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The 2/2/2 Plan, to replace property taxes in Indiana

Economist Dr. Bill Styring's "2/2/2" plan is a "blunt proof" scenario for proof purposes, with numbers to replace PT revenue, based upon the latest revenue forecast (07/08 fiscal, estimate):

1) Current IN sales tax (state level rate of 6%): \$5.601 billion

2% increase would yield an additional \$1.867 billion

2) Current corporate profits tax: ~\$2 billion

2% increase would yield an additional \$.286 billion (\$286M)

3) A 2% statewide average of the COIT would yield \$2.705 billion to cover local civil units of gov.

If you add those three together (\$1.867 billion + \$.286 billion + \$2.705 billion), you get a total of **\$4.858 billion**; enough revenue to replace property taxes with responsible implementation.

Notes: Dr. Styring insists that there are many ways to reach the destination known as repeal. The General Assembly does not have to adopt a specific plan until the year 2011. Other plans are forthcoming and the legislature should consider them. The 2/2/2 is statically modeled and does not account for spending controls or the impact of free market activity, investment and consumption. Dr. Styring will gladly speak with anyone who would like to know more about the 2/2/2 proof, and welcomes all discussion, updates, improvements and corrections.

Indiana Property Tax Repeal Alliance
Stop Taxing Our Property (stopindiana.com)

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TOTALLY ELIMINATING PROPERTY TAXES IN INDIANA: THE
ONLY WAY TO ACHIEVE PERMANENT PROPERTY TAX RELIEF

1. Indiana has a 70-plus year history of attempts to lower property taxes by raising other, non-property taxes. In every case these have failed miserably. The new taxes, or higher rates on old taxes, remain in place. And, in short order, property taxes rise back to their old levels, poised to roar even higher.

--1933. General Assembly imposes two new taxes: an individual gross income tax and a corporate gross income tax. The morgue of the Indianapolis Star indicates that the political leadership at the time said this was for property tax relief (1933 was the pits of the Great Depression, and people were losing their homes. Home prices declined by over 40% in the 1929-1933 period). Property tax relief was nonexistent. The state used the money to bail out the state's own finances.

--1963. General Assembly imposes a new sales tax at a rate of 2% and changes the 1933 individual gross income tax (from 1933) to an adjusted gross income tax (the one we have now) at a rate of 2%. Again, the ostensible reason was for property tax relief and again little PTR was forthcoming.

--1967. Those 1963 tax changes were raising more money than projected. The GA decides to give back 8% of sales and income tax revenue to local government for property tax relief. Local units spent the money. No PTR.

--1973. Gov. Otis Bowen launches the most determined PTR offensive yet. The sales tax goes to 4% and a new corporate supplemental net income (profits) tax is imposed. Strict property tax levy controls are imposed. It works... for a time. By 1980, property taxes adjusted for inflation are some 30% lower than in 1973. When Bowen leaves office the levy controls are relaxed. By the end of the decade, property taxes (adjusted for inflation) are back to 1973 levels. The doubling of the sales tax rate from 2% to 4% remains in place, along with the new corporate SNIT.

--2002. More fiddling with the sales tax in the hope of property tax relief. The results of this are obvious, or we wouldn't be debating the current property tax mess. All of this suggests that unless the property tax is totally ripped up by constitutional amendment, the assessment and collection mechanism dismantled, it will grow back. The PTR-inspired hikes in other taxes remain. That is our history. It is a terrible deal for taxpayers.

2. A vote in the 2008 legislative session for a constitutional amendment to repeal property taxes does not amend the constitution. It merely starts the amendment process. Amendments must be passed by two consecutively elected General Assemblies, then submitted to a referendum. Thus any amendment passed by the '08 Assembly must be passed by either the 2009 or 2010 legislatures, then submitted to the voters at the 2010 general election. The General Assembly does not need to decide on a "replacement revenue" package until the 2011 session.

3. What might such a "replacement revenue" package look like? The particular answer will come from the 2011 General Assembly and cannot be determined now (if for no other reason than forecasting state level taxes and property taxes out that far would be a most unreliable exercise. No one need be locked into any particular plan just yet. However, as an illustration that a replacement plan is feasible and less scary than many fear (we don't need to be talking about a 12% or 13% sales tax ... in fact, we should not be), consider just this one possibility.

Local sales taxes are generally very bad policy, for a whole host of reasons too numerous to mention in this short sketch. Sales and corporate taxes are best levied at the state level. It happens that roughly a 2% increase in the sales tax and a 2% increase in the corporate profits tax roughly take care of school property taxes. The loss of local control by the state assuming school property taxes is minimal. About the only local control left is on building projects.

For local civil units, a statewide average increase in the individual adjusted gross income tax of about 2% suffices to replace local civil government property taxes, higher than 2% in some units, less than 2% in others.

Thus, a "2-2-2" plan~2% sales and 2% corporate profits at the state level for schools and a 2% average on personal income taxes for civil units—is about what would be needed. This is merely a ballpark projection to 2011.

There may be better plans, it's really a policy question for the General Assembly: do you want to make the trade of something like this in exchange for no-property-taxes-forever-on-anything? Everyone understands "zero."

4. Are there "practical problems? Of course. The two identified are how to make the civil government transition from a property tax base to an income tax base, and how to handle debt backed by property taxes. Without elaborating, the former can be handled using locator software (Map quest-type programs). The debt problem might be handled by treating the current state paid PTRC's as in lieu of property taxes (which they are) and paying PT-backed debt service from each unit's own PTRC.

Conclusion: Total elimination of the property tax via constitutional amendment is the only way to give property tax relief that will stick. The other tax action necessary to achieve this goal—in 2011—are large but not so scary as "a 13% sales tax." They are feasible. The question is for the General Assembly. Are we going to once again go down that 70-odd year path of failed PTR policies or are we going to rip the property tax up by the roots?

Economist, Dr. Bill Styring

Good policy requires open process

(Concerns about the current debate and Indiana's 1800's vintage process)

1) **Obstacles:** Is bond debt an obstacle to eliminating property tax in Indiana? What other obstacles are there? Can these obstacles be addressed over time to pave the way for repeal (the "ideal" solution, Gov. Daniels)?

2) **Why the mischaracterization: overnight, Red Line Scenario, 12-13% sales tax?** If we threw the switch and eliminated property taxes today, with no more implementation plan, than relying solely upon sales tax to make up that revenue without spending controls, that overnight scenario would result in a 12-13% sales tax. However, no one is actually proposing this idea (unrealistic timeline, etc.), except for the opponents of repeal.

Notes: Reasoning or basis: Running a marathon tomorrow without training (implementation) would be difficult and most people's pulse rates would red line (over 180)- not good. When you think about it, the very fact that this scare-nario is sugar footed / forwarded by opponents of repeal is unwitting **evidence** of its viability. Although it could be pointed out that the state has thrown the switch on overnight tax increases and perfect storms, so a red line sales tax scenario might be true to form. So what's the real problem and where's the rub coming from (say it aloud please)?

3) **Implementation Scenario:** Why not consider a gradual, 3-4 year or "second term" implementation strategy, to eliminate property taxes, to include spending controls and dynamic modeling of free market activity (increases) in investment and consumption (private spending)?

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