



Moving Hoosier Tax Policy Forward

Scott Drenkard
Economist
Tax Foundation

Tax Foundation

- Founded in 1937
- Non-profit, non-partisan research organization
- Federal, state, and legal centers
- Our principles: simplicity, neutrality, transparency, stability, pro-growth
- We achieve policy successes through research, testimony, an extensive media operation, and relationship building

State Business Tax Climate Index

- Measure of tax structures, not tax burden
- Hundreds of variables that states compete on
- Guide to beneficial tax reform options

Indiana FY 2014 Ranking	
Overall	10
Corporate	24
Individual	10
Sales	11
Unempl. Insur.	13
Property	5

State-Local Tax Burden

- Measures taxes paid by Indiana residents
 - As a percentage of income
 - Accounts for cross-border tax incidence

Rate	Ranking
9.8%	22 nd

Personal Property Taxes

- 32 state levy taxes on tangible personal property
- Seven states eliminated personal property taxes entirely, four have eliminated most



The image shows the cover of a background paper from the Tax Foundation. The cover has a dark blue vertical bar on the left side with the Tax Foundation logo and the text 'FOUNDATION FOR GOVERNMENT ACCOUNTABILITY'. The main title 'BACKGROUNDPAPER' is in large blue letters, with 'October 2012, Number 63' to its right. Below the title is the subtitle 'States Moving Away From Taxes on Tangible Personal Property' and the author 'By Joyce Errecart, Ed Gerrish, Scott Drenkard'. The 'Introduction' section begins with 'Property has been taxed in many states since colonial times...' and the 'of the property' section begins with 'A higher-valued property pays a higher property tax than a lower-valued property...'.

**TAX FOUNDATION**

FOUNDATION FOR GOVERNMENT ACCOUNTABILITY

BACKGROUNDPAPER

October 2012, Number 63

States Moving Away From Taxes on Tangible Personal Property

By
Joyce Errecart, Ed Gerrish, Scott Drenkard

Introduction

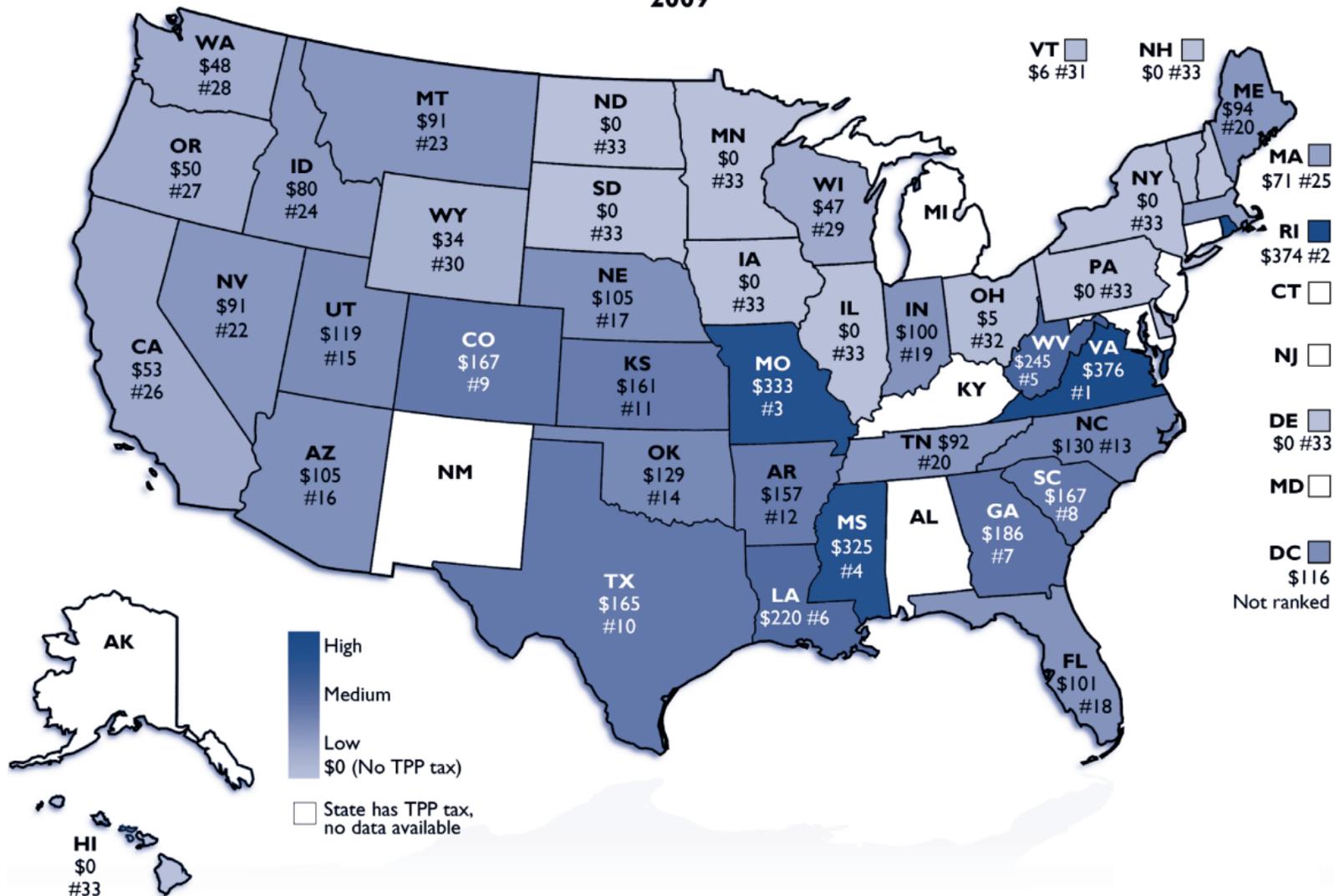
Property has been taxed in many states since colonial times. In most states, the property tax is the largest source of local government revenue and is one of the most transparent and visible taxes (and therefore often disliked the most by voters).¹

Property tax is an “*ad valorem*” tax, meaning that it is taxed according to the value

of the property. A higher-valued property pays a higher property tax than a lower-valued property. Homeowners are quite familiar with the property tax on “real property,” that is, land, structures on the land, and fixtures attached to the structures. But property taxes can also include taxes on *intangible property* (such as stocks, bonds, mortgages, copyrights, and patents) and *tangible personal property*.²

Tangible Personal Property Tax Collections Per Capita

2009



Personal Property Taxes

- BPP taxes distort economy by punishing capital purchases
- Problematically levied at the local level
- Reduction options:
 - Exempt inventory
 - De minimis exemption
 - Exempt new property
 - Local option

This Year's Legislative Session

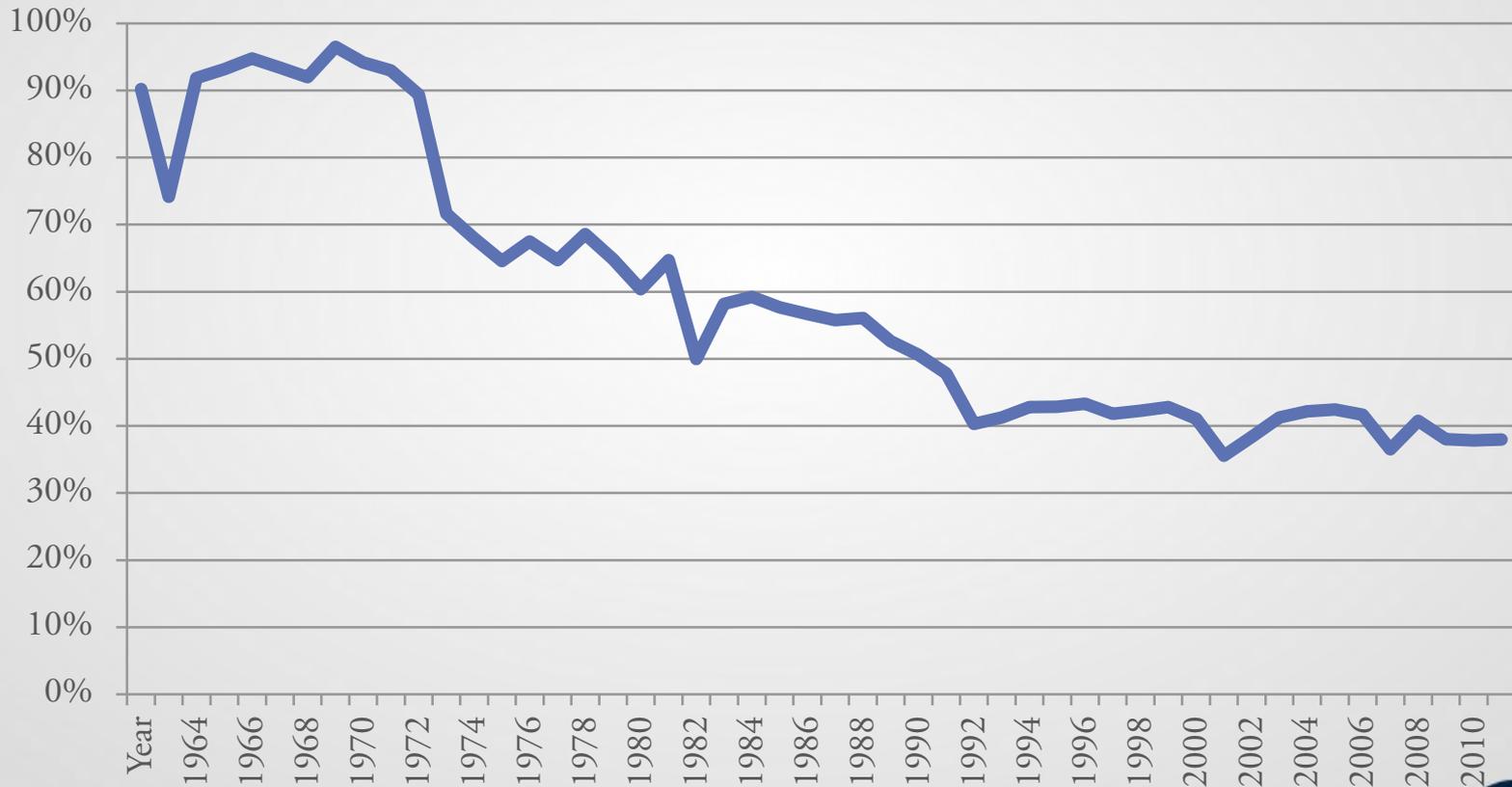
- Corporate rate downward march continued, headed for 4.9 percent
- Individual rate phase-down retained, headed to 3.23 percent
- Business personal property tax local options
 - Filing threshold
 - Exempt new property

Forecasting the *Index*

	2014 Score	New CIT Rate
Overall	10	8
Corporate	24	10
Individual	10	10
Sales	11	11
Unempl. Insur.	13	13
Property	5	5

Indiana's Sales Tax Base is Shrinking

Indiana Sales Tax Base as a Percentage of the Personal Income

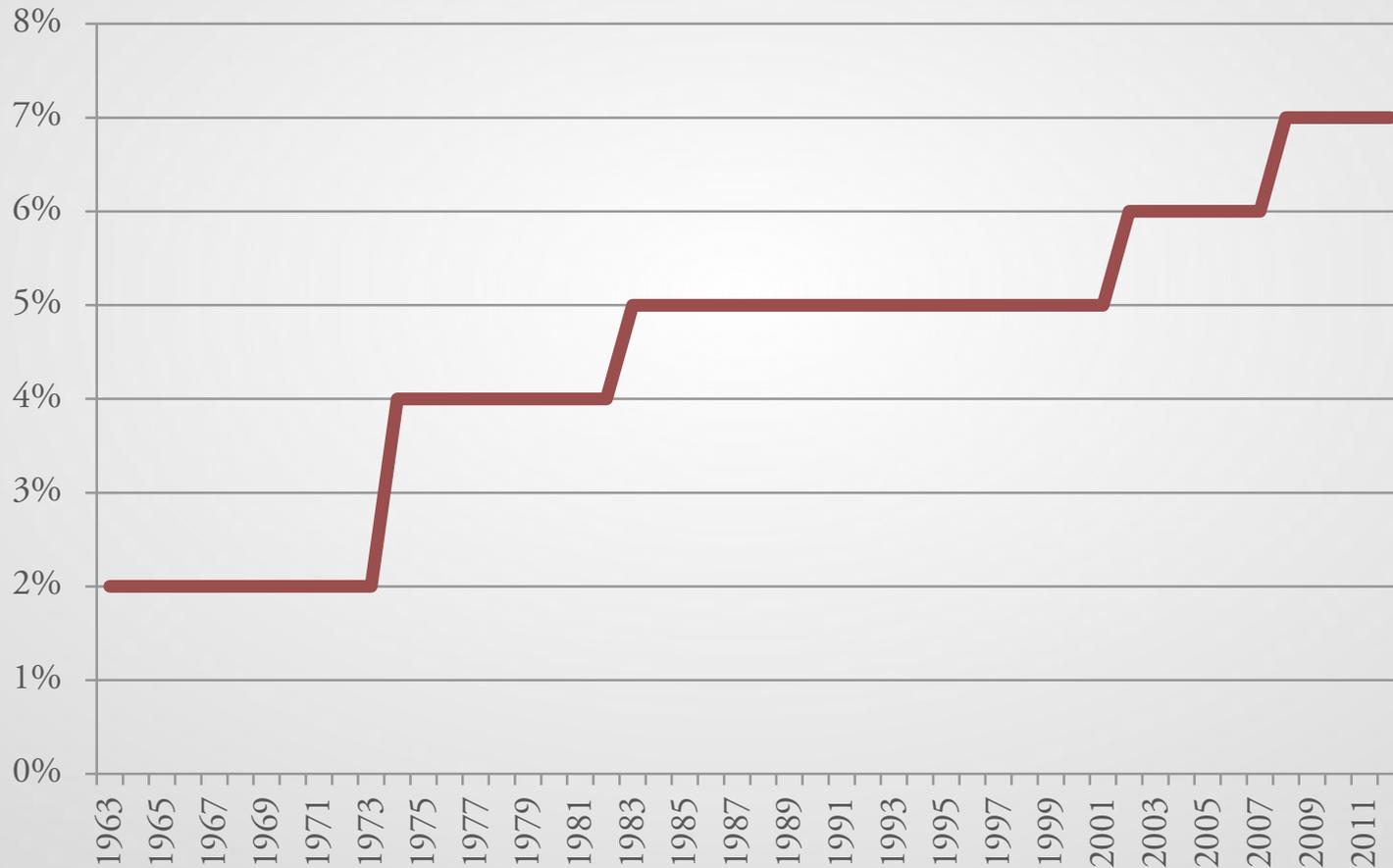


Source: John Mikesell, Indiana University



...Policymakers Have Responded By Raising Rates

Indiana General Sales Tax Rate



Source: John Mikesell, Indiana University

Why Expand the Sales Tax Base?

- Decrease economic distortion/unfairness
- Increase revenue stability
- Increase sales tax yield
- Allows for reduction in other more harmful taxes

BPP Reduction, Sales Tax Expansion, and the Revenue Toolkit

- In 2009, the BPP collected \$630 million
 - Roughly 2.6 percent of state and local collections
 - Roughly 7 percent of local collections
- Sales tax base expansion could be worth \$6 billion
 - 41 percent of state collections
 - 25 percent of state and local collections

Lessons for Taxing Services

- Maintain robust business to business exemption
 - Consider better rules than you have now
- Know what you are getting into
- Go for the gusto
- Lower the rate

Q and A

drenkard@taxfoundation.org

(202) 464-5111 (Direct line)

www.TaxFoundation.org