Where the Legislature Agreed

Indiana’s governor, House and Senate have all made tax restructuring proposals over the past half-year. Lt. Gov. Joe Kernan developed the governor’s 21st Century Plan. The House passed its version of House Bill 1004. The Senate passed its own version of that bill. They couldn’t agree on a single plan. Since then, there’s been a lot of talk about what they disagreed upon.

Being an optimistic kind of guy, I’d rather spill a little ink on what they did agree on. What did the three proposals have in common? Agreement may be a hint about the kind of restructuring we’ll eventually get, if we get anything.

The three proposals agreed on some very big changes. The biggest would revolutionize how Indiana pays for schools. Each plan proposed big reductions in the use of property taxes to pay for the school general fund. That’s the lion’s share of the school budget, used mostly for teacher pay. The governor and the House proposed cutting school general fund property taxes in half. The state would need about $900 million to replace this revenue in school budgets in fiscal year 2004. The Senate proposed eliminating these property taxes entirely. That would cost $1.8 billion.

All three reduced the property tax on business inventories. The House proposed a state credit for half of these taxes, the Senate for three-quarters and the governor for all of them. It would cost about $480 million to replace all the inventory tax payments.

Each proposal provides more tax credits to businesses for research and development. These would reduce collections from corporate income taxes by about $50 million.

All the restructuring proposals require state revenue—about $1.2 to $2.3 billion, depending on how much of the school and inventory property taxes are replaced. How to pay? The proposals showed some agreement on that, too.

The governor, the House and the Senate each proposed raising the sales tax from 5 percent to 6 percent. That would add about $800 million to state revenues in fiscal year 2004. All three proposed raising the corporate net income tax rate from 7.75 percent to 8.5 percent. That would bring in an extra $80 million. And all three created a new business tax. The governor called his a franchise tax; the House called its a business activity fee. These taxes would be based on a percentage of the net worth of a business. The Senate proposed a

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smaller tax based on business income. The House version would bring in $470 million, the Senate version, $160 million.

All three proposals raised the tax on a pack of cigarettes. The tax rate is 15.5 cents now. The governor proposed 65.5 cents, the House and Senate 55 cents. The House and Senate increases would bring in an extra $290 million.

All three also raised taxes on riverboat admission and wagering, for an added $90 million.

Add up all those revenue increases, and you get $1.4 to $1.7 billion, depending on which new business tax is used. $1.4 billion would be enough to cut the school general fund property tax in half, eliminate the inventory tax and provide the R&D credit; $1.7 billion would cut the school general fund property tax by two-thirds. The big reduction in the property tax levy would be enough to eliminate the tax burden shift to homeowners from reassessment for the average homeowner.

That’s what they agreed on. There were disagreements, too, of course. Among others, the governor wanted to eliminate the corporate gross income tax, the House wanted to delay reassessment for a year and the Senate wanted to eliminate taxes on all business personal property, both inventories and equipment.

The most important disagreement, though, appeared to be whether to use some of the added tax revenue for deficit reduction. This budget gap probably is a temporary thing, brought on by the recession. When the recession is over, perhaps all this agreement on tax restructuring will produce a bill for the governor to sign.

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