is less than this property tax reduction. Divide the dollar property tax cut by 0.01 (divide by 1% or multiply by 100). Taxpayers with taxable incomes less than this amount will pay less in added income taxes than the property tax cut they receive. They will see net tax cuts. Taxpayers with taxable incomes greater than this amount will pay more in added income taxes than the property tax cut they receive. They will see net tax increases.

Some typical results of this analysis

- *Farmers* own much taxable land, but often have relatively low taxable incomes. If the tax relief is distributed to all property, including farm land, farmers tend to pay less in combined property and income taxes. If the tax relief is distributed to homesteads or rental housing, farm land does not receive a tax cut, but farmers pay some extra income tax. Farmers tend to pay more.

- *Corporate businesses* do not pay individual income taxes, so they do not pay the added local income taxes. When relief is distributed to all property, corporate property receives a tax break. Corporations pay less. When relief is distributed to homesteads or rental housing, corporations receive no tax break, and still pay no added income tax. They are unaffected.
- *Small businesses* (such as partnerships or S-corporations) pay the individual income tax. If the property tax relief is distributed to all property, small businesses will see a property tax cut. The suggested analysis can be used to estimate whether the property tax cut is enough to offset the income tax hike for a typical small business. If the property tax relief is distributed to homesteads only, small businesses do not receive a property tax cut, and so will pay more overall. If the tax relief also goes to rental housing owners, most small businesses will see overall tax increases.
- *Renters* do not own taxable property, and so do not receive a property tax break under any distribution formula. Renters with taxable income pay more in income taxes, and so pay more overall. However, if tax relief is distributed to rental housing owners, owning rental housing becomes more profitable. More such housing may be built, and the added availability of rental housing could reduce rents, or cause them to increase more slowly.
- *Retired homeowners* own property. Some of their retirement income is tax exempt, so the reduced property taxes under each distribution formula are likely to exceed the added income tax payments. Retired homeowners are likely to benefit.
- *Employed homeowners* own property and earn taxable income. The suggested analysis is most revealing for this group.

An analysis for homeowners in Fayette County is on page 14. A 1% local income tax raises just over \$3.5 million in 2007. Total net tax bills after deductions and credits sum to \$20.6 million. If the property tax relief is distributed to all property taxpayers, average tax bills would fall 17.0%. If the tax relief goes only to homeowners, the average homeowner tax bill would fall 55.5%. If the tax relief goes to homeowners and landlords, the average tax bill would fall 34.2%.

The average homeowner in Fayette County has an estimated tax bill of \$719, after all deductions and credits, including the end-of-year rebate. If tax relief is distributed to all taxpayers, this tax bill will fall by 17%, or \$122. A homeowner with a taxable income greater than \$12,200 would pay more than this in added income taxes if the rate was 1%. Most Fayette homeowners must have incomes above this amount, so most would pay more in total.

If tax relief goes to homeowners only, tax bills drop 55.5%, or \$399. A taxpayer with a taxable income above \$39,900 would pay more than this in added income taxes at 1%. This figure is near the median family income in Fayette County in 2000. Somewhat more than half of homeowners probably would pay less in total taxes if tax relief were distributed only to homeowners. Many homeowners would pay more, however.

If tax relief goes to homeowners and landlords, homeowners with taxable incomes greater than \$24,600 would pay more in total taxes. That must include most homeowners.

FAYETTE COUNTY, ESTIMATED EFFECT OF PROPERTY TAX RELIEF ON HOMEOWNERS

Local Option Income Tax at 1%, 2007	3,511,499
Total Net Tax Bills, 2007	20,618,525
Homestead Tax Bills, 2007	6,326,947
Homestead & Rental Housing Tax Bills, 2007	10,258,113
1% Income Tax % of Total Tax Bills	17.0%
1% Income Tax % of Homestead Tax Bills	55.5%
1% Income Tax % of Hmstd & Rental Tax Bills	34.2%
Estimated Average Homestead Assessed Value, 2007	91,524
Estimated Average Homestead Tax Bill, 2007 (after rebate)	719
Tax Cut, Relief to All Taxpayers (17.0%)	122
Break-Even Taxable Income*	12,200
Tax Cut, Relief to Homesteads Only (55.5%)	399
Break-Even Taxable Income*	39,900
Tax Cut, Relief to Homesteads & Rental Housing (34.2%)	246
Break-Even Taxable Income*	24,600

*Taxable income, after deductions, which would pay added income taxes at 1% equal to the property tax cut received on the average home. Those with higher taxable incomes see a net tax increase; those with lower incomes, a net tax decrease.

Calculations by Larry DeBoer, Purdue University, October 2007

Economic development: “Will changing the tax mix affect business growth, location and investment in the county?”

This question is especially important for the second local income tax, the property tax relief income tax. Statewide, nearly half of all property taxes are paid by businesses. Perhaps 15% of individual income taxes are paid by small businesses. So, replacing property taxes with income taxes provides a tax cut for businesses, if the tax relief is distributed to all property. Lower taxes make a county a more profitable place to do business. Some research shows that lower property taxes can contribute to added business growth. *Will property tax relief distributed to businesses aid business growth in the county?*

Suggested analysis

Compare the net tax rates paid by businesses in the county to the rates paid in surrounding counties. Multiply the property tax rate by one minus the PTRC rates for business (there’s a real property PTRC rate and a personal property PTRC rate). This is the net tax rate after the PTRC tax credit is applied. Calculate these rates for neighboring counties, and compare them to the county’s rates.

Reduce the county’s rates by the percentage calculated in the previous section, when tax relief is distributed to all property owners. The statewide reduction is about one-fifth (20%). Any tax reduction is likely to benefit businesses. However, business tax relief might be particularly beneficial if the county’s rates are comparatively high, and the relief brings the county’s rates down to or below the rates of neighboring counties.

Note that taxes are only one of the many characteristics of a county that businesses consider in their location or expansion decisions. Other factors include labor costs, transportation costs, utility costs, and the quality of public services, such as police and fire protection and education.

Fayette County’s tax rates are compared to those in surrounding counties on page 16. Fayette’s net business tax rates are near the middle of these six counties, less than Henry and Wayne, more than Franklin and Rush, about the same as Union. The minimum net business tax rate is of interest: this is the lowest rate a business can pay if it locates in the county. Fayette’s minimum rate is relatively high, near Henry’s and Union’s, more than Franklin’s, Rush’s and Wayne’s. A 17% reduction in this minimum rate—the reduction due to a 1% income tax distributed to all taxpayers, including businesses—would reduce Fayette’s minimum net business rate below Wayne’s rate, just above Rush’s rate.

FAYETTE COUNTY, PROPERTY TAX AND CREDIT RATES, 2007

District	Tax District Name	Gross Tax Rate	PTRC Real Property	PTRC Business Personal	Homestead Credit	Net Homeowner Rate	Net Business Real Rate
001	COLUMBIA TOWNSHIP	2.3672	27.7898	17.3933	11.7355	1.5088	1.7094
002	CONNERSVILLE TOWNSHIP	2.3801	27.7392	17.2990	11.7765	1.5173	1.7199
003	CONNERSVILLE CITY-CONNERSVILLE TWSP	3.9819	23.9234	10.3401	14.5534	2.5884	3.0293
005	FAIRVIEW TOWNSHIP	2.3720	27.7709	17.3581	11.7508	1.5120	1.7133
006	GLENWOOD TOWN-FAIRVIEW TOWNSHIP	3.4768	24.8073	11.8438	14.0573	2.2468	2.6143
007	HARRISON TOWNSHIP	2.3732	27.7662	17.3493	11.7546	1.5127	1.7143
008	CONNERSVILLE CITY-HARRISON TWSP	3.9676	23.9431	10.3774	14.5383	2.5789	3.0176
010	JACKSON TOWNSHIP	2.3615	27.8124	17.4353	11.7172	1.5050	1.7047
011	JENNINGS TOWNSHIP	2.3511	27.8538	17.5124	11.6836	1.4980	1.6962
012	ORANGE TOWNSHIP	2.3726	27.7686	17.3537	11.7526	1.5124	1.7138
013	GLENWOOD TOWN-ORANGE TOWNSHIP	3.4775	24.8080	11.8434	14.0568	2.2472	2.6148
014	POSEY TOWNSHIP	2.3903	27.6020	17.2252	11.6828	1.5284	1.7305
015	WATERLOO TOWNSHIP	2.3641	27.8021	17.4161	11.7255	1.5067	1.7068
	Median	2.3732				1.5127	1.7143
	Maximum	3.9819				2.5884	3.0293
	Minimum	2.3511				1.4980	1.6962

Comparisons to Neighboring Counties.

Gross Tax Rates	Median	Maximum	Minimum
Fayette	2.3732	3.9819	2.3511
Franklin	1.7510	2.3644	1.4835
Henry	2.6775	3.9008	2.2624
Rush	1.9832	3.9900	1.9174
Union	2.2549	3.2635	2.2374
Wayne	2.7256	4.1360	2.1753

Net Homeowner Rate	Median	Maximum	Minimum
Fayette	1.5127	2.5884	1.4980
Franklin	1.0692	1.4509	0.8898
Henry	1.8739	2.8688	1.5227
Rush	1.1797	2.4849	1.1360
Union	1.5862	2.2385	1.5747
Wayne	1.7931	3.4961	1.3364

Net Business Real Rate	Median	Maximum	Minimum
Fayette	1.7143	3.0293	1.6962
Franklin	1.2329	1.7123	1.0055
Henry	2.0799	3.2047	1.6791
Rush	1.3570	2.9772	1.3034
Union	1.7407	2.5533	1.7269
Wayne	2.0334	3.4961	1.5198

Data Source: Department of Local Government Finance, www.in.gov/dlgf/rates/
 Calculations by Larry DeBoer, Purdue University, October 2007

The Public Safety Income Tax

This tax can be used to support added services in public safety, broadly defined. Public safety includes police, firefighting, ambulance services, emergency medical services, probation, corrections, juvenile detention, jails, emergency communications, and other services. The revenue can be used to cover operating costs, capital costs, and pensions. *Should a county adopt a public safety income tax?*

Suggested questions

Generally, do county residents agree that the benefit of improved public safety is worth the cost of added income taxes? Is public safety in need of improvement? Do residents think that the added revenue will be used to improve services?

Does the county have a public safety obligation that must be financed, such as unfunded pensions or overcrowded jails?

Would improved police and fire protection reduce property insurance rates? Would improved police and fire protection benefit existing businesses, and potential new businesses? Would improved emergency medical services lead to an improvement in public health?

Data Sources

Property tax rates for all counties. Department of Local Government Finance.
<http://www.in.gov/dlgf/rates/>

Property tax levies by unit and fund, all counties. Department of Local Government Finance. <http://www.in.gov/dlgf/rates/>

Income tax rates and revenues for all counties. State Budget Agency.
<http://www.in.gov/sba/budget/> (scroll down to Revenue Data section)

Income tax rates and revenues for all counties. Legislative Services Agency Handbook.
<http://www.in.gov/legislative/publications/handbook.html>

Additional information on Indiana local government. Larry DeBoer's Local Government website. <http://www.agecon.purdue.edu/crd/Localgov/index.htm>