Tax Restructuring Past

It’s an exciting time for Indiana tax policy. For our elected officials, it’s exciting in the way that anything really stressful is exciting. The General Assembly is debating tax restructuring, and it’s considering some big ideas. Ideas like a huge reduction in the use of property tax revenue for school budgets; big reductions in the property tax on inventories and equipment; increases in the sales and income taxes; creation of a franchise tax on businesses; and big reductions in one of the corporate income taxes.

It’s been a long time since Indiana had a debate like this. We had big tax restructurings in 1963 under Gov. Matthew Welsh and in 1973 under Gov. Otis Bowen. And we’re lucky; both of these men have published excellent memoirs. We’ve got a gov’s-eye view of the last two big tax restructuring debates.

Welsh was a Democrat who served a term as Indiana governor from 1961 to 1965; he then wrote a memoir called *View from the State House*, published in 1981 by the Indiana Historical Bureau.

In 1963, the state faced some tough problems, including rising property taxes, reassessment and a budget shortfall. Both houses of the General Assembly and both parties saw a need for changes in the way that Indiana raised revenue. There was no sales tax or individual income tax at the time. Most state revenue came from a gross income tax paid by businesses and households. However, the General Assembly could not agree on a plan and adjourned after midnight on the last day of the session. Legislators asked Welsh when the special session would start, and he said, “at 12:01 p.m. tomorrow! Get a good night’s sleep!”

The special session lasted more than a month, but finally the House and Senate agreed to consider a “2-2-2 plan”: 2 percent sales tax, 2 percent individual income tax and 2 percent corporate profits tax. Indiana had never used any of these taxes before. The sales tax bill was most controversial. It passed the House only when Speaker Richard Guthrie held the voting machine open for a “long count,” while he and the governor persuaded reluctant House members to vote aye.

The next day, the vote in the Senate was a tie. The lieutenant governor was Richard Ristine, a Republican serving with a Democratic governor (that could happen back then). The lieutenant governor chairs the Senate and votes to break ties. Ristine knew he was risking his chance to be governor, but he said, “To get this session over with and to get the state moving forward again, the chair votes aye.” Indiana had its sales tax.

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A decade later Indiana again debated tax restructuring. Bowen describes this struggle in *Doc, Memories from a Life in Public Service*, published in 2000 by the Indiana University Press. Bowen had pledged to reduce property taxes during his 1972 campaign and now, as governor, sought to deliver. He asked for property tax relief that was “visible, lasting and substantial.”

Bowen proposed increasing the sales tax from 2 percent to 4 percent to pay for the property tax cut. The debate was long, but the House passed the increase on the last day of the session. In the Senate, again, the vote was a tie. The lieutenant governor was Robert Orr, and he voted aye. The Bowen plan became law. Bowen praised Orr for risking his political future with that vote.

Ristine ran for governor in 1964 and lost. Bowen said it may have been due to his vote for the sales tax, although 1964 was the year Lyndon Johnson won the presidency by a landslide. Orr ran for governor in 1980 and won. Bowen says the popularity of his tax restructuring plan helped Orr to win.

What will happen in 2002? Can’t say, but if the past is any guide, we might look for two things. The final votes in the General Assembly could be close, and Lt. Gov. Joe Kernan may have a big role to play.