



Indiana Property Taxes:

Is Property Tax Relief or Tax Restructuring the Solution?

INDIANA ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT

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Property Taxes:

Is Property Tax Relief or Tax Restructuring the Solution?

Executive Summary

Many Indiana communities are once again experiencing what is perceived to be a property tax “crisis.” However, by its most common definition, a crisis implies a situation that is characterized by unexpectedness and sudden change. Although the drastic increase in property tax bills is sudden for many homeowners, the implementation of Indiana’s property tax assessment system was declared unconstitutional by the Indiana court system nine years ago. So, how can we learn from the past to avoid another property tax crisis in the future and provide relief to homeowners who have experienced astronomical increases in their property taxes?

In this report, we attempt to examine the answers to some of these questions. While many agree property taxes need to be addressed, the question is how do we do it? Another way of looking at a crisis is that of a turning point. With this framework in mind, this report will examine changes made to Indiana’s property tax system and whether property tax relief or tax restructuring is the solution to the property tax increases experienced throughout Indiana.

This report is organized into several sub-sections, including:

- ***Are Indiana’s Property Taxes Really That High?*** In this section, we look at Indiana’s property taxes in comparison to the property taxes of other Midwest states.
- ***Why is Indiana Experiencing a Property Tax Crisis?*** In this section, we explore the history of Indiana’s property tax assessment system and property tax relief and how we got where we are today.
- ***What Has Contributed to the 24 Percent Increase in Property Taxes and How is it Being Addressed?*** In this section, we examine the factors which have contributed to the increase in property taxes experienced by homeowners and the property tax relief that has been provided to date.
- ***Is Property Tax Elimination the Solution?*** In this section, we dissect other states who have considered property tax elimination and the end results to date.
- ***Is Restructuring Property Tax Relief a Solution?*** There are many ways we can restructure our property tax relief. In this section, we examine how property tax relief can be more targeted and provide greater relief based on effective solutions other states have implemented.

- **State Tax Restructuring Options** If other taxes need to be increased to compensate for lost property tax revenues, it could have a huge impact on many Hoosiers, especially those with low-to-moderate incomes or those on fixed-incomes. In this section, we lay out possible tax solutions for increasing state revenues in a progressive manner.
- **Conclusion/Where Do We Go From Here?** Based on all the data presented in the report, we draw some basic conclusions as to where Indiana can go from here in order to address property taxes and what could happen if no action is taken.



IACED also offers several recommendations regarding property tax assessment, property tax relief, and tax restructuring. The main recommendations IACED offers in this report, related to property tax assessments and property tax relief, are as follows:

- **Property tax elimination is not the solution.** We should not eliminate one of the most reliable state tax revenue sources which pays for many vital services such as K-12 education, public safety, and child welfare because implementation of the property tax assessment system needs improvement. Instead, we must address the issues causing property tax assessments to be inequitable or inaccurate and make sure the property tax assessment system is being implemented correctly and uniformly across the state.
- **Indiana should implement a circuit breaker program to provide property tax relief.** Indiana has a two percent circuit breaker in the state constitution. Circuit breakers are property tax refunds paid for by the state government to residents whose tax liability is considered too high and/or the payment amount represents a large portion of the family's income. However, when you look at the traditional definition of a circuit breaker, Indiana's current circuit breaker is really a cap and not a circuit breaker because it is based on assessed value rather than a taxpayer's ability to pay. A circuit breaker program can be targeted to homeowners, renters, and special populations, such as the elderly and disabled.

- **Property tax relief should be provided to homeowners and renters.** Although renters do not pay property taxes directly, it is estimated that nationwide approximately 25 percent of rent paid goes to property taxes. In Indiana, this percentage is lower. However, if property taxes increase for rental properties, landlords will more than likely increase rents to compensate for an increase in property taxes. In order to keep rental housing affordable, Indiana should preserve the current renter's deduction and possibly look into increasing the renter's deduction in conjunction with any property tax relief provided to homeowners.



Also, IACED has several recommendations if taxes need to be restructured or increased to compensate for lost property tax revenue. IACED believes it should be done in a progressive manner and recommends that Indiana should consider the following:

- **Create a graduated income tax system.** Increasing the state income tax is one of the most progressive ways to increase state revenues. In 2007, with the current flat income tax rate structure of 3.4 percent, \$4.5 billion in state revenues was generated from state income taxes. If Indiana were to create a two-tiered income tax system with the top tier at 5.5 percent for those with incomes above \$60,000 (filing single or jointly) and the second tier at 4.5 percent for those with incomes below \$60,000 (filing single or jointly), Indiana would have generated an additional \$1.8 billion in state income taxes, totaling \$6.3 billion in state income tax revenues in 2007.
- **Increase the income tax threshold.** Indiana currently has a flat income tax rate meaning that whether you make \$10,000 or \$75,000 you still pay 3.4 percent of your income in state income taxes. Indiana currently taxes families comprised of three and four members earning less than three-quarters of the federal poverty guidelines (\$12,878 for a family of three in 2007). Indiana could make the state income tax system more progressive by raising the income tax threshold above the poverty guidelines (\$17,170 for a family of three and \$20,650 for a family of four in 2007). These families would no longer be paying state income taxes, but they would no longer be receiving state refunds either.

- **Expand the sales tax base to services.** Increasing the sales tax will generate a considerable amount of state revenues. However, it would have a negative impact on Hoosiers with moderate incomes. A non-regressive way to increase state sales tax revenues in a more equitable manner is to expand the sales tax base to some services. Indiana currently taxes 23 services, but this is minimal considering some states tax as many as 160 services. On the other hand, there are some services that should not be taxed including health care, education, housing, child and elder care, public transportation, legal services, funeral services, public transit, banking services, and insurance services. These services are often large items in a family's budget and consumption is often involuntary. All other services should be considered for taxation.
- **Increase Indiana's State Earned Income Tax Credit (EITC).** If income and sales tax need to be increased, increasing the state EITC should be considered to offset some of the tax increase. The EITC is a refundable tax credit for individuals making less than 200% of the federal poverty guidelines (\$41,300 for a family of four in 2007). Indiana's state EITC is currently set at 6 percent of the federal EITC; however, it is among the lowest. Most state's EITCs range from 15 percent – 35 percent of the federal EITC. To increase Indiana's state EITC to 15% would cost \$70 million but could be offset by some of the other state revenues that would be generated due to increased income and/or sales tax.

We hope this report will help Hoosiers understand the property tax “crisis,” the possible solutions, the amount of time it will take to realistically implement these solutions, and the impact any changes may have for both property taxes and local government services.

As can be seen by the data presented in this Executive Summary, the property tax crisis is complicated, and there is no one solution to solving this problem. What is clear is that it will take both tax restructuring and property tax relief to address Indiana's property tax “crisis.” Short-term property tax relief needs to be funded through current taxes, which may need to be increased to provide enough revenue to fund this relief. In addition, long-term solutions are needed to address the systemic issues within the property tax assessment structure. Specifically, how property is assessed, who assesses the property, and the standards for assessment. This will ensure property tax assessments are done correctly; therefore, ensuring property taxes are uniform and equitable. There is a lot of work in store for Indiana state legislators and the administration in the 2008 Indiana General Assembly. Proposed property tax reform plans vary greatly. One thing they all have in common is the basic requirement for state legislators and the Governor to work together. Indiana's ability to find solutions, and to successfully address the issue of property taxes in Indiana, is dependent on their collaboration.

Indiana Property Taxes:

Is Property Tax Relief or Tax Restructuring the Solution?

Introduction

Many Indiana communities are once again experiencing what is perceived to be a property tax “crisis.” However, by its most common definition, a crisis implies a situation that is characterized by unexpectedness and sudden change. Although the drastic increase in property tax bills is sudden for many homeowners, the implementation of Indiana’s property tax assessment system was declared unconstitutional by the Indiana court system nine years ago. So, you may be asking yourself, why are Indiana’s property taxes increasing at an astronomical rate, and should we have done something about it several years ago?

Several changes have been made over the past few years, including the exemption of business inventory from property tax assessment. This change exacerbated Indiana’s property tax problem by shifting the property tax burden from businesses with inventory to Hoosier homeowners. Although the state legislature provided some property tax relief to homeowners over the years, it was not enough to cover the increased assessments of residential properties and increased tax rates. Many of the relief efforts were merely “band aids” and have not addressed the larger systemic issues with Indiana’s property tax assessment system.

This is fully acknowledged by some state legislators and the administration. Governor Mitch Daniels has made several statements regarding the large increase in property taxes and the impact on homeowners. Lieutenant Governor Becky Skillman has also been quoted on this issue. In the *Shelbyville News*, she stated “It has been a perfect storm of events that have (sic.) been brewing for quite a number of years. We’ve moved away from inventory taxes in Indiana, and that has caused quite a shift.”

Governor Daniels has appointed Chief Justice Randall Shepherd and former Governor Joseph Kernan to co-chair a commission on local government reform to examine possible solutions. The Governor has said he looks forward to making permanent property tax overhaul the priority of the 2008 legislative session. He would not rule out the idea of replacing property taxes with some sales or income taxes, but only if it were a dollar-for-dollar decrease (Corbin, Evansville Courier and Press).

So, how can we learn from the past to avoid another property tax crisis in the future and provide relief to homeowners who have experienced astronomical increases in their property taxes? In this report, we attempt to examine the answers to some of these questions.

This report is organized into several sub-sections, including:

- ***Are Indiana's Property Taxes Really That High?*** In this section, we look at Indiana's property taxes in comparison to the property taxes of other Midwest states.
- ***Why Is Indiana Experiencing a Property Tax Crisis?*** In this section, we explore the history of Indiana's property tax assessment system and property tax relief and how we got where we are today.
- ***What Has Contributed to the 24 Percent Increase in Property Taxes and How is it Being Addressed?*** In this section, we examine the factors which have contributed to the increase in property taxes experienced by homeowners and the property tax relief that has been provided to date.
- ***Is Property Tax Elimination the Solution?*** In this section, we dissect other states who have considered property tax elimination and the end results to date.
- ***Is Restructuring Property Tax Relief a Solution?*** There are many ways we can restructure our property tax relief. In this section we examine how property tax relief can be more targeted and provide greater relief based on effective solutions other states have implemented.
- ***State Tax Restructuring Options.*** If other taxes need to be increased to compensate for lost property tax revenues, it could have a huge impact on many Hoosiers, especially those with low-to-moderate incomes or those on fixed-incomes. In this section, we lay out possible tax solutions for increasing state revenues in a progressive manner.
- ***Conclusion/Where Do We Go From Here?*** Based on all the data presented in the report, we draw some basic conclusions as to where Indiana can go from here in order to address property taxes and what could happen if no action is taken.

While many agree property taxes need to be addressed, the question is how do we do it? Another way of looking at a crisis is that of a turning point. With this framework in mind, this policy brief will examine changes made to Indiana's property tax system and whether property tax relief or tax restructuring is the solution to addressing the property tax increases experienced by homeowners throughout Indiana.

Are Indiana Property Taxes Really That High?

To put this problem into perspective, we need to look at how Indiana's property taxes compare to other states. According to the United States Census Bureau's American Community Survey (ACS), in 2006, the median Indiana homeowner paid \$1,125 in property taxes, ranking Indiana

37th highest in the country.¹ Illinois ranked 7th with the median homeowner paying \$3,061 in property taxes, Ohio ranked 21st with the homeowners paying \$1,436 and Kentucky ranked 43rd with homeowners paying \$749 on average (2006 American Community Survey). Nationwide, New Jersey ranked number one with an average tax bill of \$5,773, and the lowest ranked state was Louisiana with an average property tax bill of \$179 (Ibid.). These differences can be attributed to many factors including local government spending and local revenue sources in addition to property taxes, such as income and sales tax.

As demonstrated by the data, Indiana's residential property taxes as of 2006 were not that high, relative to the surrounding states, but, in many cases, Indiana property taxes are growing fast. In addition, in 2005, businesses paid approximately half of all property taxes in Indiana. However, this has also changed. Due to the exemption of the inventory tax and tax abatements, businesses no longer pay as much in property taxes as they once did therefore shifting the burden to other property owners. In addition, Indiana is still facing a drastic increase in property taxes due to changes in the property tax assessment system and property tax relief, which has varied from year to year.

Why Is Indiana Experiencing a Property Tax Crisis?

Many Indiana homeowners and rental property owners were stunned when they received their 2007 tax bills. Property taxes increased across the state at an alarming rate. The average statewide increase was 24 percent, but, in several urban areas, the increases were more dramatic. There are several factors contributing to the increase, but, to understand them, we must first examine the history of Indiana's property tax system.

For many years, Indiana homeowners benefited from the underassessment of residential property compared to business property; therefore, businesses shouldered the majority of the tax burden and allowed homeowners to benefit from reduced property tax liability. However, in 1998, the Supreme Court ruled Indiana had to change the implementation of its property tax assessment. The State Board of Tax Commissioners determined that the best way to implement the Supreme Court's decision was to adopt a market value-in-use system of assessment. A market value-in-use system differs from the more widely accepted market value assessment, in that all property is to be assessed, not at its "highest and best" use, but at its "current" use. The market value-in-use system allows farmers to pay property tax on their land, based on its use as farm land, rather than its potential use as residential, commercial or industrial development.

The 2002 reassessment was based on 1999 market values and the first time the market value-in-use system of assessment was used. Many homeowners experienced dramatic property tax increases, especially those with well-maintained older homes that had been under-assessed for many years. The prior system failed to take into account remodeling and rehabilitation of older properties. In response to the increase in residential taxes, the legislature provided

¹ Median means the middle, this means half of all homeowners pay more than this amount and half pay less.

approximately \$1 billion in property tax relief for homeowners. However, property tax relief continued to be a growing expense for the state. In 2007, to assist in balancing the state budget, the General Assembly capped property tax relief to homeowners for the first time at approximately \$2 billion.

At the same time as the market value-in-use system went into effect, Indiana exempted business inventory from property tax. The business inventory tax was a form of property tax applied to the assessed value of inventories. This required a change to Indiana's constitution. In 2004, Hoosiers voted in favor of repealing the business inventory tax and passed the required constitutional referendum.

Although the inventory tax was repealed in 2004, the last 51 counties did not repeal the inventory tax until this year. This has had a huge impact on urban areas of the state, which had large inventories and collected a large amount of tax revenue from the inventory tax collection. The General Assembly authorized counties to adopt a local income tax on individuals to compensate for the reduction in property tax revenues. Fifty-one counties chose not to adopt a local income tax and saw a dramatic increase in their property tax rate when the inventory exemption became effective. This proved to be particularly problematic in urban areas with a significant amount of business inventory assessed value. In Marion County alone, approximately \$46 million a year was lost due to the elimination of property tax on business inventory. This money needs to be raised from other revenue sources, shifting some of the tax burden from businesses, in most cases, to homeowners. This may be especially true in areas with large inventories such as Indianapolis.



As a result, many local governments increased either property taxes, income taxes, fees, or all of the above to cover increasing local government costs for items such as public safety, K-12 education, construction and/or infrastructure costs, and public assistance.

Additionally, 2006 was the first year of trending. A refinement of the property tax assessment system adopted by the General Assembly requires assessors to update assessments annually, this process is also known as "trending." Assessment year 2006 was the initial year of implementation of trending, which requires assessors to revalue properties based on their appreciation or depreciation over a certain period of time. Trending for 2006 reflects changes in

value for the years 1999 through 2005. By all accounts, this six year period resulted in substantial appreciation of residential property and resulting in the average increase of 24% in property taxes experienced by homeowners.

If homeowner property taxes have increased, have business property taxes also increased? Yes, in most cases. However, some business property tax assessments were not assessed properly requiring reassessment. Under regulations adopted by the Department of Local Government Finance (DLGF), assessors are to use sales data to implement trending. In many instances, assessors did not know where to look for that evidence/data for business property. Assessors usually have sufficient sale data to trend the assessment of residential property. Business property usually does not transfer as often as residential property, making adequate sale data more difficult to obtain. In addition, in many urban areas in the state, the market value of industrial properties has probably depreciated, rather than appreciated, in the time period between 1999 and 2005, because of factory closings and layoffs. Because of improper trending of commercial and industrial property and assessments of multiple properties, both business and rental, not being assessed properly based on property tax classification, the DLGF has ordered reassessment in several counties, including Marion County.

Despite all of these problems with the implementation of the property tax assessment system and trending, a recent survey conducted by the Indiana Chamber found that 65 percent of voters surveyed responded that market value is the correct assessment standard for property taxes. However, 71 percent say the current property assessment system produced assessments that are not uniform or equitable.

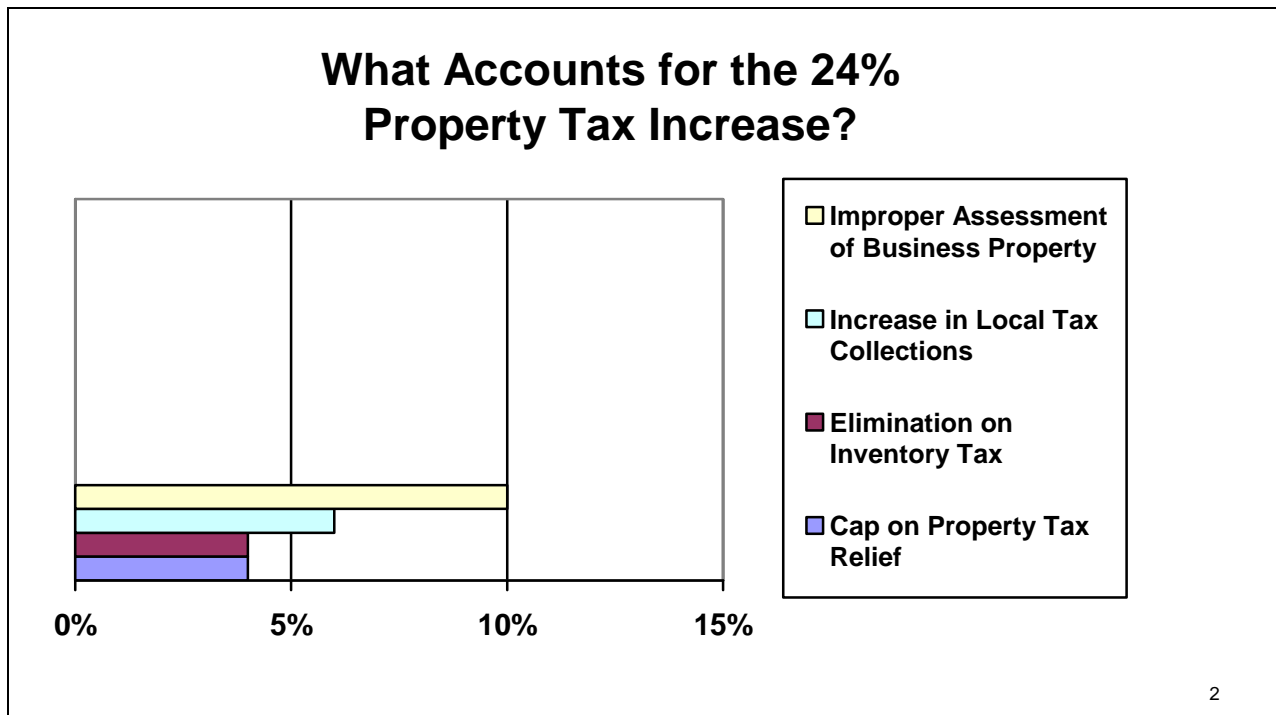
It is the culmination of all of these factors which have led to the current property tax crisis being experienced by homeowners, rental property owners, and businesses alike.

What Has Contributed to the 24 Percent Increase in Property Taxes and How is it Being Addressed?

Now that you understand all of the contributing factors which have led to the property tax crisis, let's see how they play a role in the average 24 percent increase in property taxes seen by homeowners. In Chart 1, we outline how much each of the above listed items has contributed to the 24 percent increase. According to a recent article, *What's Behind the Property Tax Crisis*, by economic professor Larry DeBoer, the percent of increase is attributed to each of the following:

- 4 percent to capping property tax relief;
- 4 percent to elimination of inventory taxes;
- 6 percent to increasing local tax collections; and
- 10 percent to improper assessment of business property.

CHART 1



Source: University, Department of Agriculture Economics. July 2007.: DeBoer, Larry, *“What’s Behind the Property Tax Crisis?”* Capitol Comments. Lafayette: Purdue.

Indiana legislators have recognized the burden experienced by homeowners and passed \$550 million in property tax relief for 2007 and 2008. However, this does not address the need for a long-term solution to increasing property taxes. The property tax relief provided will reduce the property tax increase for homeowners from 24 percent to 8 percent. Unfortunately, much of the property tax relief will not reach homeowners until they have already paid their substantially higher property tax bills. The delay is due to the fact that the 2007 property tax relief is being administered through tax refund checks. In 2008, the property tax relief will be delivered through an increased homestead credit. This does not address the longer-term need for property tax relief after 2008.

In 2008, homeowners will again experience an increase in their property tax bills with the homestead credit reducing from 28 percent to its previous rate of 20 percent for 2007 and subsequent years. This is projected to add approximately 3.9 percent to homeowners’ property tax bills, which are estimated to increase 7.8 percent in 2008 (DeBoer, Tax and Budget 6). Without property tax relief in 2008, property tax bills will increase by about 20 percent (Ibid.). Again, this demonstrates the need, not only to reexamine property tax relief, but, also, the property tax system.

² Increase in local tax collections is due to increased local taxes and large construction projects contributing more in taxes.

Is Property Tax Elimination the Solution?

Currently, all fifty states rely on property taxes for state revenues. This is especially true when you look at state and local tax collections by tax source (see Table 1).

TABLE 1 2004-2005 State and Local Tax Collections by Tax Source (Percentage of Total), Midwest States						
State	Property	Sales	Selective Sales*	Individual Income	Corporate Income	Other**
Indiana	35.8%	23.4%	10.7%	22.6%	3.9%	3.7%
Illinois	38.0%	17.0%	17.0%	16.2%	4.4%	7.4%
Kentucky	18.3%	21.2%	16.7%	30.9%	3.9%	8.9%
Michigan	36.6%	22.9%	10.5%	18.6%	5.4%	6.0%
Ohio	28.7%	23.1%	7.4%	31.4%	3.2%	6.2%

* Selective sales taxes are state excise taxes such as taxes on gasoline, alcohol, tobacco, etc.
 **Other taxes include death and gift taxes, stock transfer taxes, severance taxes, licenses, and other taxes not otherwise classified.

Source: Federation of Tax Administrators

However, when you look at the state tax collection by tax source and remove local taxes, the percentage of state tax collection from property taxes reduces drastically (see Table 2). Indiana does not rely very heavily on state revenues collected from property taxes.

TABLE 2 2005 State Tax Collections by Tax Source, (Percentage of Total), Midwest States*						
State	Property	Sales	Selective Sales	Individual Income	Corporate Income	Other
Indiana	> 0.1%	39.3%	16.8%	32.3%	7.0%	4.6%
Illinois	0.2%	27.6%	23.0%	30.4%	8.2%	10.7%
Kentucky	5.6%	29.5%	15.0%	33.8%	7.4%	8.7%
Michigan	9.3%	33.0%	13.8%	28.6%	8.0%	7.4%
Ohio	0.2%	34.3%	13.2%	38.1%	5.2%	9.0%

* To calculate these percentages, data was collected from quarterly summaries of state government tax collections by state and by detailed tax item (available at: <http://www.census.gov/govs/www/qtax05.html>). Each quarter for each state was added together to get the total state tax collections by source. Then each tax line item was divided by total taxes to get the percentage. Percentages were rounded up to the next tenth of a percent, if .55 or above, therefore, not all percentages will total 100% for each state.

Source: United State Census Bureau, State and Local Government Finance Data

Although property taxes are a small revenue item for states, they are a vital revenue source for local governments. Though elimination of property taxes would not impact the state on a large scale, it would be devastating to local governments. This remains true, even if the state assumes a large share of the expenses currently supported by local governments. If Indiana were to eliminate property taxes, it would be the first state to do so. Several states (Florida, Georgia, South Carolina, and Pennsylvania) have tried to eliminate property taxes this year and have been unsuccessful to date. Despite this fact, some advocates propose the elimination of property taxes completely.

The current reality is that eliminating property taxes is unrealistic, and some legislators of the Indiana General Assembly have recognized this fact. Representative Jeff Espich, fiscal leader of the House Republicans, is one such legislator:

“The amount you would have to raise sales and income taxes is just enormous. Who wants a 9 percent income tax or a 13 percent sales tax? Yes, Indiana would no longer have property taxes, which by itself would make it an attractive place for people to live and businesses to locate. But a 9 percent income tax rate would be higher than neighboring states, and a 13.2 percent sale tax rate would be significantly higher than rates in Illinois, Kentucky, Michigan, and Ohio. Nobody is going to buy anything in Indiana. Nobody is going to buy big ticket items. It is unrealistic to even go 2 percent more in sales tax.”

- Jeff Espich (R-House District 82)
Howey Political Report,
Daily Wire

Again, while eliminating property taxes may sound appealing, this means Indiana would lose property tax revenues from both homeowners and businesses. Indiana would have to replace the estimated \$6.2 billion in revenues lost by repealing property taxes by increasing other state taxes. This would shift more of the burden from businesses to individuals. Although homeowners would no longer be paying property taxes, Hoosiers would be paying more in other taxes, such as income and sales tax. In addition, this would impact local government spending and bonding for local projects. Bonds are often backed by property tax revenues. The loss of property tax revenues would mean bond defaults and a crisis in the Indiana bond market, which would dramatically increase the cost of borrowing for local governments in Indiana. Many local governments would also have to increase local income taxes or fees to compensate for the loss in property tax revenue. Currently, property taxes fund local services such as public safety, K-12 education, public assistance, and capital projects. In recognition, the General Assembly has extended three local income tax options to local governments; two of which are designed to provide property tax relief. This is explained in more detail later in this report in the section titled ***Is Restructuring Property Tax Relief a Solution?***

According to estimates by the Indiana Legislative Services Agency (LSA), in order to replace the state revenues currently generated by property taxes and not expand corporate taxes or extend the sales tax to services, the sales tax would have to be increased from 6 percent to 13.2 percent, and the state income tax would have to be increased from 3.4 percent to 9 percent

(Guinane, Northwest Indiana Times). LSA also estimates that if the sales tax were expanded to cover all services except medical related expenses, the sales tax rate would need to be increased to 11.1 percent.

In addition, if Indiana were to eliminate property taxes, the state constitution would have to be amended. Although possible, it would require an amendment to pass in two separately elected legislatures and to be approved by voters. This process would take at least four years and may be a long-term solution but, in reality, legislators are under extreme pressure from the electorate to find more immediate property tax relief and restructuring.

Is Restructuring Property Tax Relief a Solution?

Currently, \$550 million in new property tax relief has been passed by the Indiana General Assembly for 2007 and 2008. For 2007, the legislature will provide \$300 million in property tax relief through rebate checks issued after property taxes have been paid in late 2007 or early 2008. In 2008, the homestead credit will be increased and will reduce homeowners' property tax bills. This is only a short-term solution to the increase in property taxes. Currently, property tax relief is being paid for by fees collected from the installation of slot machines in horse tracks around Indiana. If this money falls below projections, where will the money for property tax relief come from? If this is the case, legislators will need to find an alternative funding source for property tax relief and may need to reduce state spending. Moreover, if the state plans to offer additional property tax relief to homeowners in 2009, from where will this money come? If no additional property tax relief is offered to homeowners, property taxes will more than likely increase again in 2009.

In addition to the property tax relief in 2007, Indiana legislators offered three new local income tax options to local governments, which could significantly change the way local governments are funded, increase county revenues to address growing expenses, and provide property tax relief. These options are:

1. Local governments may fund annual increases in civil government property tax operating levies with local income tax increases instead.
2. County Councils may increase the local income taxes by a maximum of 1 percent to reduce property taxes. In addition, the property tax relief must be provided in one of the following three ways or in some combination:
 - a. Reduce the property tax of all property owners;
 - b. Reduce property taxes for homeowners only; and/or
 - c. Reduce property taxes for homeowners and rental housing owners.
3. Local governments may increase the local income tax by up to 0.25 percent to raise revenue for local budgets and public safety.

If the state does not provide property tax relief in 2009, or tax bills increase despite property tax relief in 2008, local governments may be pressured by citizens to take action. This would shift property tax relief to local governments, which can utilize the new income tax tools to reduce property taxes now and in the future.

Although Indiana legislators took many strides in 2007 to prevent homeowners from feeling the pinch of rising property taxes, this will likely be a reoccurring problem if long-term solutions are not implemented. There have been several property tax reform plans proposed by the Governor, state legislators, and others to address increasing property taxes in Indiana (Table 3).

TABLE 3 Proposed Property Tax Reform Plans		
PROPOSED BY	AMOUNT OF PROPERTY TAX RELIEF	HIGHLIGHTS OF PLAN
Governor Daniels' Plan	<ul style="list-style-type: none"> • \$3.1 billion in property tax relief. 	<ul style="list-style-type: none"> • Would cap property tax increases at percentages of assessed value, 1% for homeowners, 2% for rental properties, and 3% for businesses. These caps would be made permanent through a constitutional amendment. • State will assume costs for K-12 school operations. • Would increase the sales tax by 1%, from 6% to 7%. • Caps total local government spending, not allowing spending to grow faster than county personal income (based on six year rolling average). • Large local construction projects will need to be approved by communities through a referendum vote. • Elected assessors in all counties will be replaced by a professional assessor.
Indiana House Republicans' Plan	<ul style="list-style-type: none"> • Would provide \$200 million in property tax relief to homeowners. 	<ul style="list-style-type: none"> • Replace 2007 rebate checks with a credit to be applied to November 2007 tax bills. • Extend deadline for filing for Homestead Credit for 2007. • Local government flexibility in application of \$300 million in Supplemental Tax Relief. • Freeze Child Welfare Levies in 2007 and have the state assume responsibility for all levy increases for 2007 and following years. • Appropriate \$100 million in state funds to property tax relief.³

³ The rebate check, child welfare levy increases, and \$100 million in property tax relief would all be distributed as a credit on 2007 property tax bills.

**TABLE 3 (continued)
Proposed Property Tax Reform Plans**

PROPOSED BY	AMOUNT OF PROPERTY TAX RELIEF	HIGHLIGHTS OF PLAN
Representative Orentlicher's Plan (D-Indianapolis)	<ul style="list-style-type: none"> • Would provide \$2.3 billion in property tax relief to homeowners and renters. 	<ul style="list-style-type: none"> • \$1.6 billion in property taxes would be shifted to an increase in the sales tax from 6% to 7% and an increase in the income tax from 3.4% to 4.4%. • \$300 million would be generated from increased business taxes. • \$400 million in local expenses would be transferred to the state which would be paid for from the state surplus and casino licensing fees. • May also propose implementing a single property tax rate for all homeowners.
Eric Miller, Advance America	<ul style="list-style-type: none"> • Would eliminate property taxes. 	<ul style="list-style-type: none"> • Proposes constitutional amendment to eliminate property taxes. • Would replace property tax with an increase in other taxes: sales tax would be raised to 7%, increase in income tax to 5.4%, and includes a new business tax. This increase in sales and income tax would generate approximately \$4.9 billion and the new business tax would generate approximately \$500 million. • Place an inflation based cap on state and local spending.

Sources: Governor Mitch Daniels, Press Release; Indiana General Assembly Housing of Representatives, New Release; Jarosz, The Indianapolis Star; and Indiana Legislative Insight, Volume 19, No. 35

Some of the concerns with the proposed property tax reform plans are that they shift tax burden from local to state government and from property taxes to sales and/or income taxes. As stated by Mike Smith, a correspondent with the Associated Press, "This means one-half of the \$6.2 billion in property taxes is currently paid by individuals. Raising the state sales and/or income taxes to replace property taxes means individuals would be footing the bill for a huge tax break for businesses." As demonstrated earlier in this brief, this further shifts the tax burden to individual taxpayers. Fortunately, several Indiana legislators recognize eliminating property taxes will likely result in a more regressive tax system.

Eric Miller, with Advance America, proposed property tax revenue caps. These caps restrict the amount property tax revenue can increase from year to year in the form of a low fixed percentage, calculated using a formula based on the rate of inflation. While such caps may reduce the amount by which property taxes increase, they do not address the drivers of higher property taxes. A cap cannot control, or account for, the increase in cost of health care, fuel, or other expenses. In addition, these caps impair local governments' ability to provide education, public safety, and other services which increase with demand and population.

Representative Jeff Espich (R-House District 82), once in favor of spending caps, now recognizes the drawbacks. "We'll have more kids in schools, more people in our prisons, more Medicaid needs. You simply can't ignore those things. Yes, our revenues are likely to grow, but so will our needs," as stated by the Representative at a recent Property Tax Commission hearing (Indiana Legislative Insight, 1).

The problem with many of these proposals is they shift the tax burden, provide additional property tax relief, and cap spending rather than address the systemic issue that Indiana's property tax assessment system needs to be updated so property tax assessments can be done in an equitable and uniform manner.

Indiana needs to examine how to execute this new property tax structure in a uniform way. One idea is to have one appointed agency provide oversight, rather than two separate agencies. Another possible solution would be to have county assessors rather than township assessors. It would be easier for the state to train and oversee one or two assessors in each county, rather than 1,100 elected assessors statewide. Governor Mitch Daniels' plan acknowledges this need for reform and proposes elected assessors in all counties be replaced by a professional assessor appointed by the County Council.

The proposed property tax reform plans would provide relief to homeowners. They do not address rental property owners and /or renters. A national study, released by Fannie Mae in 2006, found, that for the nation as a whole, multifamily rental housing bears an effective tax rate (tax divided by property value) that is at least 18 percent higher than the rate for single-family owner occupied housing (Goodman, 1). Some of this difference can be attributed to assessed value deductions and tax credits that apply to owner-occupied homes but do not apply to residential rental properties. The current property tax system promotes low-density development, disproportionately burdens lower-value properties, and imposes higher taxes on renters than homeowners with similar incomes (Ibid.).

Although renters do not pay property taxes directly, it is estimated that nationwide approximately 25 percent of rent paid goes to property taxes. In Indiana, this percentage is lower; however, if property taxes increase for rental properties, landlords will more than likely increase rents to compensate for an increase in property taxes. This is even more concerning for developers and landlords of affordable rental housing as they may not be able to pass these costs along to their tenants due to rent restrictions and the ability of tenants to pay higher rents. In order to keep rental housing affordable, Indiana should preserve the current renter's deduction and possibly

look into increasing the renter's deduction in conjunction with any property tax relief which will be provided to homeowners.

There are several options, including traditional circuit breakers Indiana could examine to provide property tax relief to homeowners and may be more effective because it is targeted property tax relief and may cost less than the property tax relief currently offered by the state.

Property taxes are often too high and problematic for those with low-incomes, reduced income due to unemployment, and those with fixed incomes, especially in areas where property values and taxes are rising rapidly. Research shows families below the poverty level typically spend 42 percent of their income on housing compared to the national median of 22 percent (U.S. Department of Housing and Urban Development). This also translates into property taxes. According to a study by the Institute on Taxation and Economic Policy, in 2002, low-income families paid an average of 3.0 percent of their income in property taxes while middle income families paid 2.4 percent, and the high income taxpayers paid only 0.8 percent. Property tax relief can be targeted at specific populations and help those, especially in areas where there has been a lot of unemployment, by utilizing traditional circuit breakers funded with state revenues rather than the homestead credit and mortgage deduction options currently implemented in Indiana.

Circuit breakers are property tax refunds paid for by state government to residents whose tax liability is considered too high and/or the payment amount represents a large portion of the family's income. The concept of circuit breakers are founded within the philosophical belief that fair taxation should be linked to a taxpayer's ability to pay. Traditional property taxation tends to be based on the philosophy that taxes should reflect the market-value, regardless of a single-family homeowner's ability to pay. Indiana has a 2 percent circuit breaker in the state constitution. However, when you look at the traditional definition of a circuit breaker, Indiana's current circuit breaker is really a cap and not a circuit breaker because it is based on assessed value rather than a taxpayer's ability to pay. A circuit breaker program can be targeted to homeowners, renters, and special populations, such as the elderly and disabled.

Eighteen states, including Illinois and Michigan, currently utilize traditional circuit breaker programs to provide more than \$3 billion per year in property tax relief (Lyons et. al 1). Sixteen, of the eighteen states that offer circuit breakers, make them available to both homeowners and renters. These programs vary in scope and administration. States typically deliver the program through a direct rebate check, an income tax credit, or through a credit on future property tax bills. All circuit breakers set a maximum income ceiling; households above these thresholds do not qualify for circuit breakers.

Indiana currently offers property tax relief to homeowners and renters through all of the mechanisms listed above; however, the relief is not targeted. One of the benefits of a traditional circuit breaker is that it can be targeted to specific populations or demographics within a state. Two of Indiana's neighboring states, Illinois and Michigan, utilize this mechanism to deliver

property tax relief in a targeted manner. Ohio and Kentucky currently do not have circuit breaker programs.

Michigan has the most expansive circuit breaker program of all the eighteen states that have a program. See Table 4 below, which outlines Michigan's, and other nearby states' circuit breaker programs.

Table 4 Summary of Property Tax Circuit Breaker Program for 2006							
State	Program Name	Renters Eligible?	Eligibility	Household Income Ceiling (single/joint filer)	Maximum Benefit	Type of Rebate	Rebates as a % of Property Tax Collections (2004)
IL	Circuit Breaker	Yes	Age 65 and older, 16 and older and disabled, or surviving spouse 63 or older	\$21,218 (1 person household); \$28,480 (2 person); \$35,740 (3 person)	\$700	Rebate Check	0.77%
MI	Homestead Property Tax Credit	Yes	All (elderly, disabled, low-income, middle-income)	\$82,650	\$1,200	Income tax credit (filers) or rebate check (non-filers)	6.52%
WI	Homestead Credit	Yes	All	\$24,500	\$1,160	Income tax credit (filers) or rebate check (non-filers)	1.69%

Source: Lyons, Karen, Sarah Farkas, and Nicholas Johnson. *The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs*. Center on Budget and Policy Priorities. 21 March 2007

An example of what a circuit breaker program could look like in Indiana is below in Table 5. The proposed circuit breaker program would replace all current deductions and credits. All homeowners would fall into one of the first two circuit breaker categories. After these credits are applied, homeowners could also receive additional circuit breaker credits for which they qualified. This would mean Hoosier homeowners would pay taxes on their home's assessed value and receive credits instead of reducing the home's assessed value. As a result, this would generate more revenues for the state, while allowing property tax relief to be distributed in a more targeted manner than the current property tax relief in Indiana.

TABLE 5 Example of How a Circuit Breaker Program Could be Structured in Indiana				
Program Name	Eligibility	Household Income Ceiling (single/joint filer)	Maximum Benefit	Type of Rebate
Base Circuit Breaker Credits				
Homestead Credit	Homeowner, under age 65	\$60,000/\$80,000	\$2,000	Credit on future property tax bills
Senior Credit	Homeowner, 65 and over	N/A	\$2,500	Credit on future property tax bills
Additional Circuit Breaker Credits				
Moderate Income Credit	Homeowner, under age 65, with income below 60% of AMI	\$27,213 or below	\$1,000	Credit on future property
Excessive Property Tax Credit	Homeowners, whose property taxes increased by more than 20%	N/A	\$1,500	Rebate Check

Governor Mitch Daniels' Property Tax Reform Plan recommends circuit breakers for homeowners by capping property taxes at 1 percent of the homes assessed value. In addition, his plan goes a step further and also provides circuit breakers for rental properties and businesses, capping property taxes at 2 percent and 3 percent respectively.

Representative Orentlicher's Property Tax Reform Plan also recommends circuit breakers of 1.5 percent for homeowners, which would limit property taxes in 2007 to 1.5 percent of the homeowner's assessed property value. In 2008, the plan proposes a 62 percent reduction in property taxes for homeowners and rental properties. In addition, his plan caps property taxes so they would not exceed a certain percentage of homeowner's income. This is especially important for Hoosiers with low and/or fixed incomes.

However, both of these proposals are caps on assessed value and not traditional circuit breakers. These are a few of the many options state legislators and the Governor can utilize to provide property tax relief in the future.

State Tax Restructuring Options

It is unlikely Indiana will eliminate property taxes. As reviewed earlier in this brief, the implications for doing so would result in a shifting of tax burden to Hoosier taxpayers at an unmanageable rate. It is more likely the property tax system and relief will be restructured. As part of this restructuring, other taxes may also change to compensate for possible lost property tax revenues. However, the tax burden should not be shifted completely to individuals. A way to look at the tax burden on the individual is as per capita tax burden. In 2007, individual Hoosier taxpayers paid an average of \$3,887 in state and local taxes, ranking Indiana 25th in the nation (Federation of Tax Administrators). This is a much lower rate than most of our neighboring states: Illinois \$4,594 (rank 22nd); Michigan; \$4,202 (14th); Ohio \$4,597 (5th); and Kentucky \$3,568 (20th). However, it equates to 10.7 percent of income.

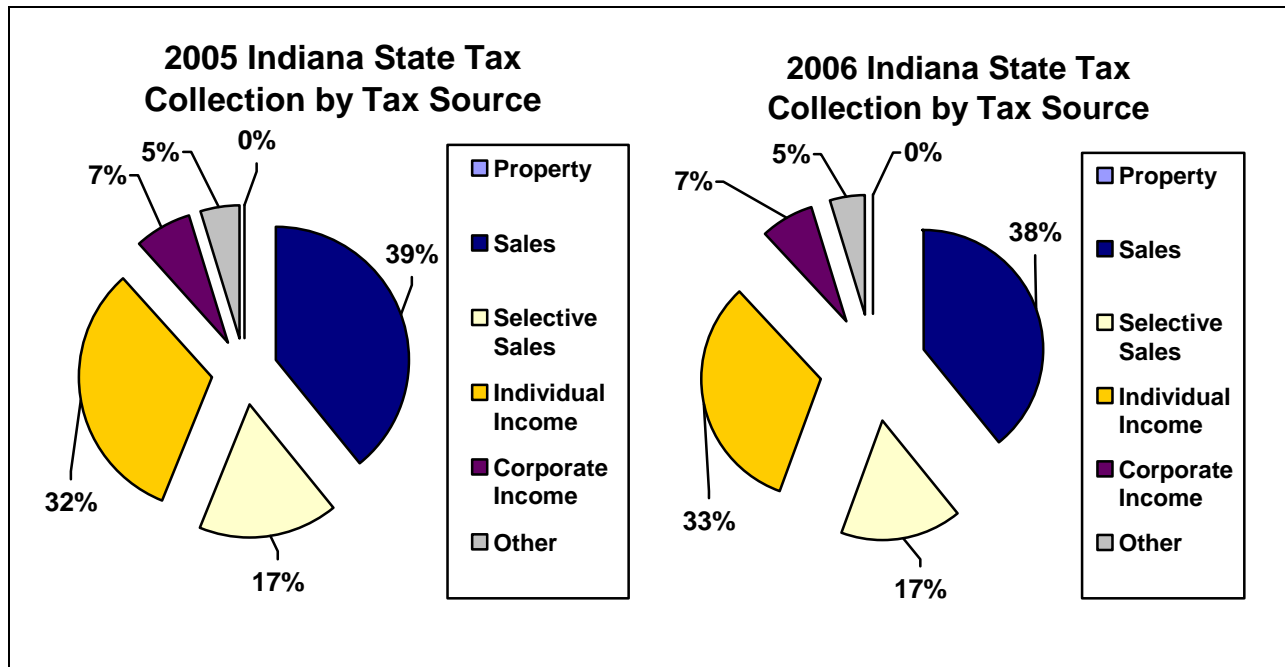
Additionally, Larry DeBoer recently released a report, which stated that the share of Indiana taxes paid by businesses is 37.5 percent and the individual taxpayer share is 62.5 percent (DeBoer, 1). The seven largest taxes paid in Indiana are: property tax, sales tax, state individual income tax, local individual income tax, corporate income tax, motor fuel tax, and motor vehicle excise tax, in that order. The report concludes that the business share of the seven largest taxes is 34.9 percent and the individual share is 65.1 percent (Ibid.). The business share of the seven largest taxes has declined 3.2 percent in the past 15 years (DeBoer, 1).

If tax restructuring is the path taken to increase state revenues, we recommend increasing state revenues through various tax mechanisms that are progressive and equitable and will not solely burden individual taxpayers.

One of the more progressive ways to increase taxes is to increase income taxes. However, an even more progressive way to increase state income tax revenues is to create a graduated income tax system. Indiana could consider creating a two tier income tax system with the top tier at 5.5 percent for those with incomes above \$60,000 (filing single or jointly) and the second tier at 4.5 percent for those with income below \$60,000 (filing single or jointly). As demonstrated in Chart 2, 32 percent of Indiana's current state revenue came from income taxes in 2005 and 2006. In 2007, \$4.5 billion in state revenues were from income taxes at the current

rate of 3.4 percent (Indiana Department of State Revenue, 3). Under this proposed change, Indiana would have generated \$6.3 billion in state revenues from income tax revenues in 2007.

CHART 2



Source: United State Census Bureau, State and Local Government Finance Data

With Indiana's current flat income tax rate meaning that whether you make \$10,000 or \$75,000 you still pay 3.4 percent of your income in state income taxes. Indiana currently taxes families comprised of three and four members earning less than three-quarters of the federal poverty guidelines (\$12,878 for a family of three in 2007). Indiana could make the state income tax system more progressive by raising the income tax threshold above the poverty guidelines (\$17,170 for a family of three and \$20,650 for a family of four in 2007). These families would no longer be paying state income taxes, but they would no longer be receiving state refunds either. It returns to the philosophy that fair taxation should be based on the taxpayer's ability to pay.

Another way to increase state revenues, which is included in many of the property tax restructuring plans, is to increase the sales tax. Taxes like the sales tax are regressive because a greater portion of a family's income dedicated to paying tax increases therefore decreasing their income. Although this would generate a considerable amount of revenue, it would negatively impact Hoosiers with moderate incomes because a larger share of low-income families spend more of their income on necessities and goods which are subject to sales tax than do those with higher incomes. A non-regressive way to increase state sales tax revenues in a more equitable manner is to expand the sales tax base to some services. As of 2004, 49 states taxed services. Oregon is the only state that does not tax services. Indiana taxes 23 services, but this is minimal considering some states tax as many as 160 services, and one of our neighboring states, Ohio, taxes 68 different services. There are some services that should not be taxed including health care, education, housing, child and elder care, public transportation,

legal services, funeral services, public transit, banking services, and insurance services. These services are often large items in a family's budget and consumption is often involuntary. All other services should be considered for taxation. Below is a Table comparing Indiana to our neighboring states in general service taxation categories. A further breakdown of these categories and the Midwest states is available in *Appendix A*.

TABLE 6
Midwest States Taxation of Services, 2004

State	Utilities	Personal Services	Business Services	Computer Services	Admissions/Amusements	Professional Services	Fabrication, Repair, & Installation	Other Services	Total Services Taxed
IL	12	1	1	1	0	0	1	1	17
IN	7	4	3	2	3	0	0	4	23
MI	12	2	7	1	1	0	1	2	26
OH	8	12	14	5	3	0	12	14	68
KY	11	2	4	2	6	0	3	1	29

Source: Federation of Tax Administrators

If income and sales tax need to be increased, Indiana could offset these tax increases by increasing the state Earned Income Tax Credit (EITC) currently set at 6 percent of the federal EITC. The EITC is a refundable tax credit for individuals making less than 200 percent of the federal poverty guidelines (\$41,300 for a family of four in 2007). Indiana is one of nineteen states who have an EITC; Indiana has the fifth lowest EITC rate. Most state's EITCs range from 15 percent – 35 percent of the federal EITC (Nagle and Johnson, 28). To increase Indiana's state EITC to 15 percent would cost \$70 million, but could be offset by some of the other state revenues that would be generated due to increased income and/or sales tax.

Indiana could also consider increasing the corporate income tax rate currently set at 8.5 percent (Indiana Department of Revenue, 2). In 2007, corporate income taxes generated approximately \$746 million. Increasing the corporate income tax rate could generate a substantial amount of state revenue and allow the increased tax burden to be distributed more equally between homeowners and businesses. In 2007, Hoosier's paid approximately \$4.5 billion in income taxes. The problem with increasing the corporate tax rate is that most businesses no longer organize as corporations. Most businesses organize as limited liability companies, partnership, limited partnerships, etc. to avoid the corporate income tax. The income from these types of conduit businesses are taxed at individual tax rates to the individuals who receive the income from the business.

Conclusion/Where Do We Go From Here?

If no action is taken, property taxes will continue to increase and many homeowners may no longer be able to afford their homes. A basic component of fair taxation is a taxpayer's ability to pay. Property taxes, without a traditional circuit breaker, in general, do not meet this standard. Indiana can change this by implementing circuit breakers based on taxpayers' incomes. This

Would give homeowner's the opportunity to preserve their most important asset and stay in their homes, as neighborhoods are rebuilt, and market values increase provides, therefore providing neighborhood stability.

If Indiana's public policymakers do not take this into consideration, we may see an increase in foreclosures due to the homeowner's inability to afford their property taxes. The economic and social costs of foreclosure can have a negative impact on neighborhoods and property values. Increased foreclosures lead to vacant and abandoned housing, which can lead to increased crime. An increase of 2.8 foreclosures for every 100 owner-occupied properties in one year corresponds to an increase in neighborhood violent crime of 6.7 percent (Immergluck and Smith, 59). It is also estimated that for every foreclosure, within one eighth of a mile of a home, the foreclosure reduces the property value. A recent report by the Woodstock Institute combined data on the location of foreclosures with data on neighborhood and property characteristics for more than 9,600 single-family properties, sold in the city of Chicago, to measure the impact of nearby foreclosures on property values. They found that each foreclosure, on a conventional mortgage within an eighth of a mile (essentially a city block) of a single-family home, resulted in declining property value between 0.9 and 1.136 percent (Smith, 1). Less conservative estimates also show that each conventional foreclosure between an eighth and quarter of a mile leads to an additional 0.325 percent decline in single-family property values (Ibid.). It is safe to assume that some action will be taken to address property taxes in Indiana.



Based on this assumption, IACED is making several recommendations, in which we hope will both inform our members about the debate on Indiana property taxes and guide our legislative agenda for 2008. We hope this will encourage our members to begin discussions in their local communities, and with state elected officials on ideas and ways to resolve the property tax "crisis."

The main recommendations IACED has related to property tax assessments and property tax relief are as follows:

- **Property tax elimination is not the solution.** We should not eliminate one of the most reliable state tax revenue sources which pays for many vital services such as K-12 education, public safety, and child welfare because implementation of the property tax assessment system needs improvement. Instead, we must address the issues causing property tax assessments to be inequitable or inaccurate and make sure the property tax assessment system is being implemented correctly and uniformly across the state.
- **Indiana should implement a circuit breaker program to provide property tax relief.** Indiana has a 2 percent circuit breaker in the state constitution. Circuit breakers are property tax refunds paid for by the state government to residents whose tax liability is considered too high and/or the payment amount represents a large portion of the family's income. However, when you look at the traditional definition of a circuit breaker, Indiana's current circuit breaker is really a cap and not a circuit breaker because it is based on assessed value rather than a taxpayer's ability to pay. A circuit breaker program can be targeted to homeowners, renters, and special populations, such as the elderly and disabled.
- **Property tax relief should be provided to homeowners and renters.** Although renters do not pay property taxes directly, it is estimated that nationwide approximately 25 percent of rent paid goes to property taxes. In Indiana, this percentage is lower; however, if property taxes increase for rental properties landlords will more than likely increase rents to compensate for an increase in property taxes. In order to keep rental housing affordable, Indiana should preserve the current renter's deduction and possibly look into increasing the renter's deduction in conjunction with any property tax relief provided to homeowners.

Also, IACED has several recommendations if taxes need to be restructured or increased to compensate for lost property tax revenue. IACED believes it should be done in a progressive manner and recommends that Indiana should consider the following:

- **Create a graduated income tax system.** Increasing the state income tax is one of the most progressive ways to increase state revenues. In 2007, with the current flat income tax rate structure of 3.4 percent, \$4.5 billion in state revenues was generated from state income taxes. If Indiana were to create a two-tiered income tax system with the top tier at 5.5 percent for those with incomes above \$60,000 (filing single or jointly) and the second tier at 4.5 percent for those with incomes below \$60,000 (filing single or jointly), Indiana would have generated an additional \$1.8 billion in state income taxes, totaling \$6.3 billion in state income tax revenues in 2007.
- **Increase the income tax threshold.** Indiana currently has a flat income tax rate meaning that whether you make \$10,000 or \$75,000 you still pay 3.4 percent of your income in state income taxes. Indiana currently taxes families comprised of three and four members

earning less than three-quarters of the federal poverty guidelines (\$12,878 for a family of three in 2007). Indiana could make the state income tax system more progressive by raising the income tax threshold above the poverty guidelines (\$17,170 for a family of three and \$20,650 for a family of four in 2007). These families would no longer be paying state income taxes, but they would no longer be receiving state refunds either.

- **Expand the sales tax base to services.** Increasing the sales tax will generate a considerable amount of state revenues. However, it would have a negative impact on Hoosiers with moderate incomes. A non-regressive way to increase state sales tax revenues in a more equitable manner is to expand the sales tax base to some services. Indiana currently taxes 23 services, but this is minimal considering some states tax as many as 160 services. On the other hand, there are some services that should not be taxed including health care, education, housing, child and elder care, public transportation, legal services, funeral services, public transit, banking services, and insurance services. These services are often large items in a family's budget and consumption is often involuntary. All other services should be considered for taxation.
- **Increase Indiana's State Earned Income Tax Credit (EITC).** If income and sales tax need to be increased, increasing the state EITC should be considered to offset some of the tax increase. The EITC is a refundable tax credit for individuals making less than 200% of the federal poverty guidelines (\$41,300 for a family of four in 2007). Indiana's state EITC is currently set at 6 percent of the federal EITC; however, it is among the lowest. Most state's EITCs range from 15 percent – 35 percent of the federal EITC. To increase Indiana's state EITC to 15% would cost \$70 million but could be offset by some of the other state revenues that would be generated due to increased income and/or sales tax.

As demonstrated by the data in this report, is that there is no one solution to address the property tax "crisis." What is clear is that it will take both tax restructuring and property tax relief to address Indiana's property tax "crisis." Short-term property tax relief needs to be funded through current taxes, which may need to be increased to provide enough revenue to fund this relief. In addition, long-term solutions are needed to address the systemic issues within the property tax assessment structure. Specifically, how property is assessed, who assesses the property, and the standards for assessment. This will ensure property tax assessments are done correctly; therefore, ensuring property taxes are uniform and equitable. There is a lot of work in store for Indiana state legislators and the administration in the 2008 Indiana General Assembly. Proposed property tax reform plans vary greatly. One thing they all have in common is the basic requirement for state legislators and the Governor to work together. Indiana's ability to find solutions and to successfully address the issue of property taxes in Indiana is dependent on their collaboration.

For More Information, Contact IACED



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APPENDIX A: 2004 Service Taxation Results for Services Taxed in Midwest States (Illinois, Indiana, Kentucky, Michigan, and Ohio)

Table Key	
<i>E</i>	<i>Exempt from Tax</i>
<i>T or Number</i>	<i>Taxable at various unspecified rates or a number represents percentage rate of applicable tax</i>

Service	Illinois	Indiana	Kentucky	Michigan	Ohio
Retail Sales Tax Rate (2004)	6.25	6	6	6	6
Soil prep., custom baling, other ag. services	E	E	E	E	E
Veterinary services (both large and small animal)	E	E	E	E	E
Horse boarding and training (not race horses)	E	E	E	E	E
Pet grooming	E	E	E	E	E
Landscaping services (including lawn care)	E	6	E	E	6
Metal, non-metal and coal mining services	E	E	E	E	E
Seismograph & Geophysical Services	E	E	E	E	E
Oil Field Services	E	E	E	E	E
Typesetting service; platemaking for the print trade	E	E	E	6	E
Gross Income of Construction Contractors	E	E	E	E	E
Carpentry, painting, plumbing, and similar trades	E	E	E	E	E
Construction service (grading, excavating, etc.)	E	E	E	E	E
Water well drilling	E	E	E	E	E
Income from interstate transportation of persons	E	E	E	E	6
Local transit (intra-city) buses	E	E	E	E	E
Income from taxi operations	E	E	E	E	6
Interstate courier service	E	E	E	E	E

Service	Illinois	Indiana	Kentucky	Michigan	Ohio
Interstate air courier (billed in-state)	E	E	E	E	6
Automotive storage	E	E	E	E	6
Food storage	E	E	E	E	E
Fur storage	E	E	E	E	6
Household goods storage	E	E	E	E	E
Mini-storage	E	E	E	E	6
Cold storage	E	6	E	E	6
Marina Service (docking, storage, cleaning, repair)	E	E	E	E	E
Marine towing service (incl. tugboats)	E	E	E	E	E
Travel agent services	E	E	E	E	E
Packing and crating	E	E	E	E	E
Interstate telephone & telegraph – Industrial Use	5	6	6	6	6
Cellular telephone services - Industrial Use	5	E	6	6	6
Electricity – Industrial Use	5	E	6	6	E
Water – Industrial Use	E	E	6	E	E
Natural gas – Industrial Use	5	E	6	6	E
Other fuel (including heating oil) – Industrial Use	6.25	E	6	6	6
Sewer and refuse – Industrial Use	E	E	6	E	E
Interstate telephone & telegraph –Residential Use	5	6	6	6	6
Cellular telephone services - Residential Use	5	6	6	6	6
Electricity – Residential Use	5	6	E	4	E
Water – Residential Use	E	6	E	E	E
Natural gas – Residential Use	5	6	E	4	E
Other fuel (including heating oil) – Residential Use	6.25	6	E	4	6
Sewer and refuse- Residential Use	E	E	E	E	E
Service charges of banking institutions	E	E	E	E	E
Insurance services	E	E	E	E	E

Service	Illinois	Indiana	Kentucky	Michigan	Ohio
Investment counseling	E	E	E	E	E
Loan broker fees	E	E	E	E	E
Property sales agents (real estate or personal)	E	E	E	E	E
Real estate management fees (rental agents)	E	E	E	E	E
Real estate title abstract services	E	E	E	E	E
Tickertape reporting (financial reporting)	E	E	E	E	E
Barber shops and beauty parlors	E	E	E	E	6
Carpet and upholstery cleaning	E	E	E	E	6
Dating services	E	E	E	E	
Debt counseling	E	E	E	E	
Diaper Service	E	6	E	E	6
Income from funeral services	E	6	E	E	E
Fishing and hunting guide services	E	E	E	E	E
Garment services (altering & repairing)	E	E	E	E	6
Gift and packaging wrapping service	E	E	E	E	6
Health clubs, tanning parlors, reducing salons	E	E	E	E	6
Laundry and cleaning services, coin-op	E	E	E	E	E
Laundry and cleaning services, non-coin-op	E	E	E	E	6
Massage Services	E	E	E	E	6
900 Number Services	5	E	6	E	6
Personal instruction (dance, golf, tennis, etc.)	E	E	E	E	E
Shoe repair	E	E	E	E	6
Swimming pool cleaning & maintenance	E	E	E	E	6
Tax return preparation	E	E	E	E	E
Tuxedo rental	E	6	6	6	6
Water softening and conditioning	E	6	E	6	E

Service	Illinois	Indiana	Kentucky	Michigan	Ohio
Sales of advertising time or space: Billboards	E	E	E	E	E
Sales of advertising time or space: National radio and television	E	E	E	E	E
Sales of advertising time or space: Local radio and television	E	E	E	E	E
Sales of advertising time or space: Newspaper	E	E	E	E	E
Sales of advertising time or space: Magazine	E	E	E	E	E
Advertising agency fees (not ad placement)	E	E	E	E	E
Armored car services	E	E	E	E	6
Bail bond fees	E	E	E	E	E
Check and debt collection	E	E	E	E	E
Commercial art and graphic design	E	E	E	6	E
Commercial linen supply	E	T	E	E	6
Credit information, credit bureaus	E	E	E	E	E
Employment agencies	E	E	E	E	6
Interior design and decorating	E	E	E	E	E
Maintenance and janitorial services	E	E	E	E	6
Lobbying and consulting	E	E	E	E	E
Marketing	E	E	E	E	E
Packing and crating	E	E	E	E	E
Exterminating (includes termite service)	E	E	E	E	6
Photocopying services	E	E	6	6	6
Photo finishing	6.25	E	6	6	6
Printing	E	6	6	6	6
Private investigation (detective) services	E	E	E	E	6
Process service fees	E	E	E	E	E
Public relations, management consulting	E	E	E	E	E

Service	Illinois	Indiana	Kentucky	Michigan	Ohio
Secretarial and court reporting services	E	E	E	E	E
Security services	E	E	E	E	6
Sign construction & installation	E	6	E	6	6
Telemarketing services on contract	E	E	E	E	E
Telephone answering service	E	E	E	E	E
Temporary help agencies	E	E	E	E	6
Test laboratories (excl. medical)	E	E	E	E	E
Tire recapping and repairing	E	E	6	E	6
Window cleaning	E	E	E	E	6
Software – package or canned program	6.25	6	6	6	6
Software – modifications to canned program	6.25	6	E	E	E
Software – material	E	6	E	6	E
Software – professional services	E	E	E	E	E
Internet Service Provider – Dial Up	E	E	6	E	6
Internet Service Provider – DSL or other broadband	E	E	6	E	6
Information services	E	E	E	E	6
Data processing services	E	E	E	E	6
Mainframe computer access and processing services	E	E	E	E	6
Automotive washing and waxing	E	E	E	E	6
Automotive road service & towing service	E	E	E	E	6
Auto service, except repairs, including painting and lube	E	E	E	E	6
Parking lots and garages	E	E	E	E	E
Automotive rust proofing & undercoating	E	E	E	E	6
Pari-mutuel racing events	E	E	15	E	E
Amusement park - admission & rides	E	E	6	E	E
Billiard parlors	E	E	E	E	E
Bowling alleys	E	E	E	E	E

Service	Illinois	Indiana	Kentucky	Michigan	Ohio
Cable TV services	E	6	E	E	E
Direct satellite TV	E	6	E	E	6
Circuses and Fairs - admissions & games	E	E	6	E	E
Coin operated video games	E	E	E	E	E
Admission to school & college sporting events	E	E	E	E	E
Membership fees to private clubs	E	E	E	E	6
Admission to cultural events	E	E	6	E	E
Pinball and other mechanical amusements	E	E	E	E	E
Admission to professional sport events	E	E	6	E	E
Rental of films and tapes by theaters	E	E	E	E	E
Rental of video tapes for home viewing	E	6	6	6	6
Accounting and bookkeeping	E	E	E	E	E
Architects	E	E	E	E	E
Attorneys	E	E	E	E	E
Dentists	E	E	E	E	E
Engineers	E	E	E	E	E
Land surveying	E	E	E	E	E
Medical test laboratories	E	E	E	E	E
Nursing services out-of-hospital	E	E	E	E	E
Physicians	E	E	E	E	E
Leases and Rental Personal Property, short term (generally)	E	6	6	6	6
Leases and Rental Personal Property, long term (generally)	E	6	6	6	6
Bulldozers, draglines, and const. mach., short term	E	6	6	6	6
Bulldozers, draglines, and const. mach., long term	E	6	6	6	6
Rental of hand tools to licensed contractors	E	6	6	6	6
Short term automobile rental	5	6	E	6	6
Long term automobile lease	E	6	E	6	6

Service	Illinois	Indiana	Kentucky	Michigan	Ohio
Limousine service (with driver)	E	E	E	E	6
Aircraft rental to individual pilots, short term	E	6	6	6	6
Aircraft rental to individual pilots, long term	E	6	6	6	6
Chartered flights (with pilot)	E	E	E	E	6
Hotels, motels, lodging houses	6	6	6	6	6
Trailer parks - overnight	E	6	E	E	E
Custom fabrication labor	E	E	6	E	6
Repair material, generally	6.25	6	6	6	6
Repair labor, generally	E	E	E	E	6
Labor charges on repair of aircraft	E	E	E	E	6
Labor charges – repairs to interstate vessels	E	E	E	E	6
Labor – repairs to fishing vessels	E	E	E	E	E
Labor charges on repairs to railroad rolling stock	E	E	E	E	E
Labor charges on repairs to motor vehicles	E	E	E	E	6
Labor on radio/TV repairs; other electronic equip.	E	E	E	E	6
Labor charges – repairs on tangible property	E	E	E	E	6
Labor – repairs or remodeling of real property	E	E	E	E	E
Labor charges on repairs delivered under warranty	E	E	E	E	E
Service contracts sold at the time of sale TPP.	6.25	E	E	E	6
Installation charges by persons selling property	E	E	E	E	6
Installation charges – other than seller of goods	E	E	E	E	6
Custom processing (on customer's property)	E	E	6	E	E
Custom meat slaughtering, cutting, and wrapping	E	E	E	E	E

Service	Illinois	Indiana	Kentucky	Michigan	Ohio
Taxidermy	E	E	E	6	6
Welding labor (fabrication and repair)	E	E	6	E	6
Other services – not listed	None	Yes	None	None	None
Other services – not listed (2)	None	Yes	None	None	None
Source: Federation of Tax Administrators, 2004 Survey of Service Taxation					

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