Tax Restructuring Answers and Questions

You never know with the Indiana General Assembly. Sometimes, just when everyone says nothing will happen, something does. A compromise is offered, an amendment is tweaked, some arms are twisted and a bill passes. On Saturday, June 22, the Indiana House of Representatives accepted the Senate’s amended version of House Bill 1001, and tax restructuring became a reality.

It really is historic. We haven’t seen changes in Indiana’s tax structure this sweeping since 1973, maybe 1963. A lot of questions about Indiana taxes have been answered. Wouldn’t you know, though, that the answers created some new questions.

Question: How should we assess property in Indiana? Answer: Indiana will be a market value state. It doesn’t say “market value” in so many words, but House Bill 1001 eliminates the shelter allowance. The shelter allowance was a fixed dollar amount to be subtracted from the predicted selling price of a home. Without the shelter allowance, a home’s assessment will be the predicted selling price. That’s market value. The court case that was filed challenging the constitutionality of the shelter allowance probably will be withdrawn. It seems likely that the series of court challenges and decisions about Indiana property assessment that started in 1993 has come to a conclusion.

New questions: Will we be a good market value state? How close to actual selling prices will assessor predictions be? Will the Department of Local Government Finance (the old tax board) enforce market value rules by doing studies of local assessor performance and equalizing assessments if those studies show assessments are inaccurate? Will new court cases be filed? The shelter allowance was replaced by a $35,000 homestead deduction—the biggest deduction ever applied to Indiana assessments. The state constitution says that we must have “a uniform and equal rate of property assessment and taxation.” Is such a big deduction constitutional? Will anyone challenge the deduction in court?

Question: How should we pay for schools? Answer: With a lot more state aid and a lot less property tax. House Bill 1001 reduces property taxes for the school general fund by an additional 40 percent. That’s a billion-dollar reduction in property taxes. Property taxes are replaced mostly by money from the state’s income and sales taxes.

New questions: How will this new aid be distributed? Will it simply replace the old property taxes dollar-for-dollar? If so, will this mean that schools that have a lot of property
wealth will get more aid, and those with little property wealth will get less? How does that square with the school-aid formula that we now use, which delivers more aid to poorer schools and less aid to richer schools to offset property wealth? What about revenue stability? Property tax revenue is more stable than income or sales tax revenue. Will schools be able to maintain their services in recessions, now that they are more dependent on these less stable sources of revenue?

**Question:** How can we change business taxation to encourage more investment? **Answer:** Eliminate the inventory tax and the corporate gross income tax. The property tax on inventories is being phased out over 5 years. The income tax on corporate gross receipts (not profits) is being eliminated immediately. These were two taxes that made Indiana stand out as unfriendly to business.

**New questions:** We got rid of the inventory tax, which was supposed to be the thing that discouraged highway-crammed Indiana from being a center for goods distribution. Will businesses now locate warehouses up and down our many interstate highways? Also, the corporate gross income tax was supposed to discourage business start-ups. We hit new businesses with this tax, even in their first money-losing years. Will Indiana now see a surge of new business start-ups?

The historic tax restructuring of 2002 answered a lot of questions. Before very long, we’ll have to be questioning a lot of the answers.

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