

*Purdue Cooperative Extension Service*

# Indiana's State Budget and Personal Property Taxes

July 8, 2014

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# Indiana's State Budget, FY2014-15

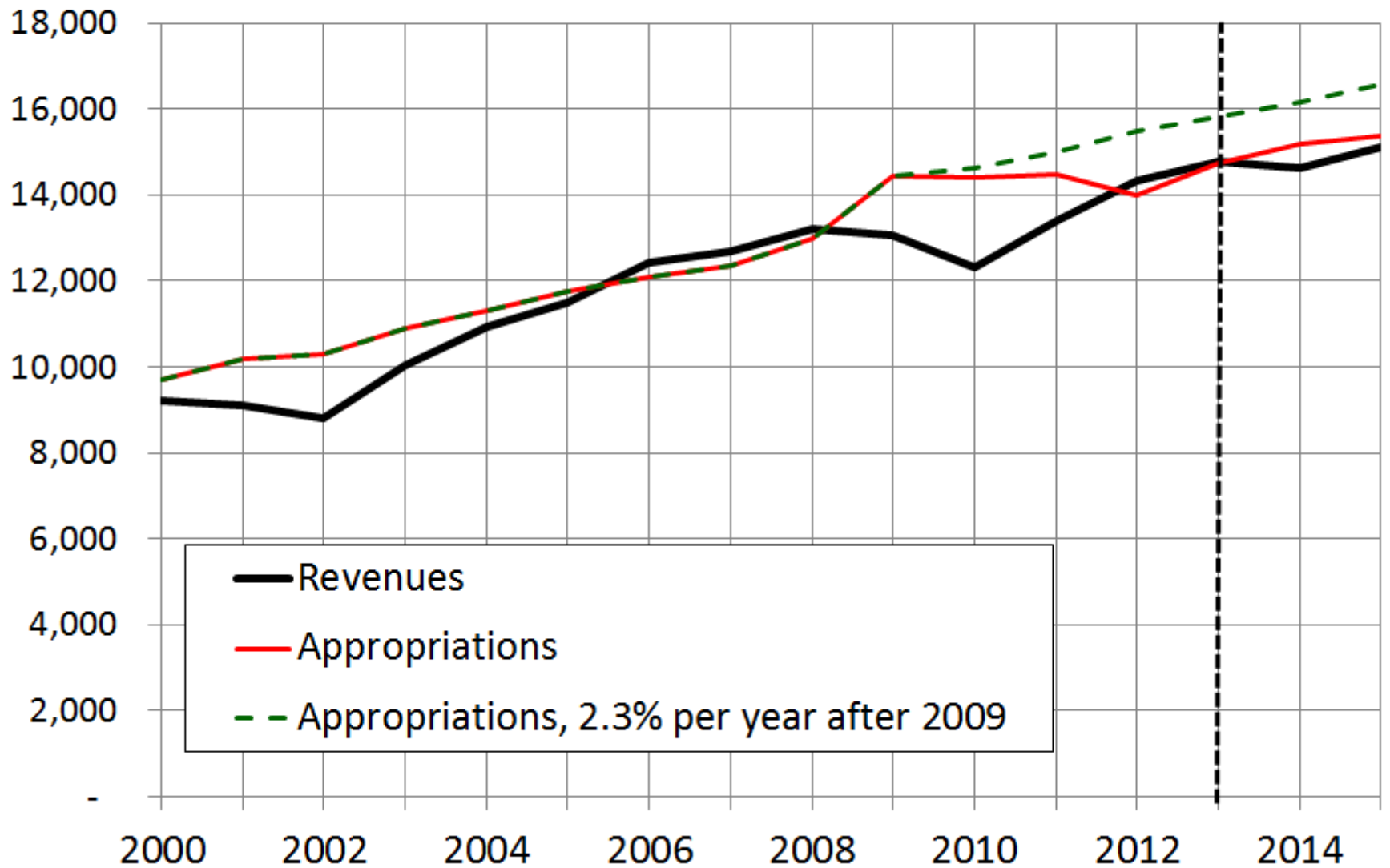
## Indiana State Budget Summary, FY 2007-2015

(millions of dollars, updated through FY 2013 Closeout and December 2013 Revenue Forecast)

	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Budget 2014	Budget 2015	Avg. Ann. Chng. 2007-13 2013-15	
<b>Start of Year Balances</b>	<b>1,089</b>	<b>1,286</b>	<b>1,413</b>	<b>1,420</b>	<b>831</b>	<b>1,182</b>	<b>2,155</b>	<b>1,943</b>	<b>2,016</b>		
<b>Revenues</b>	<b>12,703</b>	<b>13,203</b>	<b>13,052</b>	<b>12,317</b>	<b>13,384</b>	<b>14,331</b>	<b>14,790</b>	<b>14,630</b>	<b>15,098</b>	<b>2.6%</b>	<b>1.0%</b>
Sales Tax	5,379	5,686	6,153	5,915	6,218	6,622	6,796	6,838	7,169	4.0%	2.7%
Individual Income Tax	4,616	4,838	4,314	3,876	4,586	4,766	4,978	5,021	5,200	1.3%	2.2%
Corporate Income Tax	987	910	839	592	705	959	968	938	921	-0.3%	-2.5%
Gaming	625	583	621	680	677	632	569	528	513	-1.6%	-5.1%
All Other	1,096	1,187	1,125	1,255	1,200	1,353	1,479	1,305	1,296	5.1%	-6.4%
<b>Appropriations</b>	<b>12,359</b>	<b>12,986</b>	<b>14,436</b>	<b>14,423</b>	<b>14,466</b>	<b>14,007</b>	<b>14,725</b>	<b>15,190</b>	<b>15,392</b>	<b>3.0%</b>	<b>2.2%</b>
K-12 Education	4,647	4,830	6,169	7,450	7,584	7,285	7,451	7,648	7,756	8.2%	2.0%
Higher Education	1,588	1,654	1,744	1,725	1,755	1,696	1,702	1,821	1,803	1.2%	2.9%
Medicaid	1,525	1,587	1,664	1,848	1,874	1,858	2,024	2,225	2,162	4.8%	3.4%
Health and Social Services	860	943	1,237	1,354	1,354	1,231	1,232	1,247	1,247	6.2%	0.6%
Public Safety	718	721	801	781	796	763	770	927	933	1.2%	10.1%
Property Tax Relief	2,189	2,308	1,699	136	21	(11)	(5)	-	-		
<b>Current Year Surplus/Deficit</b>	<b>345</b>	<b>217</b>	<b>(1,384)</b>	<b>(2,106)</b>	<b>(1,082)</b>	<b>325</b>	<b>65</b>	<b>(560)</b>	<b>(294)</b>		
ARRA Total			992	683	501						
Total Reversions/Transfers	(148)	(89)	399	834	932	649	444	633	157		
Tax Rebate/Pension Stabilization							(721)	-	-		
<b>End of Year Balances</b>	<b>1,286</b>	<b>1,413</b>	<b>1,420</b>	<b>831</b>	<b>1,182</b>	<b>2,155</b>	<b>1,943</b>	<b>2,016</b>	<b>1,879</b>		
Total Balances % of Revenue	10.1%	10.7%	10.9%	6.7%	8.8%	15.0%	13.1%	13.8%	12.4%		
<b>Appropriations less Reversions</b>	<b>12,240</b>	<b>12,854</b>	<b>14,079</b>	<b>13,754</b>	<b>13,538</b>	<b>13,579</b>	<b>14,429</b>	<b>14,820</b>	<b>15,238</b>		
Percent Change	2.4%	5.0%	9.5%	-2.3%	-1.6%	0.3%	6.3%	2.7%	2.8%		

Prepared by Larry DeBoer, Department of Agricultural Economics, Purdue University, January 2014

# Indiana State Budget Revenues and Appropriations and Projections from 2009 Based on Population and Inflation (millions of dollars)



# Indiana State Budget, FY 2013-15

## (millions of dollars)

	Budget 2013	Budget 2014	Budget 2015	Avg Chng 2013-15
Revenues	14,790	14,630	15,098	1.0%
Sales Tax	6,796	6,838	7,169	2.7%
Ind. Income Tax	4,978	5,021	5,200	2.2%
Corp. Income Tax	968	938	921	-2.5%
Gaming	569	528	513	-5.1%
All Other	1,479	1,305	1,296	-6.4%

# Indiana State Budget, FY 2013-15

## (millions of dollars)

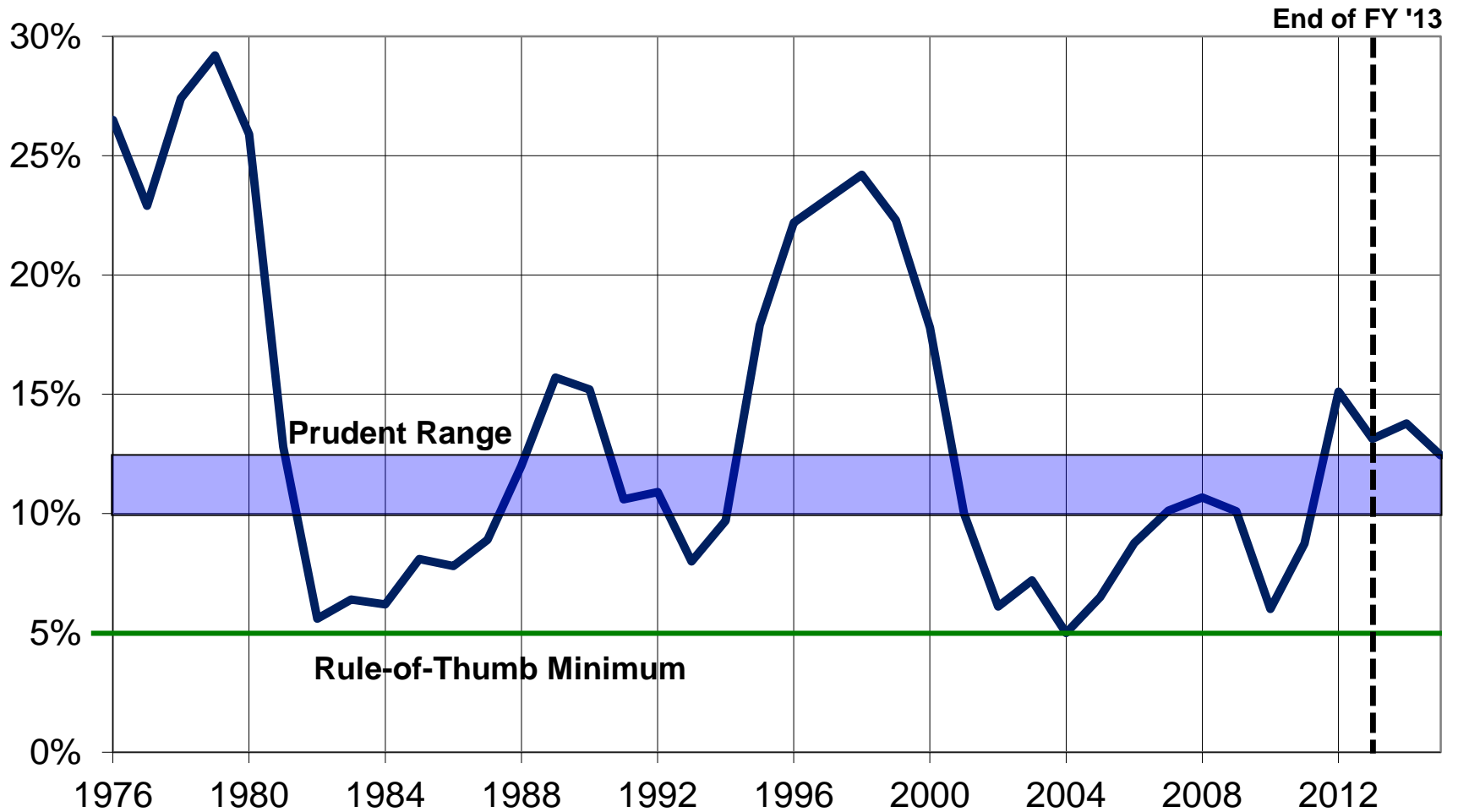
	Budget 2013	Budget 2014	Budget 2015	Avg Chng 2013-15
Appropriations	14,725	15,379	15,405	2.2%
K-12 Education	7,451	7,648	7,756	2.0%
Higher Education	1,702	1,821	1,803	2.9%
Medicaid	2,024	2,225	2,162	3.4%
Health/Social Svcs	1,232	1,247	1,247	0.6%
Public Safety	770	927	933	10.1%

# Indiana State Budget, FY 2013-15

## (millions of dollars)

	Budget 2013	Budget 2014	Budget 2015	Avg Chng 2013-15
Start of Year Balances	2,155	1,943	2,016	
Revenues	14,790	14,630	15,098	1.0%
Appropriations	14,725	15,190	15,392	2.2%
Surplus/Deficit	65	-560	-295	
Reversions/Transfers	444	633	157	
Rebate/Pension Stabil	-721			
End of Year Balances	2,664	2,016	1,879	
Balances % of Revenue	13.1%	13.8%	12.4%	

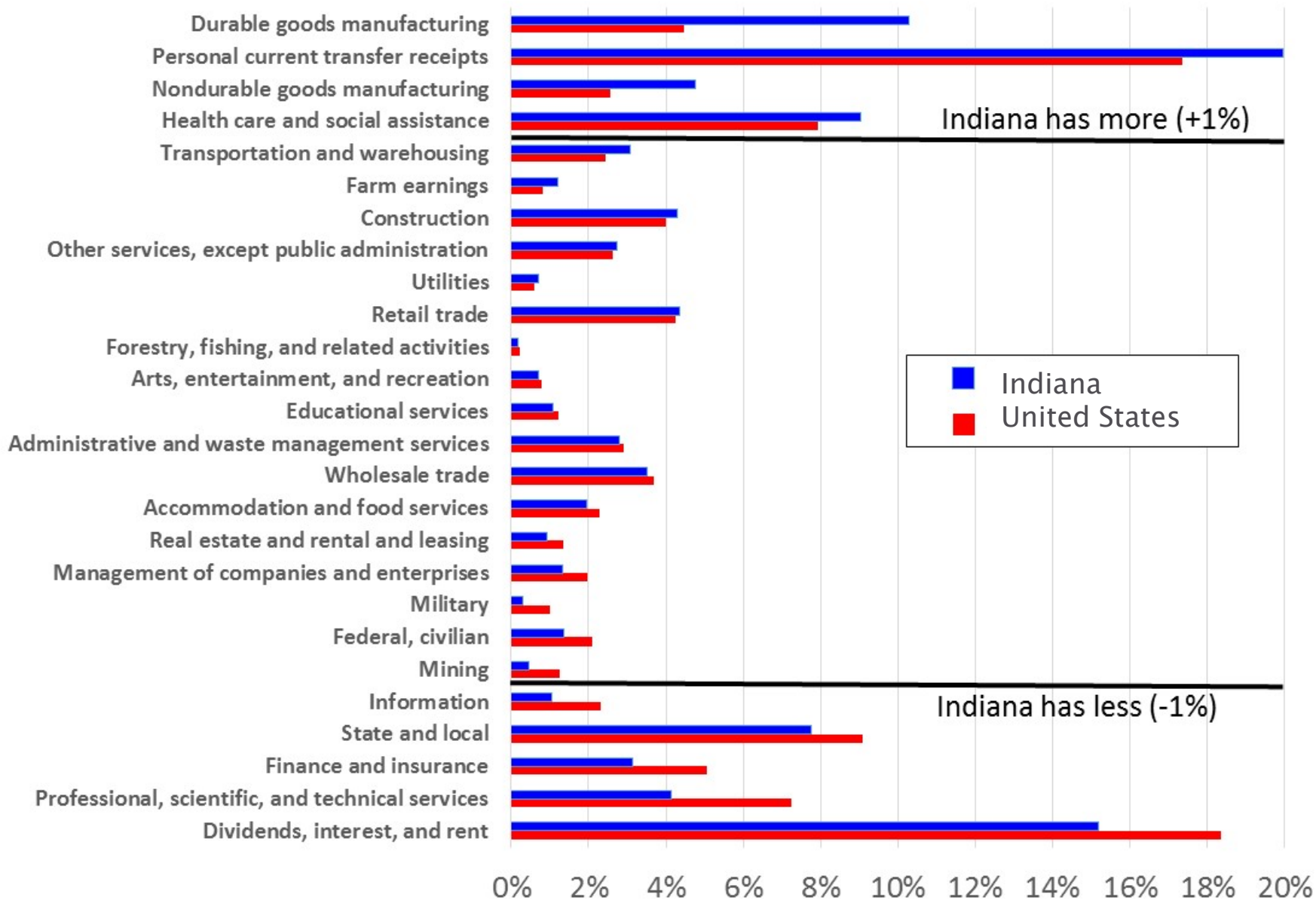
# Indiana State Fund Balances as Share of Operating Revenues, FY 1976-2013, Budgeted 2014-2015,







## Shares in Total Personal Income by Industry and Income Type, 2013

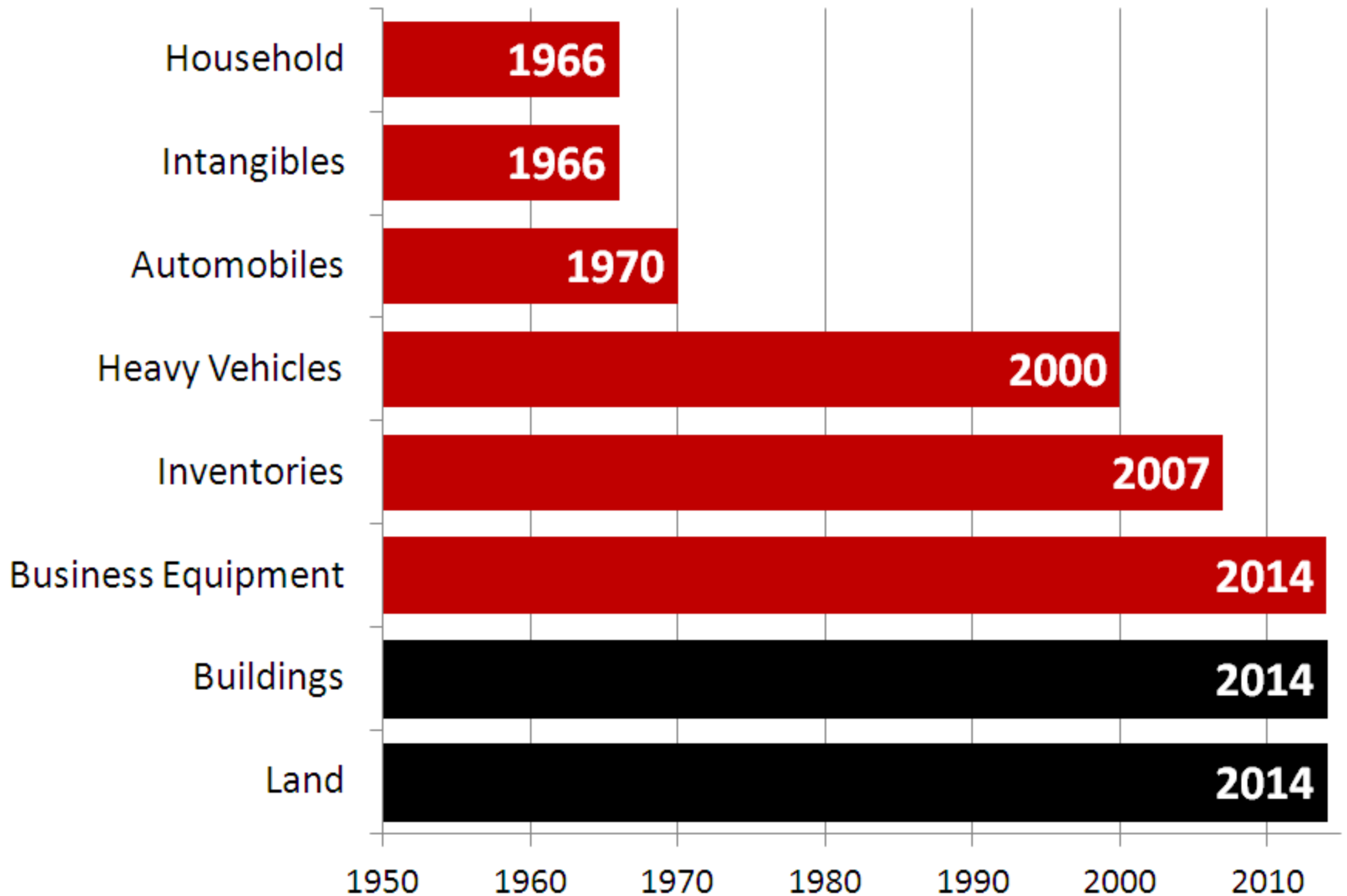


# Personal Property Taxes

# 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.

# Narrowing the Property Tax Base in Indiana



# 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.



# Personal Property Tax: Indiana's Neighbors

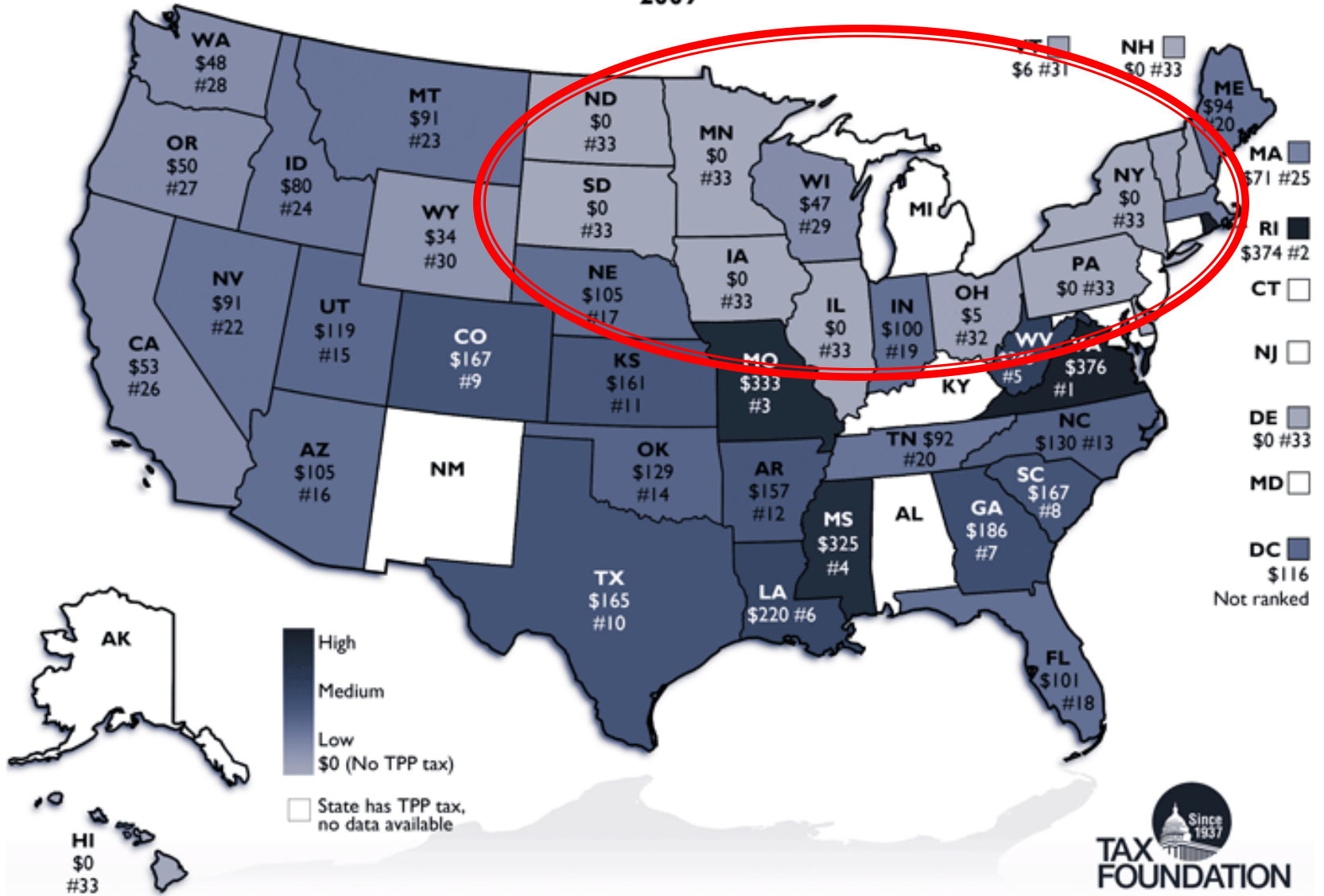
	Personal Property Taxed?	Personal Prop Pct of Assessed Value
Illinois	No	0.0%
Indiana	Yes	13.7%
Kentucky	Yes	8.3%
Michigan	Yes*	8.3%
Ohio	No**	4.1%
Wisconsin	Yes	2.4%

\*Michigan will phase out PP tax by 2024

\*\*Ohio taxes utility equipment.

# Tangible Personal Property Tax Collections Per Capita

2009



# 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?

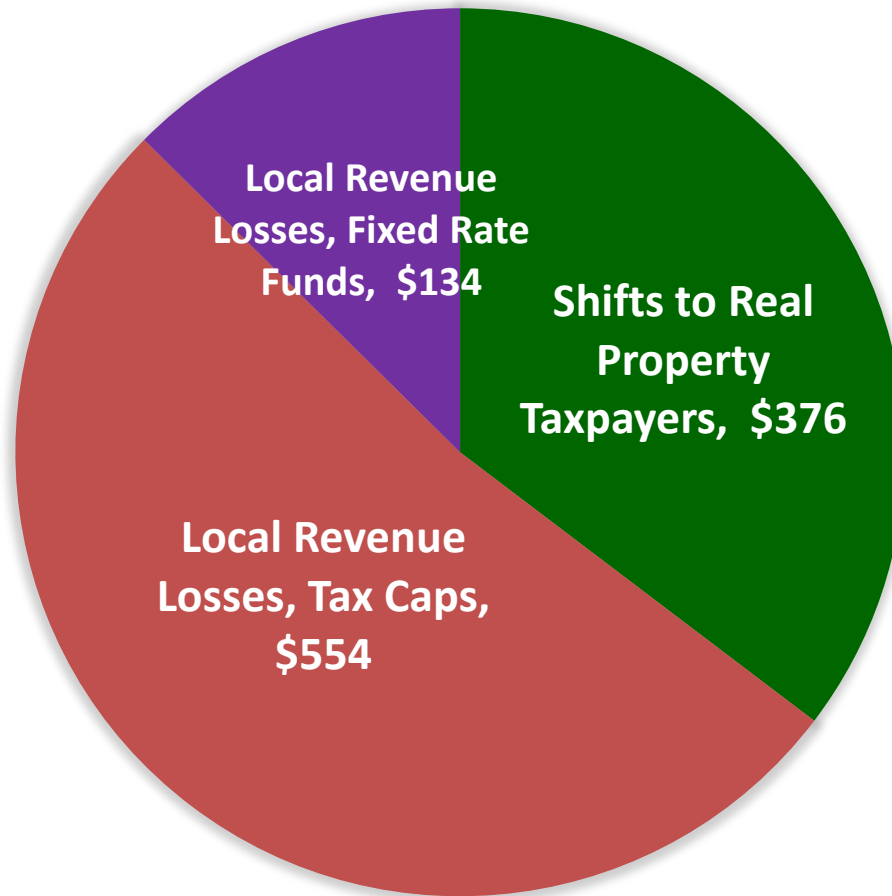
# Assessed Value, Levies, Tax Rates and Tax Cap Credits

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

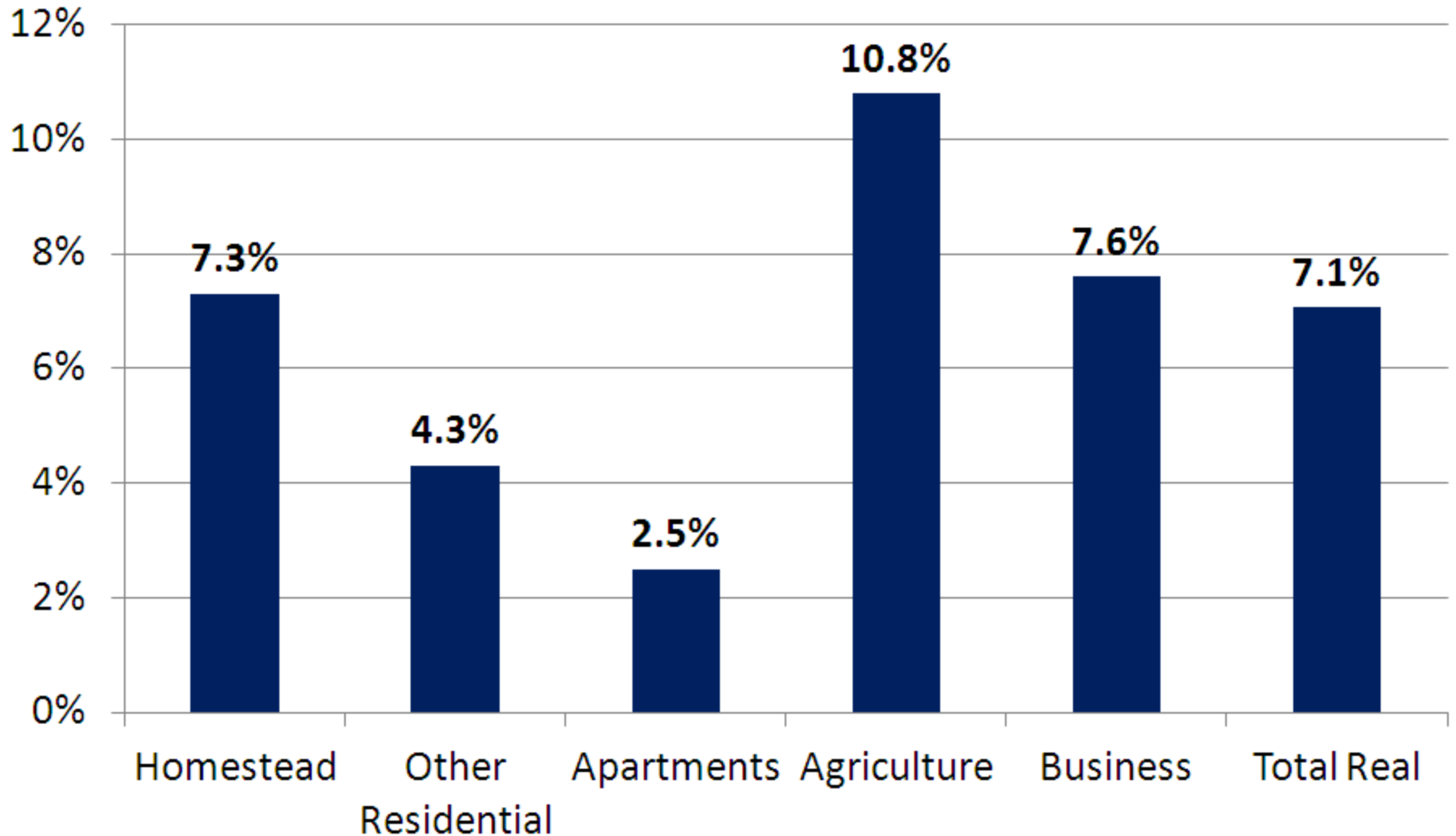
$$\text{Tax Rate} \times \text{Taxpayer AV} = \text{Tax Bill}$$

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%)





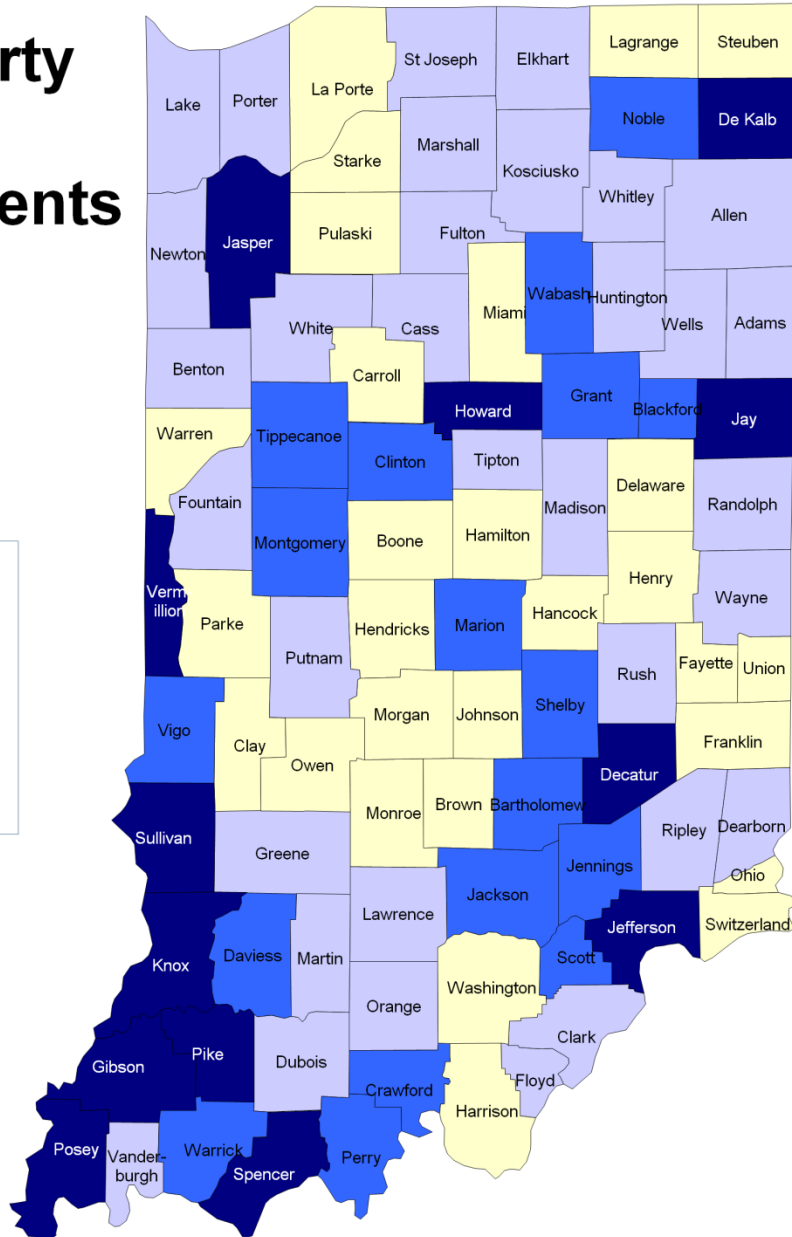
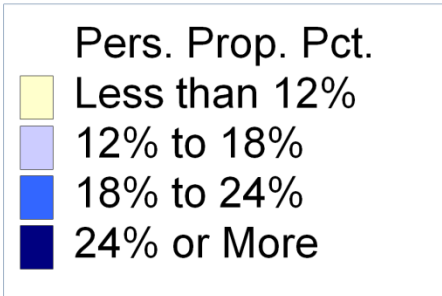
# Average County Added Tax Cap Credits, Percent of Levy (Revenue Losses)

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%
<b>Avg., All Counties</b>	<b>3.6%</b>	<b>8.2%</b>	<b>6.0%</b>

# Average County Real Property Tax Bill Changes (Tax Shifts)

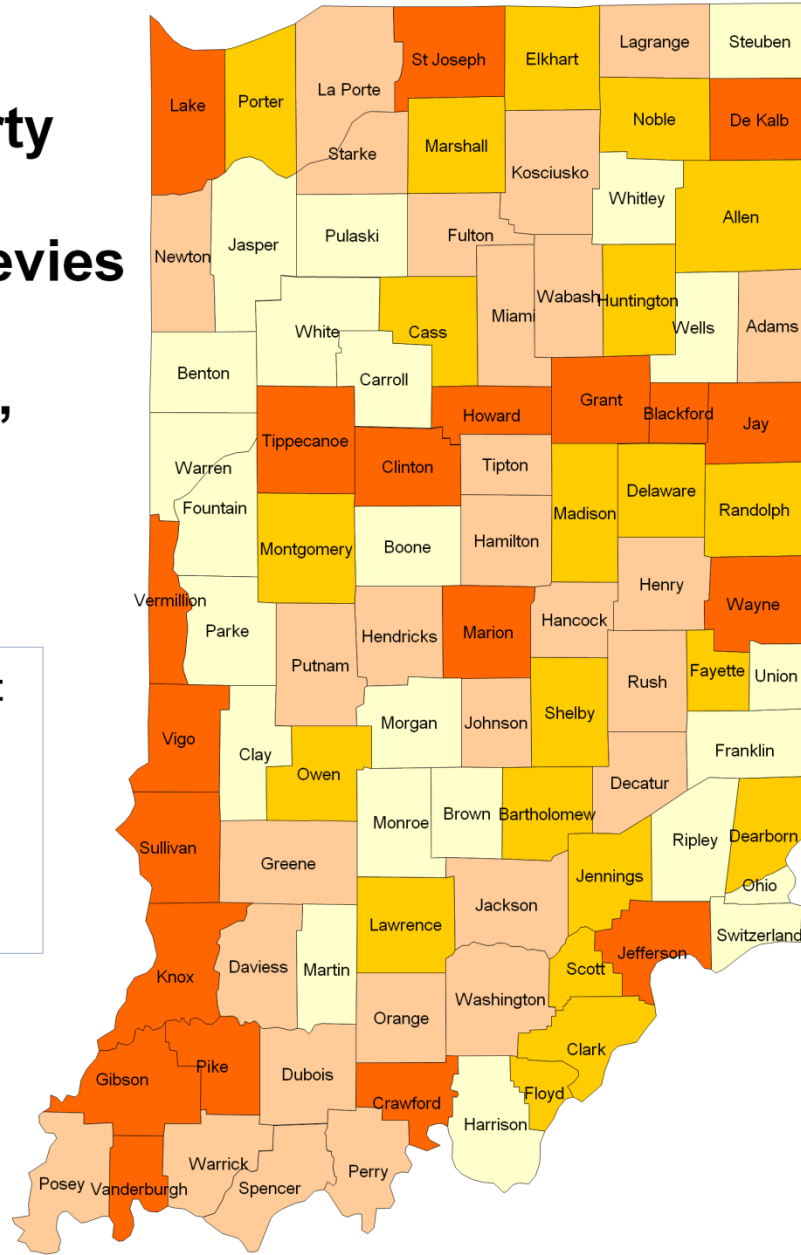
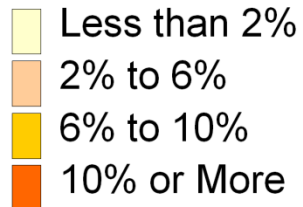
Personal Prop Pct of Net Assessed Value	Tax Cap Credit Pct of Levy		
	Less than 4%	4% or More	All
Less than 14%	8.1%	6.0%	7.1%
14% or More	16.5%	9.2%	12.3%
<b>Avg., All Counties</b>	<b>12.2%</b>	<b>7.8%</b>	<b>9.9%</b>

# Personal Property Percent of Total Tax Payments Estimated 2015

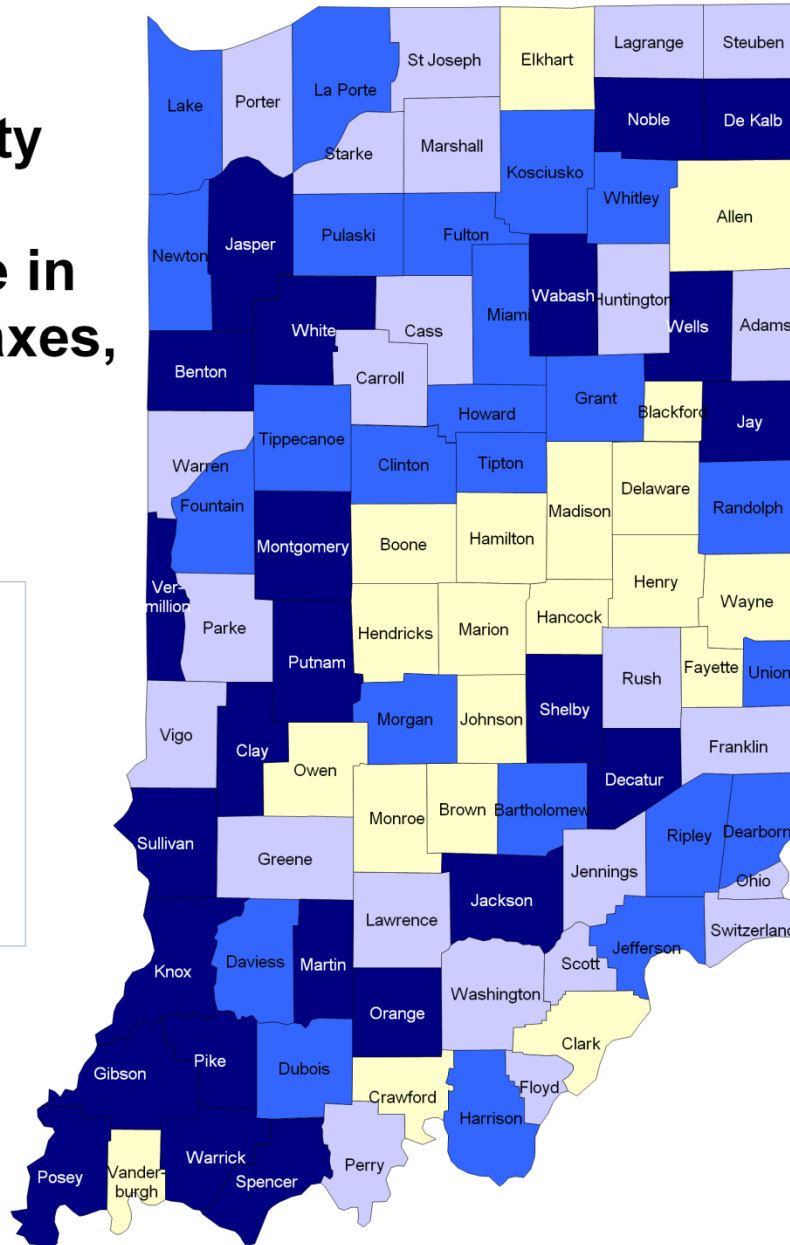
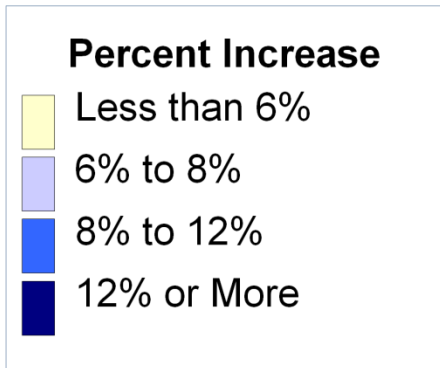


# Personal Property Tax Elimination: Percent of All Levies Lost to Added Tax Cap Credits, Estimated 2015

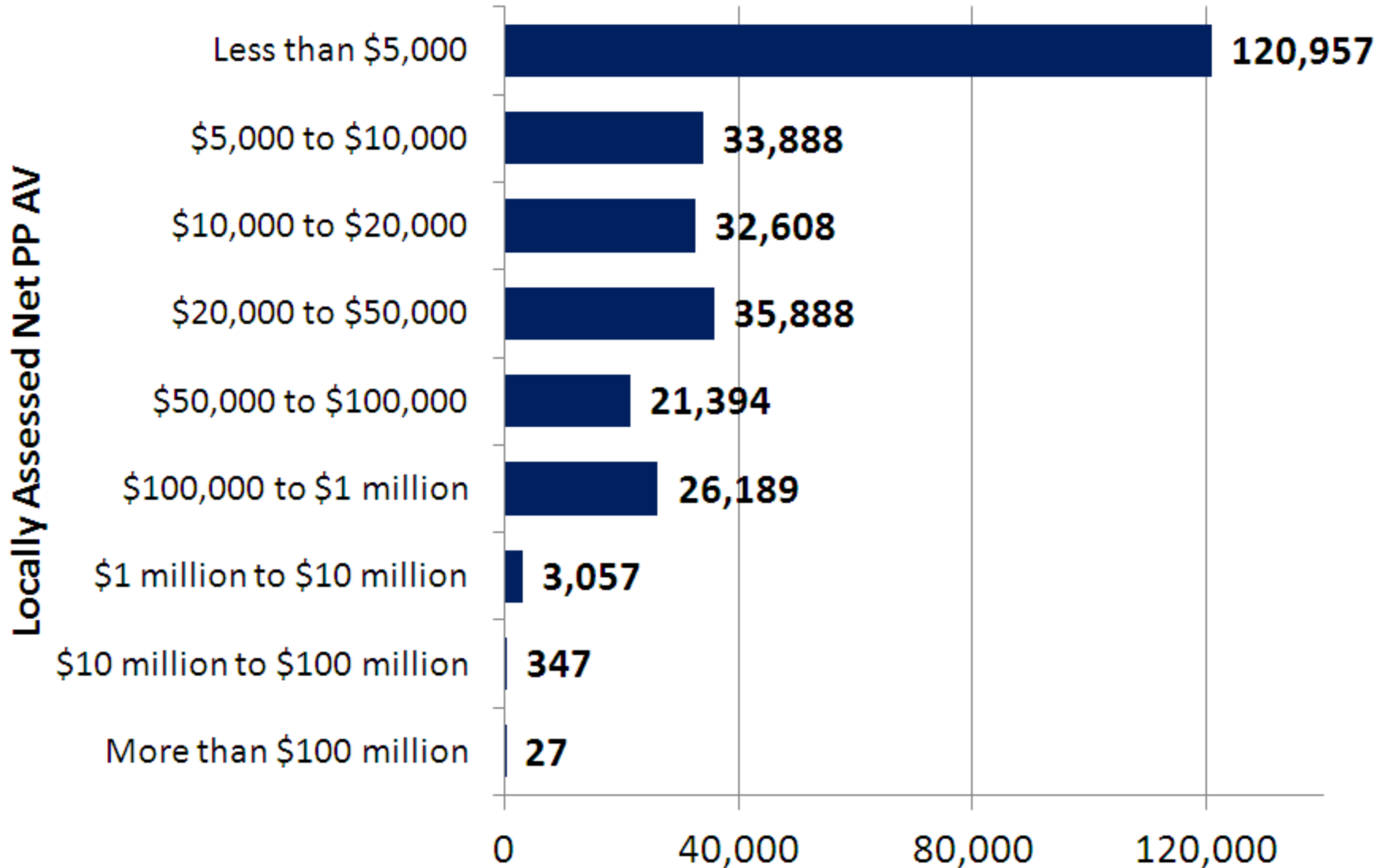
## Added Credit Percent



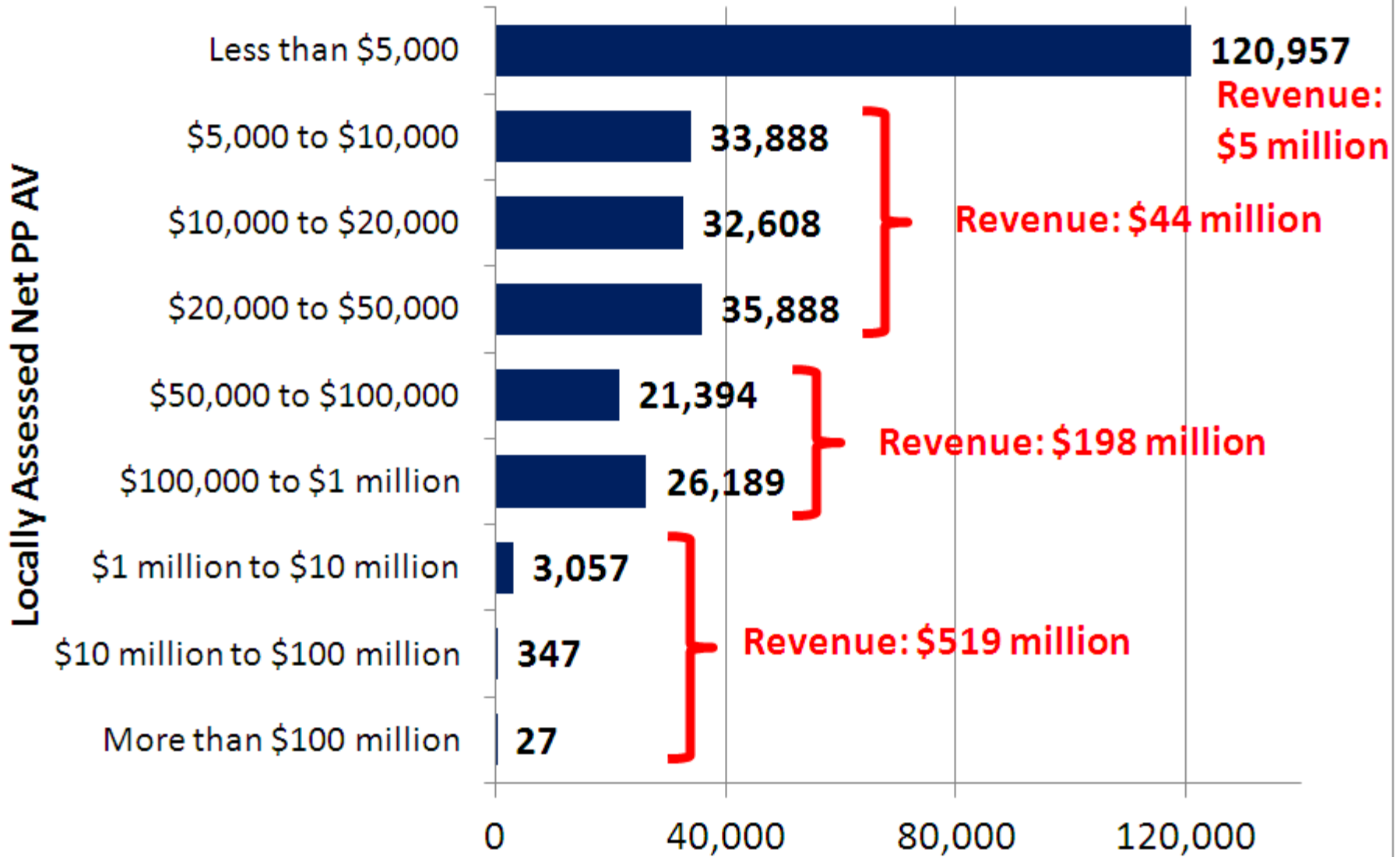
# Personal Property Tax Elimination: Percent Increase in Real Property Taxes, Estimated 2015



## Number of Locally Assessed Taxpayers by Personal Property Net Assessed Value



## Number of Locally Assessed Taxpayers by Personal Property Net Assessed Value



# Senate Enrolled Act 1 (Public Law 80)

- *Signed into Law on March 25.* Passed House 63–37; Passed Senate 36–12.
- *Local option exemption.* The county income tax council (COIT Council) may adopt an ordinance to exempt from property taxation any *new* business personal property that is located in the county. Does not apply to utility property.



# Senate Enrolled Act 1 (Public Law 80)

- *Exempt Small Business.* COIT Council may adopt an ordinance to exempt businesses with personal property acquisition cost totaling less than \$20,000 from filing a personal property return, and exempts the property from taxation. Exemption applies in 2016 pay 2017 and after. Does not apply to utility property.
- *Enhanced Abatement.* Allow local governments to offer abatements on new equipment for 20 years, instead of 10.

# Senate Enrolled Act 1 (Public Law 80)

- ▶ *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 to study personal property taxes, business taxes, business vs. individual tax shares, effects on local government revenues of reducing business personal property taxes, and other topics.

# 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
- SEA 1 provides for optional reductions in personal property taxes, with much smaller revenue and tax bill impacts

# Two Essential Documents

- IFPI Personal Property Tax Report: [www.indianafiscal.org](http://www.indianafiscal.org)
- LSA Analysis of Personal Property Elimination: [iga.in.gov](http://iga.in.gov) (click on Publications, Property Tax Studies, Personal Property Tax Study (Dec. 2013))

# 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.

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