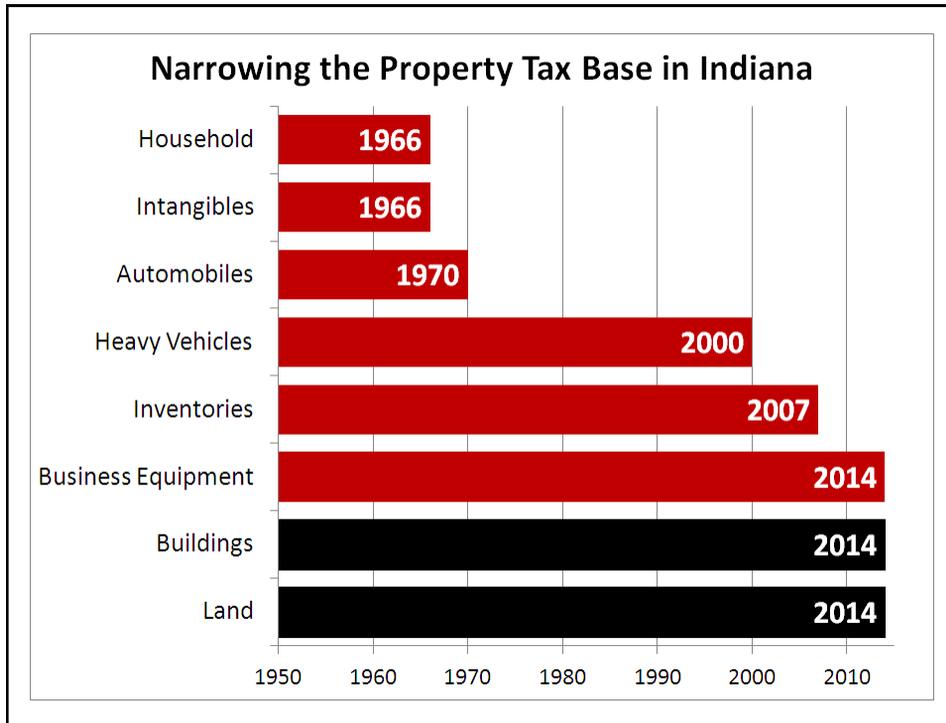


Indiana's Property Tax Base

The Indiana Constitution: Article 10, Section 1 (1851)

The General Assembly shall provide, by law, for a uniform and equal rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation for taxation of all property, both real and personal, excepting such only for municipal, educational, literary, scientific, religious or charitable purposes, as may be specially exempted by law.



The Indiana Constitution: Article 10, Section 1

- Amended in 1966
 - Eliminates Intangibles
 - Eliminates Household Property
 - Allows elimination of Motor Vehicles
 - If another motor vehicle tax is enacted
 - Motor Vehicle Excise Tax begins in 1971

The Indiana Constitution: Article 10, Section 1

- Amended in 2004
 - Allows elimination of Inventories
 - Accomplished by 2007
 - Counties allowed LOIT to offset homeowner shift

The Indiana Constitution: Article 10, Section 1

- Land, Buildings and Business Equipment remain in the tax base
- As a result of the 2004 Amendment:
 - The *General Assembly may exempt* from property taxation any property in any of the following classes: *Tangible personal property* other than property being held as an investment.

How Indiana Compares

Personal Property Tax: Indiana's Neighbors

	Personal Property Taxed?	Pers Prop Pct of Assessed Val.
Illinois	No	0.0%
Indiana	Yes	13.7%
Kentucky	Yes	8.3%
Michigan	Yes*	8.3%
Ohio	No**	4.1%
Wisconsin	Yes	2.4%

*Michigan will phase out PP tax by 2024
 **Ohio taxes utility equipment.

Source: Lincoln Institute of Land Policy, Significant Features of the Property Tax, 2011



Taxes and Economic Development

- Why do businesses locate and invest where they do?
 - Agglomeration economies
 - Locate near other similar industries, availability of specialized employees, expertise, equipment
 - Large/growing population and income
 - For businesses that sell to local markets
 - Transportation infrastructure
 - Roads, rails ports
 - High quality, lower pay employees
 - Higher productivity, lower cost

Taxes and Economic Development

- Why do businesses locate and invest where they do?
 - Taxes
 - Higher business and other taxes are found to reduce development in more studies than not
 - The effect tends to be small, less important than other factors (agglomeration, markets, wages etc.)
 - Taxes matter more for intra-regional location, where other factors are the same
 - Business taxes like those on corporate income or equipment matter more than general taxes like sales or individual income

Taxes and Economic Development

- Why do businesses locate and invest where they do?
 - Public Services
 - Transportation infrastructure—particularly highway mileage—is found to add to development in more studies than not
 - Public safety spending (police, fire protection) adds to development in almost half the studies
 - Public education spending adds to development in a few studies
 - Employee quality is important. Is the link between spending and employee quality too lengthy?

Tax Shifts and Revenue Losses

Assessed Value, Levies, Tax Rates and Tax Cap Credits

$$\frac{\text{Levy}}{\text{Assessed Value}} = \text{Tax Rate}$$

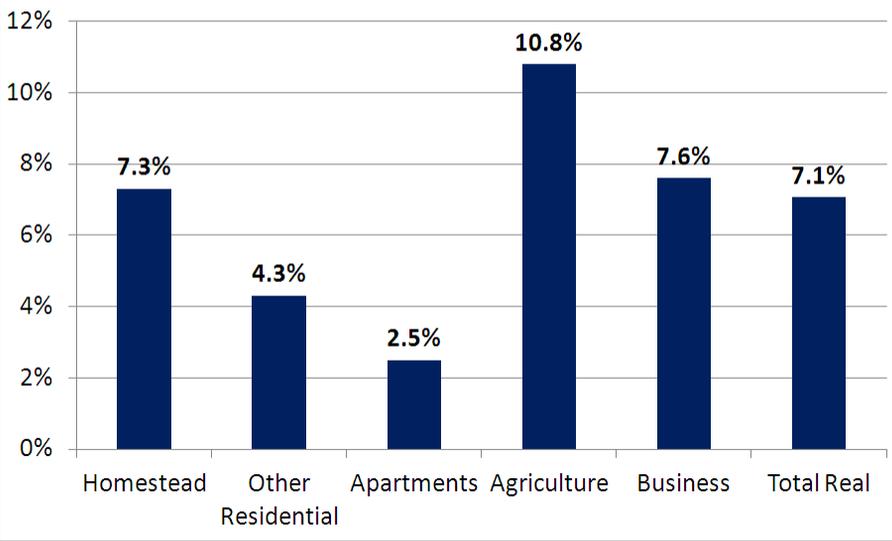
$$\text{Tax Rate} \times \text{Taxpayer AV} = \text{Tax Bill}$$

subject to Tax Caps

**ELIMINATION OF PERSONAL PROPERTY TAXES:
\$1,063 MILLION IN TAXES, LSA ESTIMATE FOR 2015
(MILLIONS)**



**Estimated State Average Changes in Property Tax Bills
from Personal Property Tax Elimination, 2015
(Tax bills of personal property owners fall by 100%)**



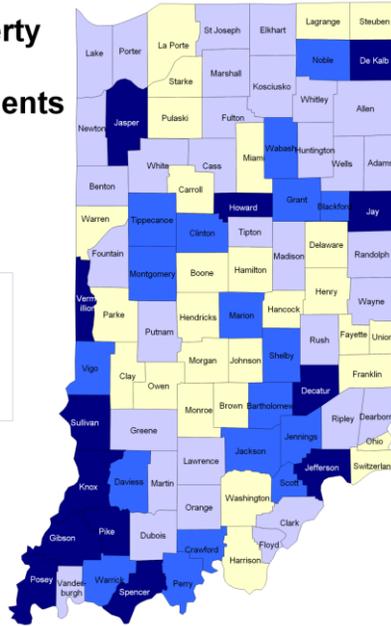
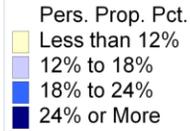
Average County Added Tax Cap Credits, Percent of Levy (Revenue Losses)

Personal Prop Pct of Net Assessed Value	Tax Cap Credit Pct of Levy		
	Less than 4%	4% or More	All
Less than 14%	1.8%	5.3%	3.5%
14% or More	5.5%	10.4%	8.3%
Avg., All Counties	3.6%	8.2%	6.0%

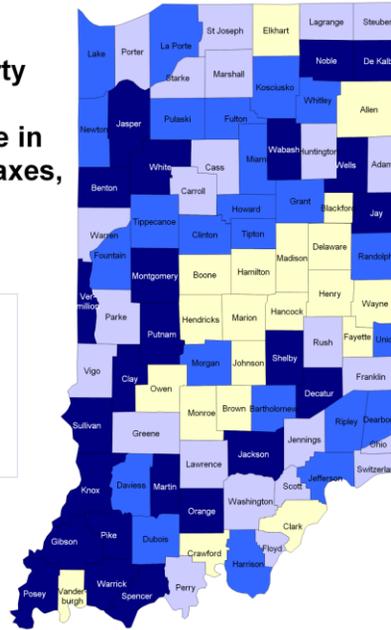
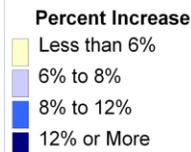
Average County Real Property Tax Bill Changes (Tax Shifts)

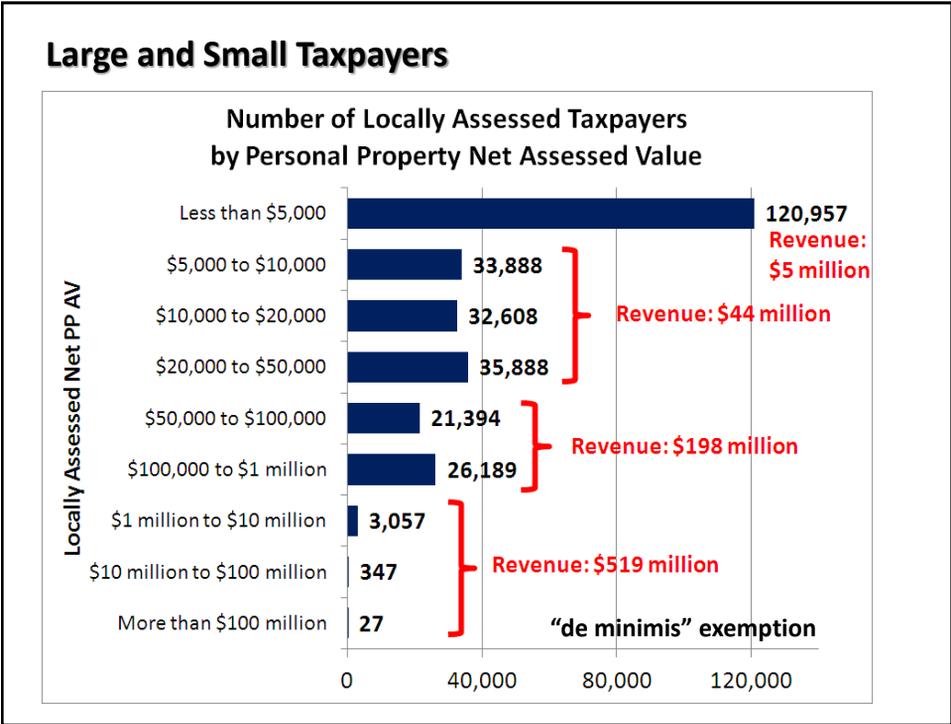
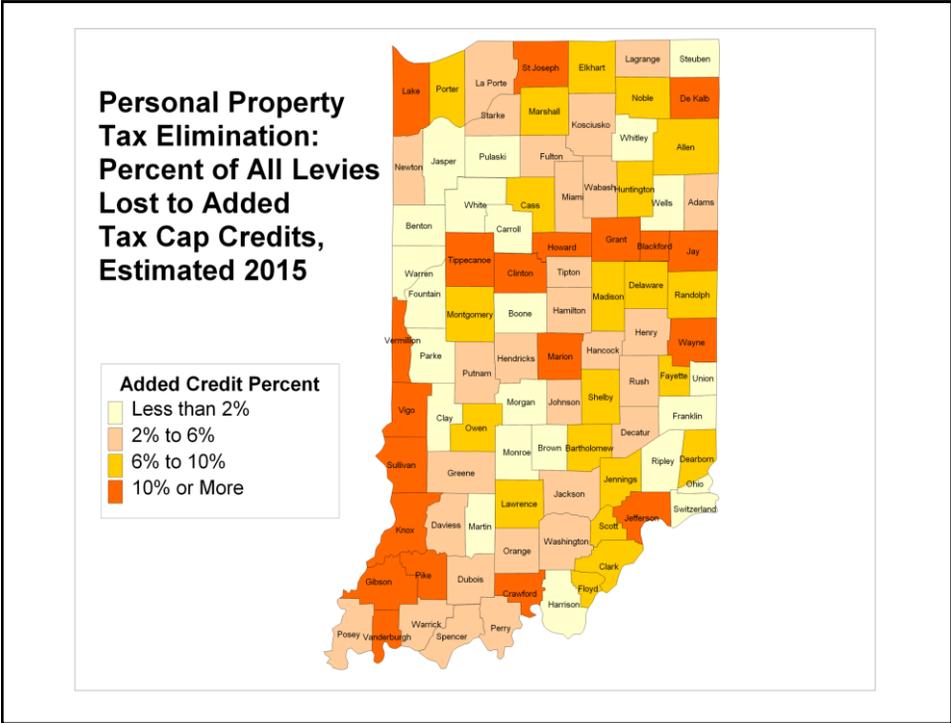
Personal Prop Pct of Net Assessed Value	Tax Cap Credit Pct of Levy		
	Less than 4%	4% or More	All
Less than 14%	8.1%	6.0%	7.1%
14% or More	16.5%	9.2%	12.3%
Avg., All Counties	12.2%	7.8%	9.9%

Personal Property Percent of Total Tax Payments Estimated 2015



Personal Property Tax Elimination: Percent Increase in Real Property Taxes, Estimated 2015





What the General Assembly Did in 2014

2014 Legislation:
Senate Enrolled Act 1 (Public Law 80)

- *Local option exemption.* COIT Council may exempt any *new* business personal property.
- *Exempt Small Business.* COIT Council may exempt businesses with personal property acquisition cost totaling less than \$20,000 from filing a personal property return.
- *Enhanced Abatement.* Abatements on new equipment can be for 20 years, instead of 10.
- *Reduce Corporate Income Tax.* Phases down the corporate income tax rate from 6.5% in 2015 to 4.9% by 2022.
- *Study Commission.* Establishes the Commission on Business Personal Property and Business Taxation.

Commission on Business Personal Property and Business Taxation

- Is studying personal property taxes, business taxes, business vs. individual tax shares, effects on local government revenues of reducing business personal property taxes, and other topics.
- Chaired by Sen. Brandt Hershman
- 3rd meeting tomorrow (October 23)

Personal Property Tax Elimination

- Lower taxes probably have a small positive effect on economic development, especially within a region
- Indiana's PP Tax is highest in our region
- Public transportation, police and fire services have a small positive effect on development
- \$1 billion in personal property taxes would shift one-third to other taxpayers, two-thirds in lost revenue
- Impact on governments and taxpayers vary a lot by county
- Most PP tax payments made by largest taxpayers; smallest 120,000 pay very little
- Legislation in 2014 provides for optional reductions in personal property taxes, with much smaller revenue and tax bill impacts

Two Essential Documents and One Essential Website

- IFPI Personal Property Tax Report:
www.indianafiscal.org
- LSA Analysis of Personal Property Elimination:
iga.in.gov (click on Publications, Property Tax Studies,
Personal Property Tax Study (Dec. 2013))
- Commission on Business Personal Property and
Business Taxation
iga.in.gov/legislative/2014/committees/interim

Review Articles about Development

- Michael Wasylenko. 1997. Taxation and Economic Development: The State of Economic Literature. *New England Economic Review* March/April, pp. 37-52.
- Ronald C. Fisher. 1997. The Effects of State and Local Public Services on Economic Development. *New England Economic Review* March/April, pp. 53-67.
- Josep-Maria Arauzo-Carod, Daniel Livian-Solis, and Miguel Manjon-Antolin. 2010. Empirical Studies in Industrial Location: An Assessment of Their Methods and Results. *Journal of Regional Science* 50 (3), pp. 685-711.