

Understanding Indiana State and Local Taxes

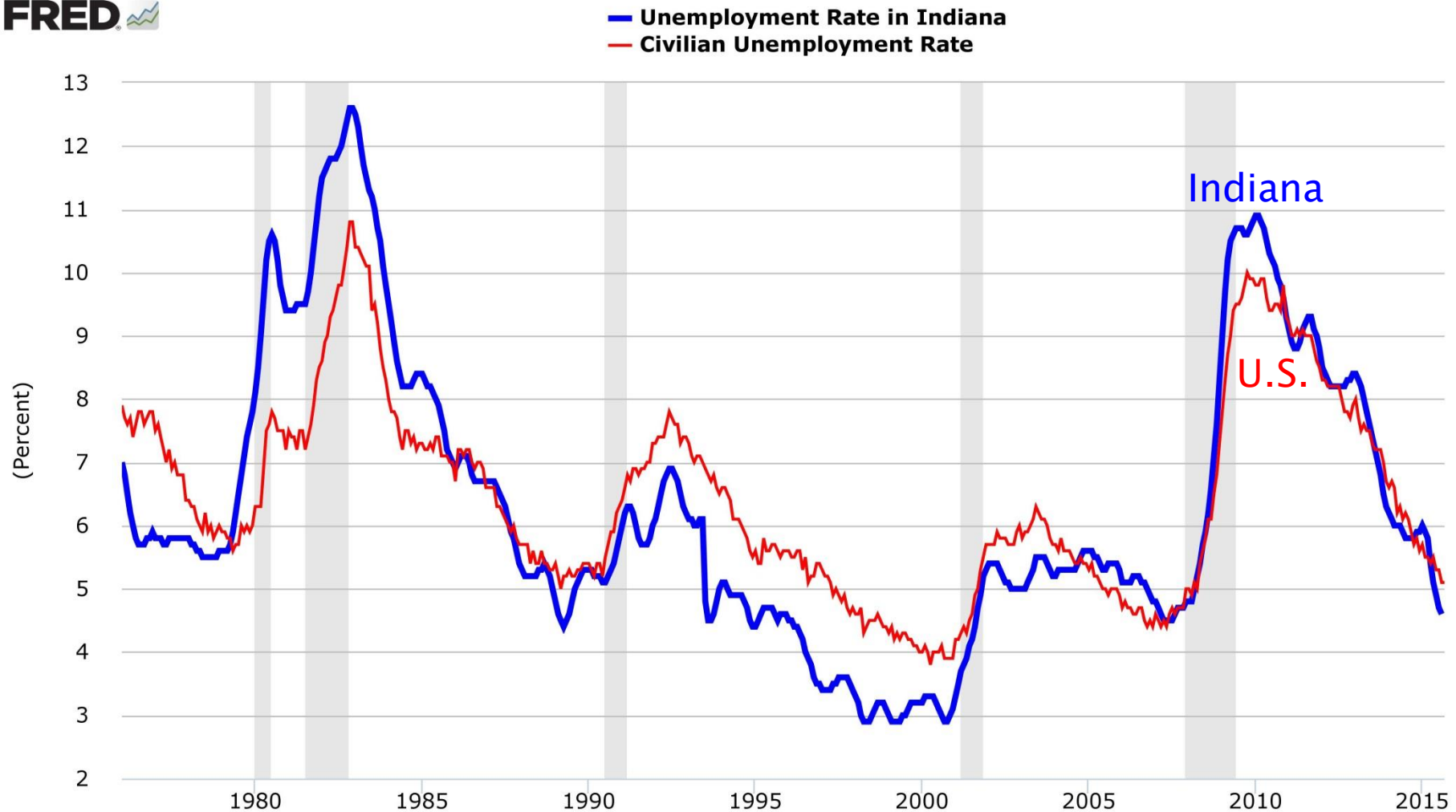
October 15, 2015

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Indiana's Economy

Indiana and U.S. Unemployment Rates

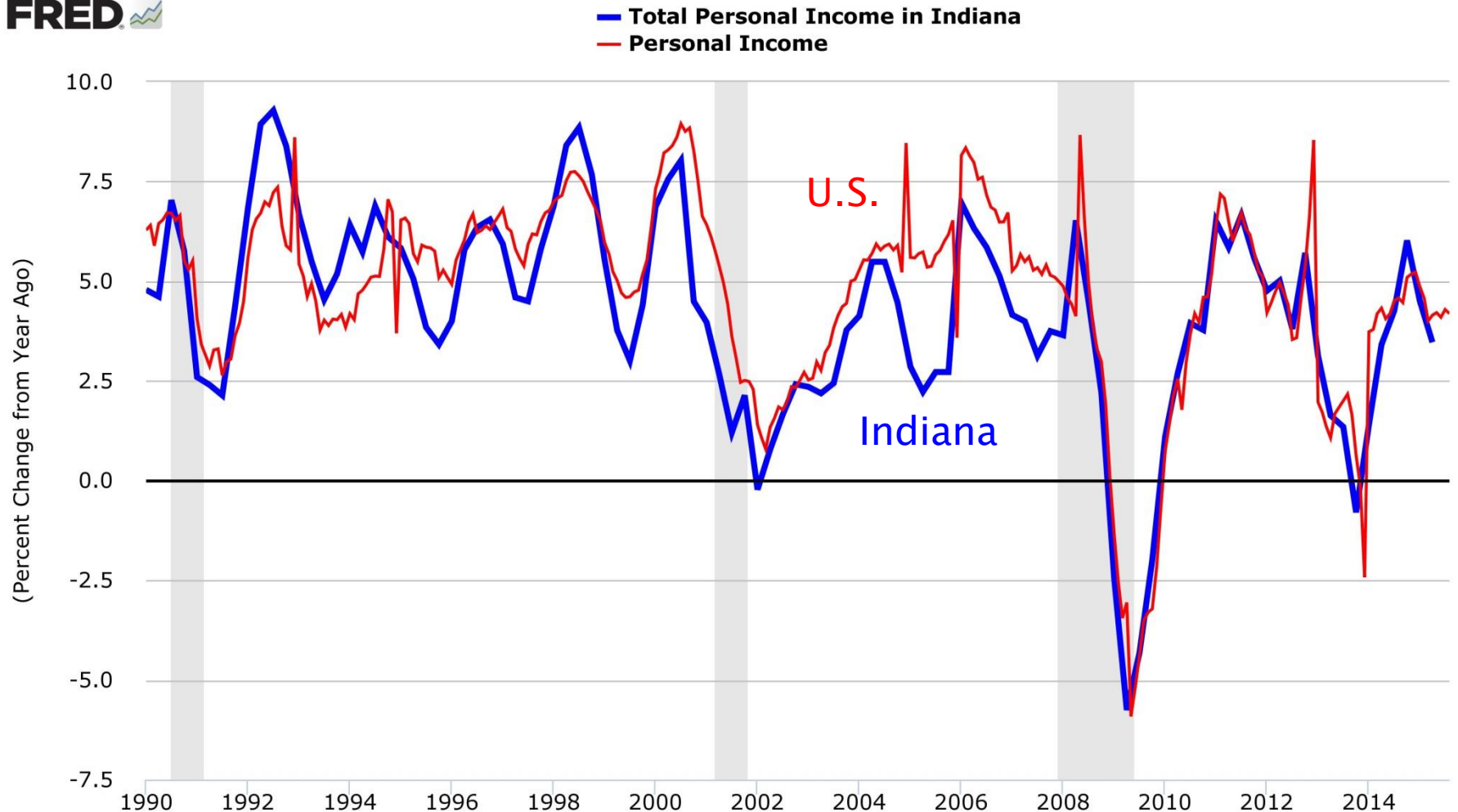
FRED 



Shaded areas indicate US recessions - 2015 research.stlouisfed.org

Personal Income, Indiana and U.S.

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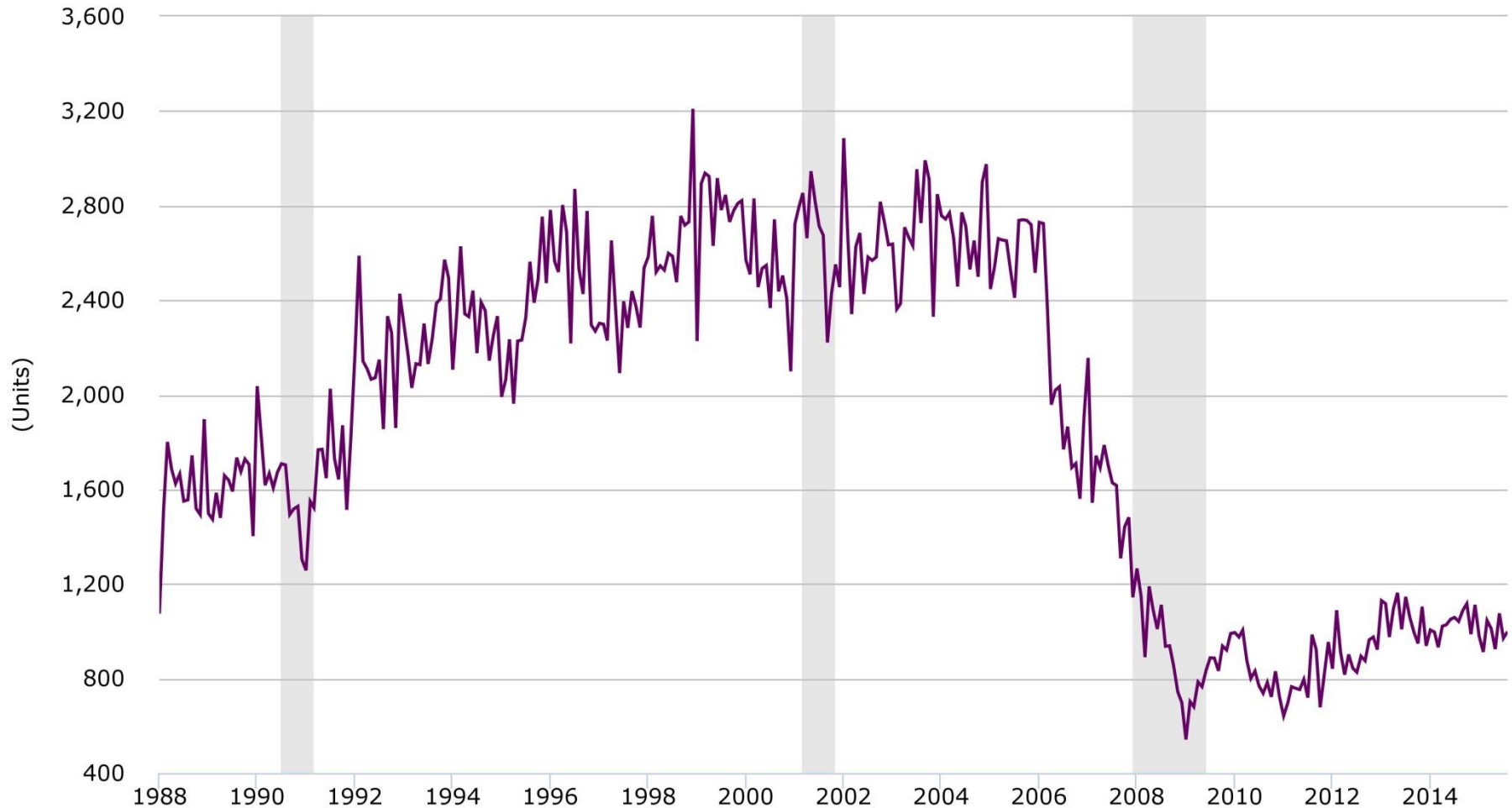


Shaded areas indicate US recessions - 2015 research.stlouisfed.org

Indiana Home Building Permits



— Privately Owned Housing Starts Authorized by Building Permits: 1-Unit Structures for Indiana



Source: Federal Reserve Bank of St. Louis

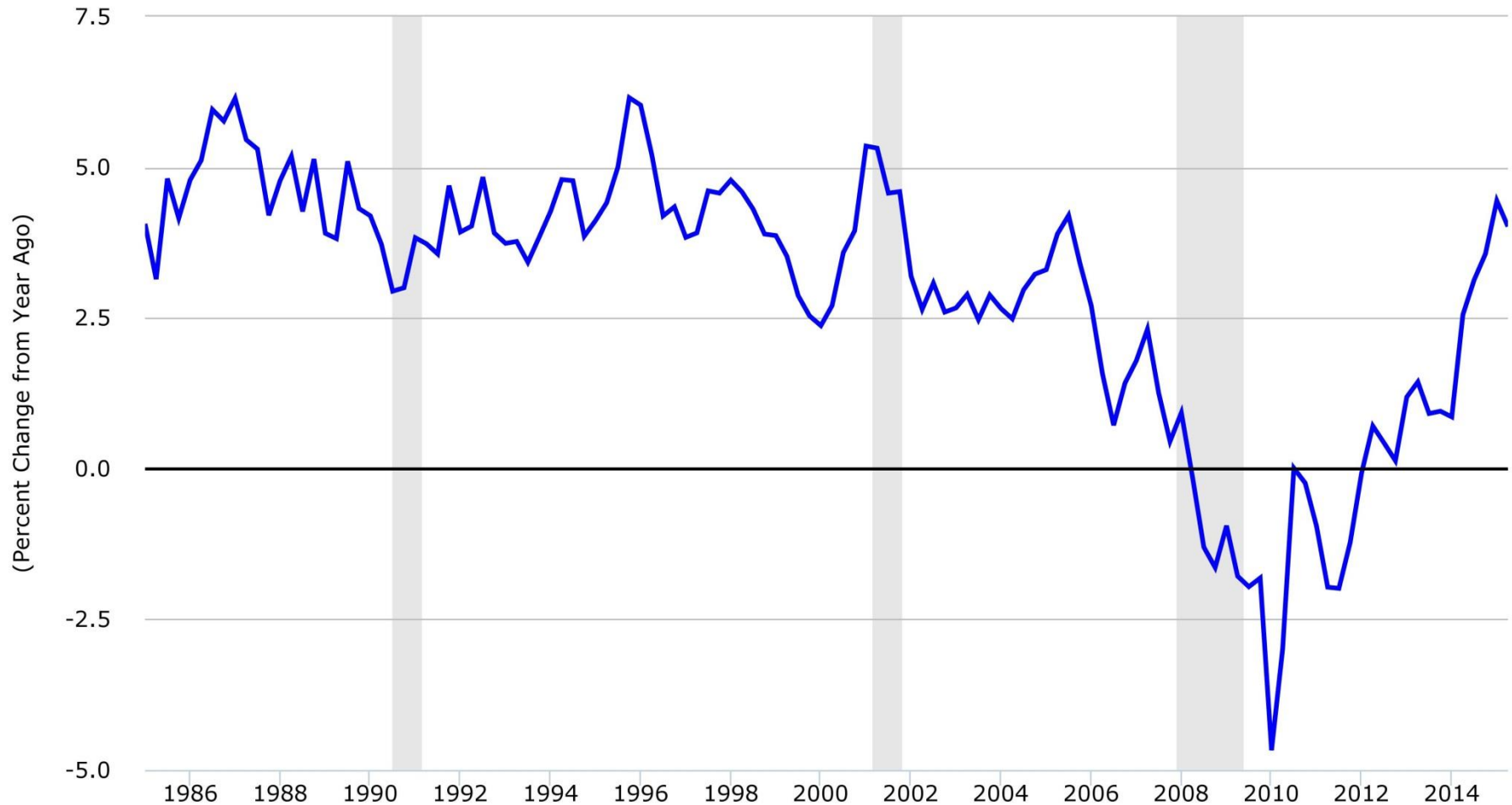
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Indiana Home Price Index

(percent change from previous year)

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— All-Transactions House Price Index for Indiana



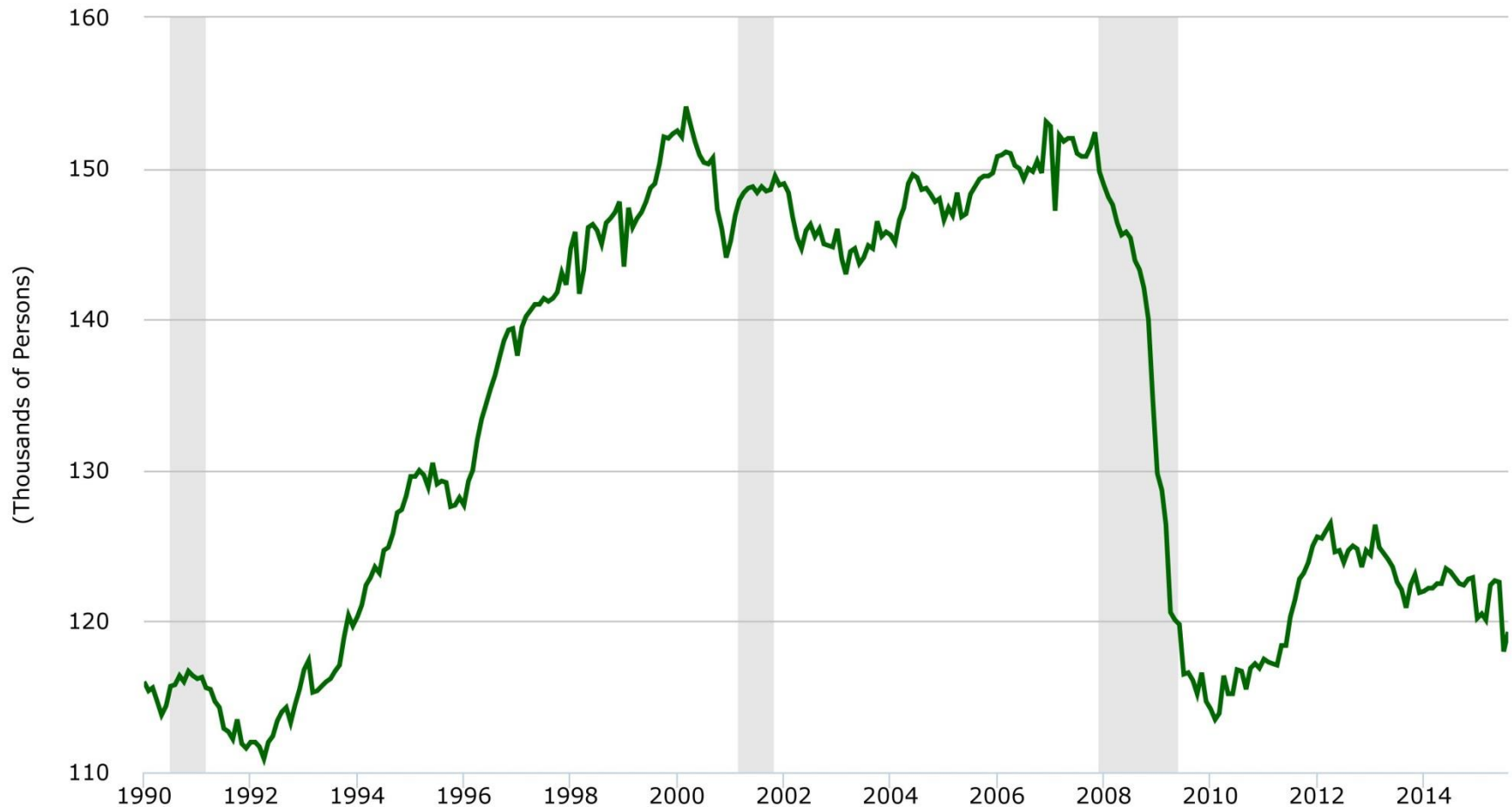
Source: US. Federal Housing Finance Agency

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

Indiana Construction Employment

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— All Employees: Construction in Indiana



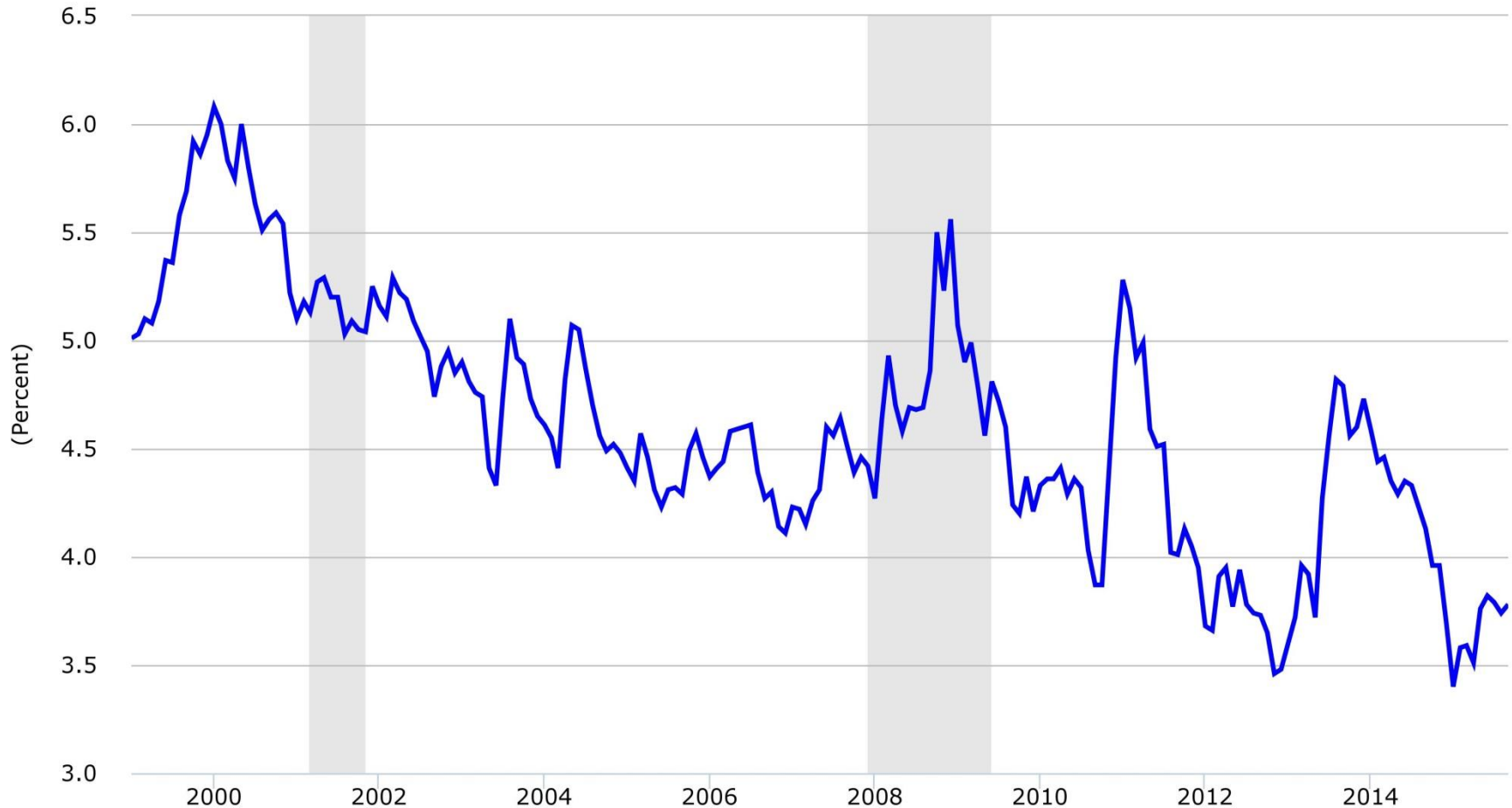
Source: US. Bureau of Labor Statistics

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

State and Local Bond Interest Rate

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— State and Local Bonds - Bond Buyer Go 20-Bond Municipal Bond Index



Source: Board of Governors of the Federal Reserve System (US)

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.



Janet Yellen
Chair,
Federal Reserve Board

The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

FOMC, September 17, 2015

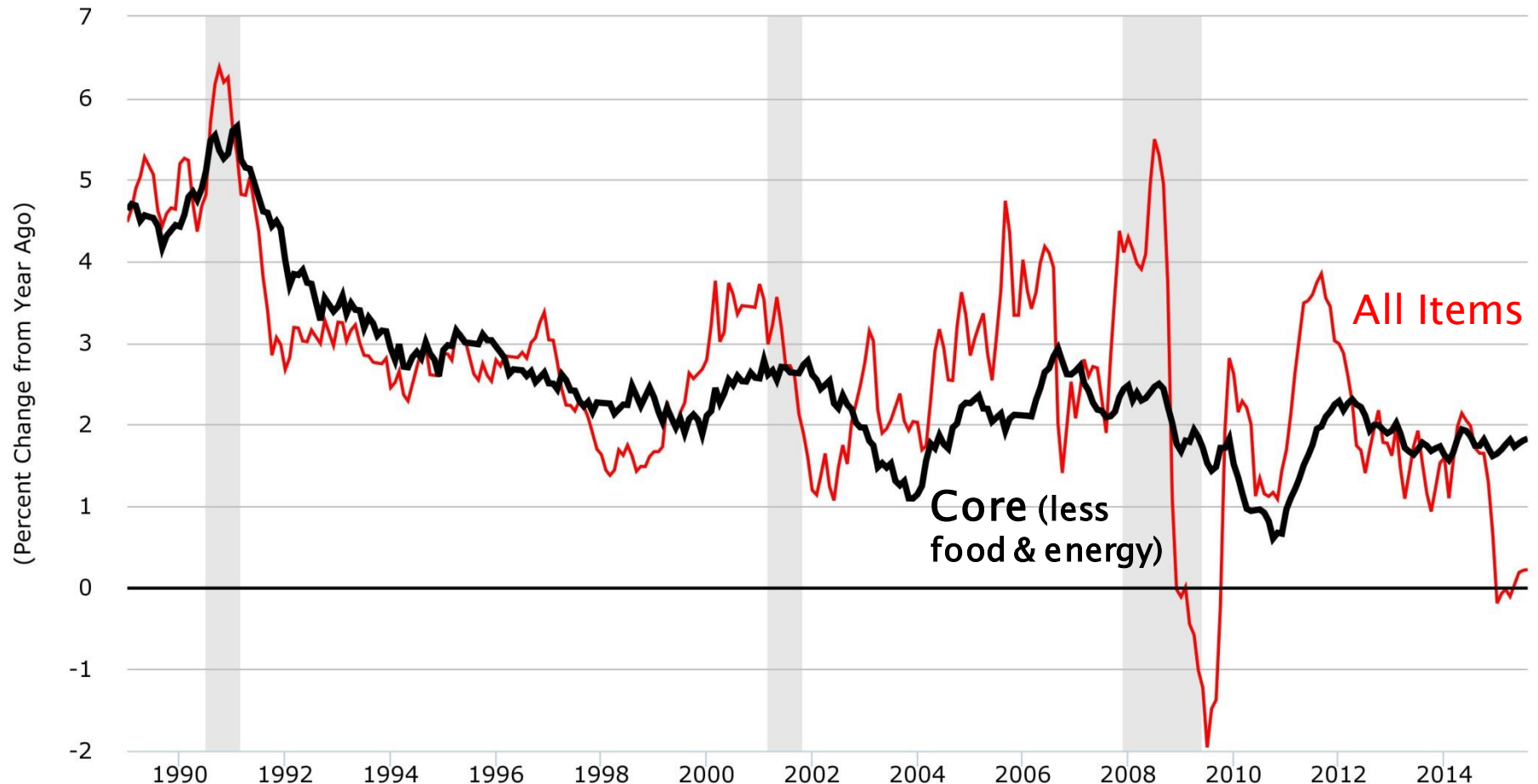


Janet Yellen
Chair,
Federal Reserve Board

U.S. Inflation, All Items and Core

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— Consumer Price Index for All Urban Consumers: All Items
— Consumer Price Index for All Urban Consumers: All Items Less Food & Energy

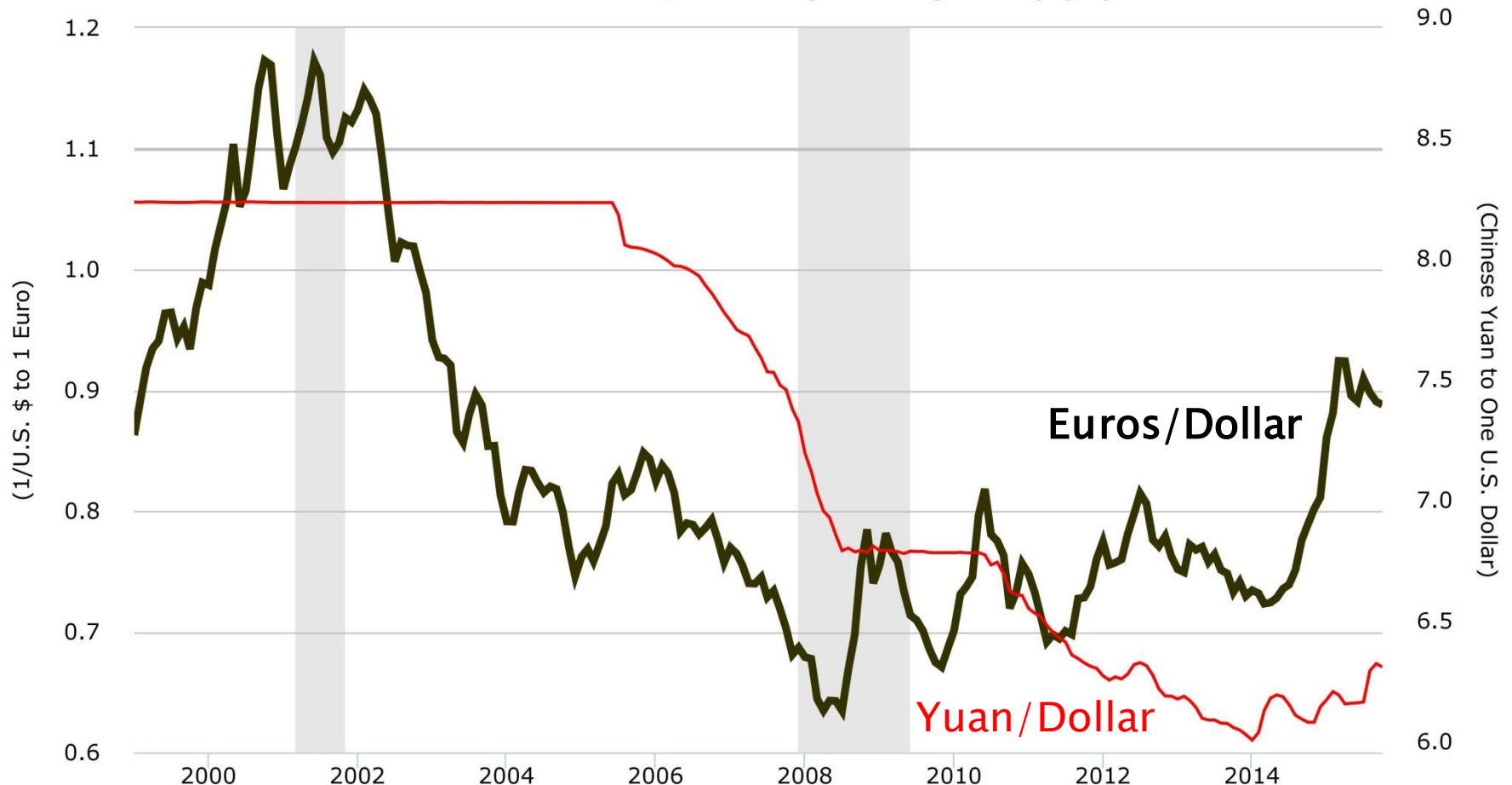


Shaded areas indicate US recessions - 2015 research.stlouisfed.org

Exchange Rates: European Euros and Chinese Yuan per Dollar

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— 1/U.S. / Euro Foreign Exchange Rate (left)
— China / U.S. Foreign Exchange Rate (right)



Shaded areas indicate US recessions - 2015 research.stlouisfed.org

Indiana's State Budget, FY2015-17

Indiana State Budget, FY 2015-17

(millions of dollars)

	Budget 2015	Budget 2016	Budget 2017	Avg Chng 2015-17
Revenues	14,849	15,240	15,698	2.8%
Sales Tax	7,226	7,505	7,840	4.2%
Ind. Income Tax	5,049	5,122	5,283	2.3%
Corp. Income Tax	974	985	994	1.1%
Gaming	458	441	439	-2.1%
All Other	1,143	1,188	1,142	0.0%

Recent and Scheduled Tax Rate and Allocation Changes

	2014	2015	2016	2017	2018
Inheritance Tax	Repealed for deaths in 2013 and after				
Sales Tax	1% of revenue to road construction				
Corporate Income Tax*	7.50%	7.00%	6.50%	6.25%	6.00%
(fiscal years)		-6.7%	-7.1%	-3.8%	-4.0%
Individual Income Tax	3.40%	3.30%	3.30%	3.23%	3.23%
(calendar years)		-2.9%		-2.1%	

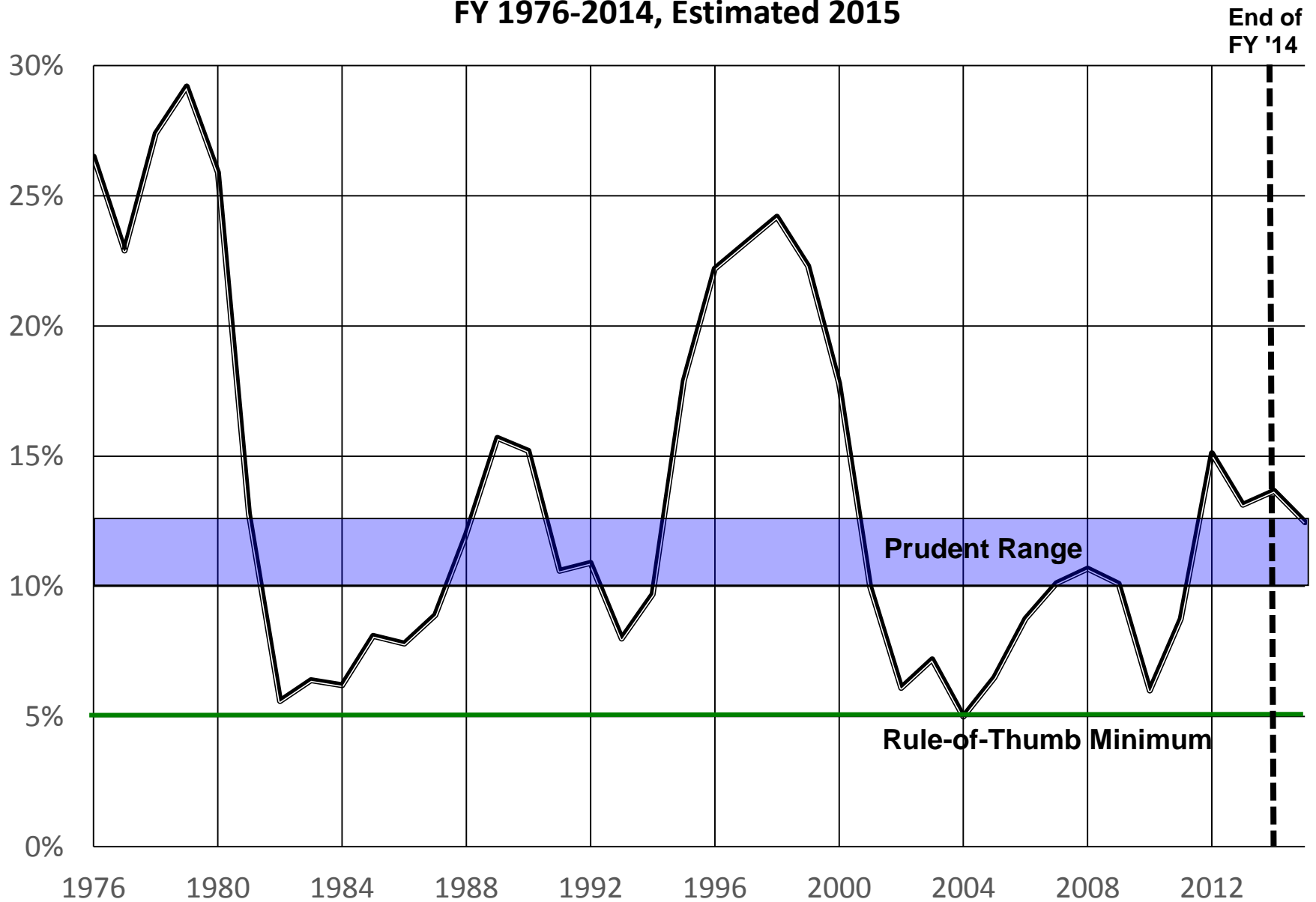
*Corporate Tax reductions continue through 2022, to rate 4.9%

Indiana State Budget, FY 2015-17

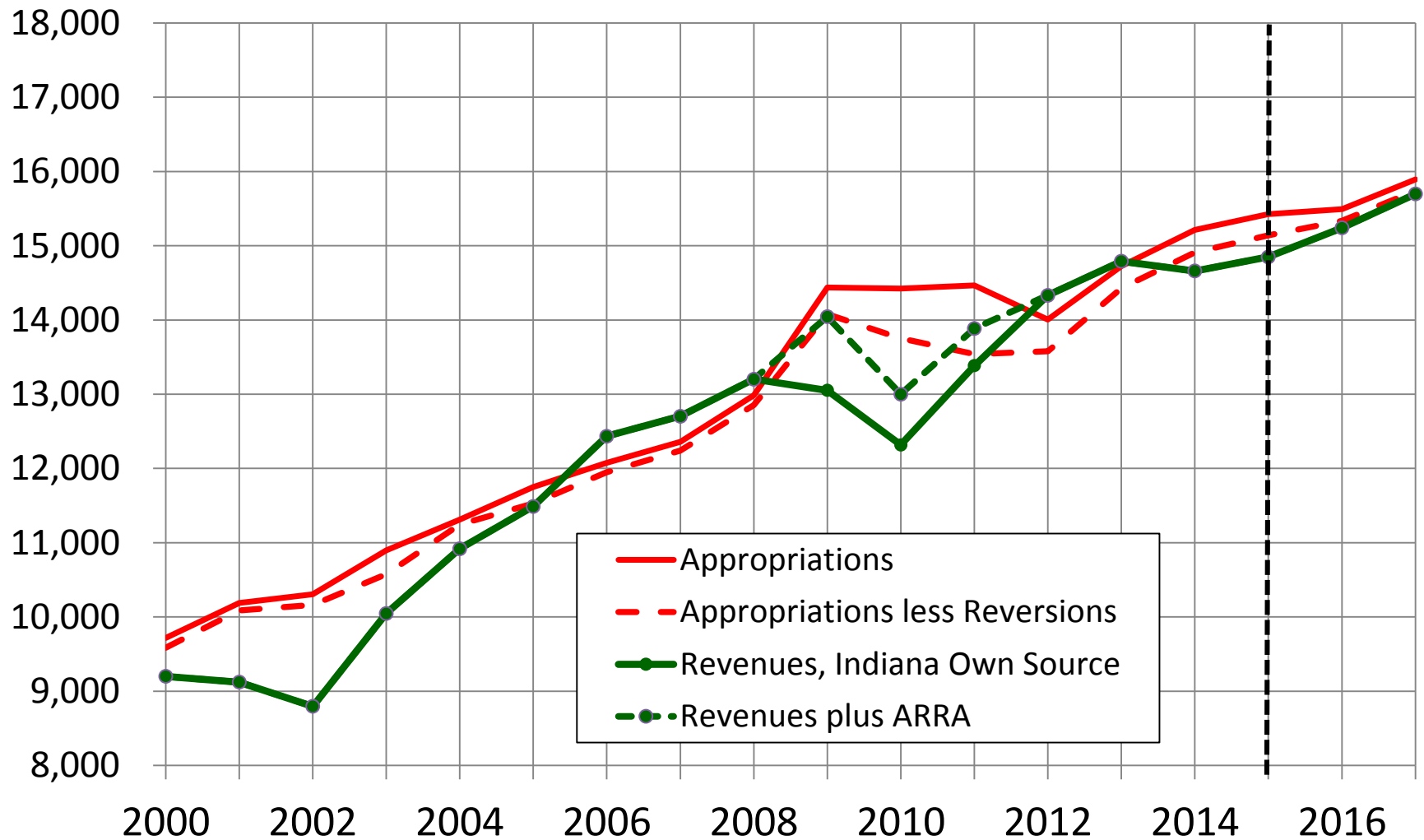
(millions of dollars)

	Budget 2015	Budget 2016	Budget 2017	Avg Chng 2015-17
Appropriations	15,447	15,393	15,828	1.2%
K-12 Education	7,754	7,940	8,117	2.3%
Higher Education	1,805	1,885	1,902	2.6%
Medicaid	2,162	2,027	2,242	1.8%
Mental Health	254	260	270	3.2%
Other Health/Social	993	998	997	0.2%
Public Safety	933	981	983	2.6%
All Other	1,546	1,302	1,318	-7.7%

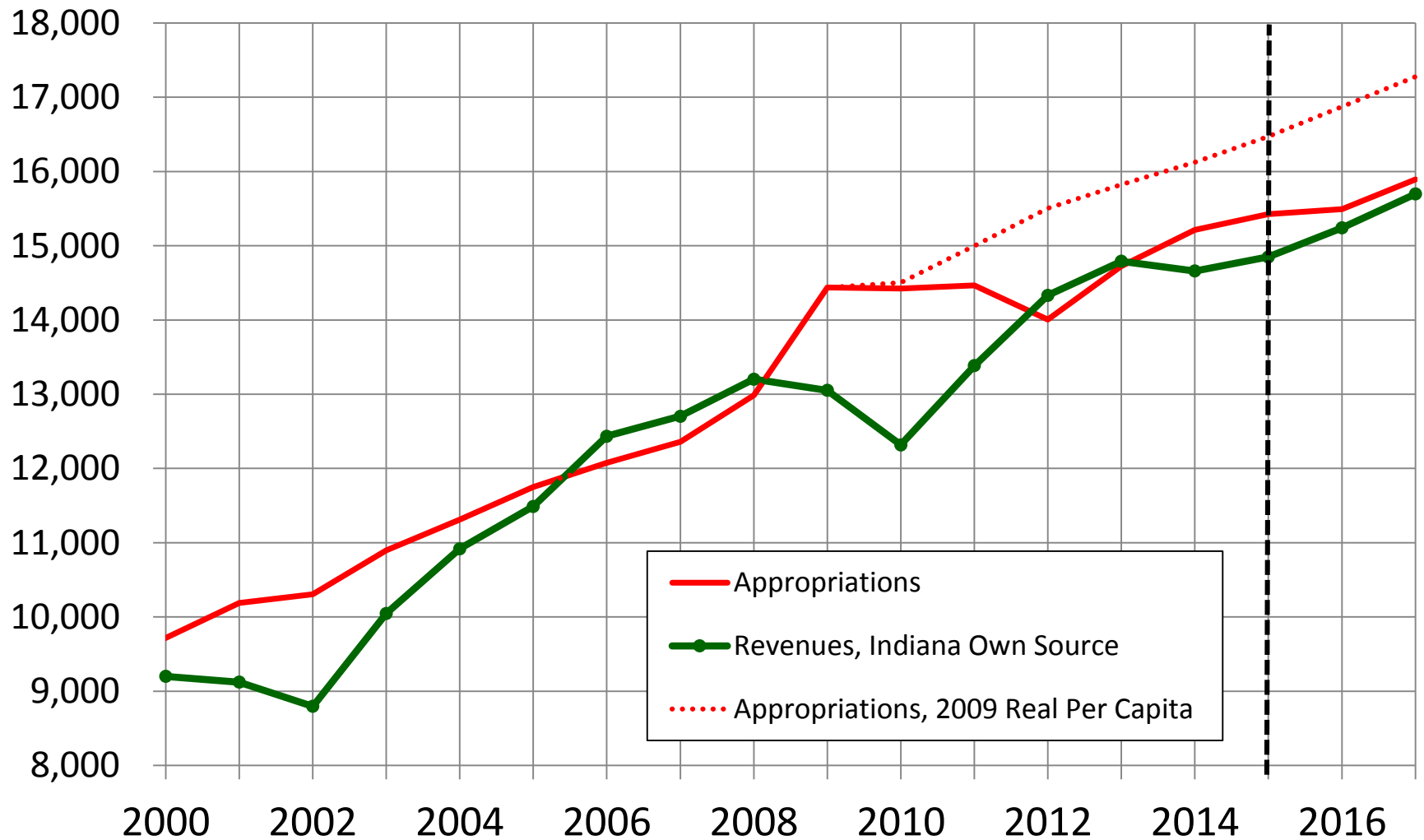
Indiana State Fund Balances as Share of Operating Revenues, FY 1976-2014, Estimated 2015



**Indiana State Budget Revenues and Appropriations,
Actual 2000-14 and 2015-17 from April '15 Forecast
and As-Passed 2016-17 Budget
(fiscal years, millions of dollars)**



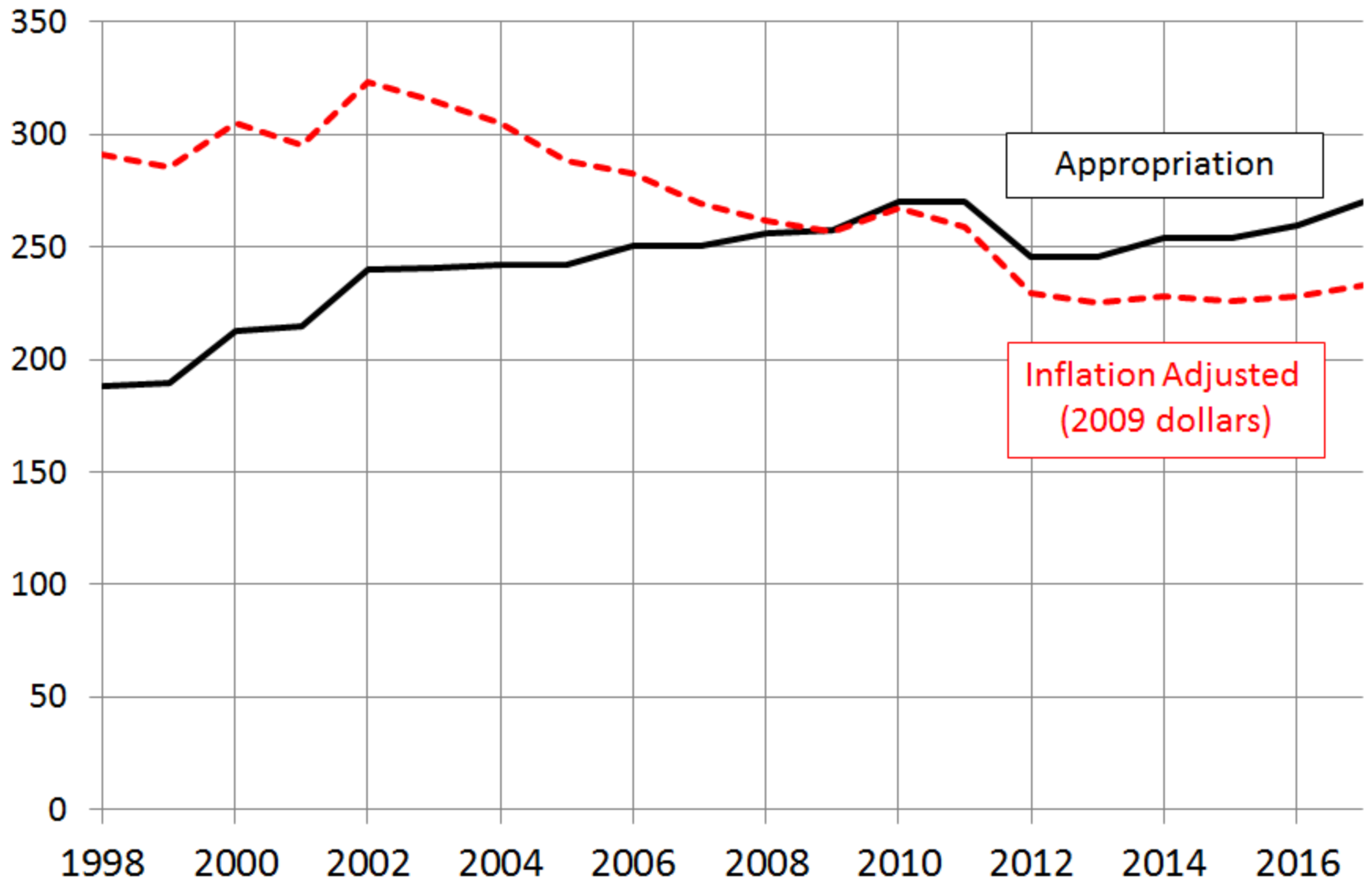
**Indiana State Budget Revenues and Appropriations,
April '15 Forecast and As Passed Budget 2016-17
Appropriations to Maintain 2009 Real Per Capita
(fiscal years, millions of dollars)**



Indiana State Appropriations and Reversions as Percent of Indiana Total Personal Income (estimated 2015-17)

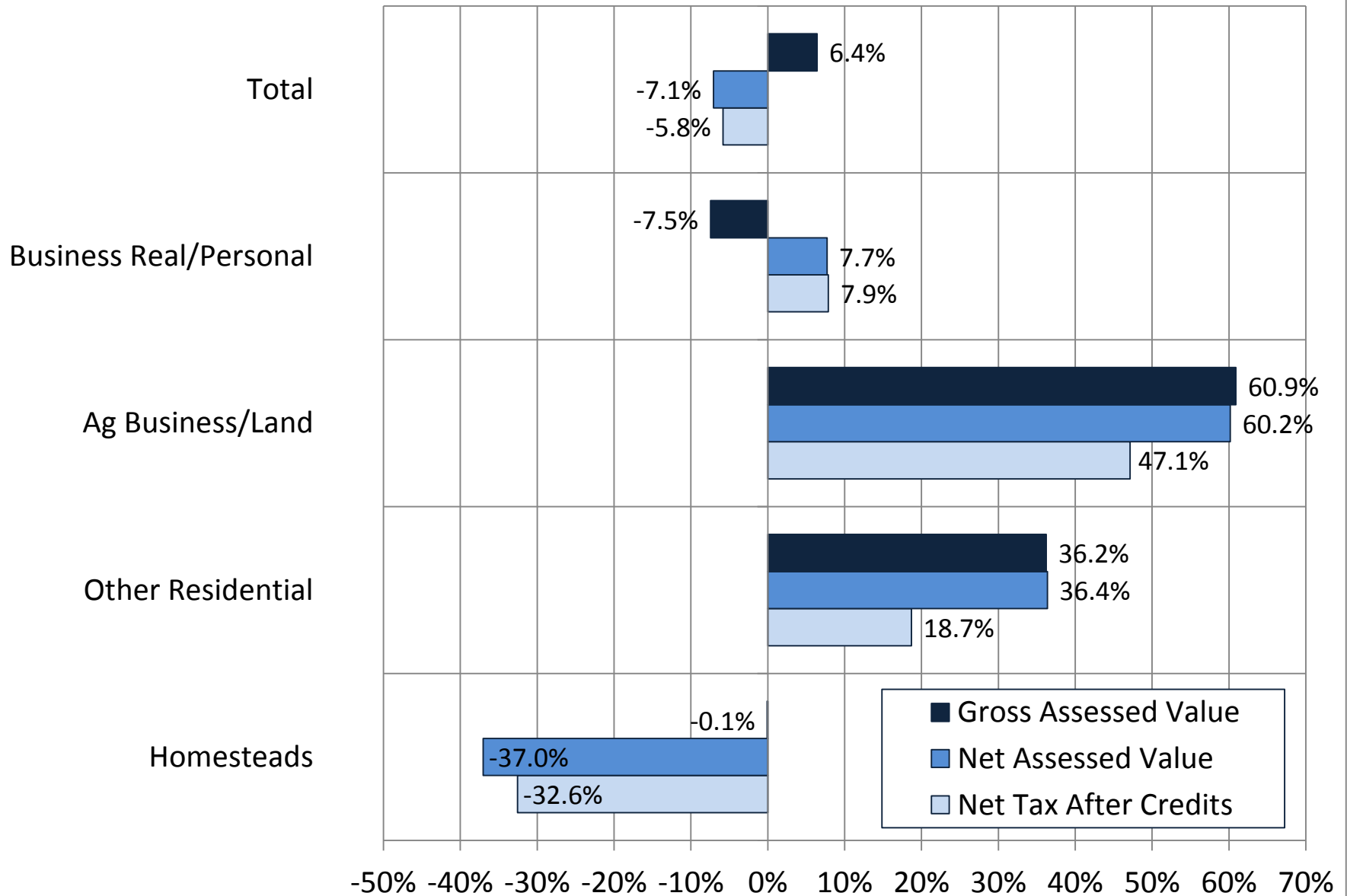


Indiana State Budget, Mental Health Appropriations (Millions of Dollars)

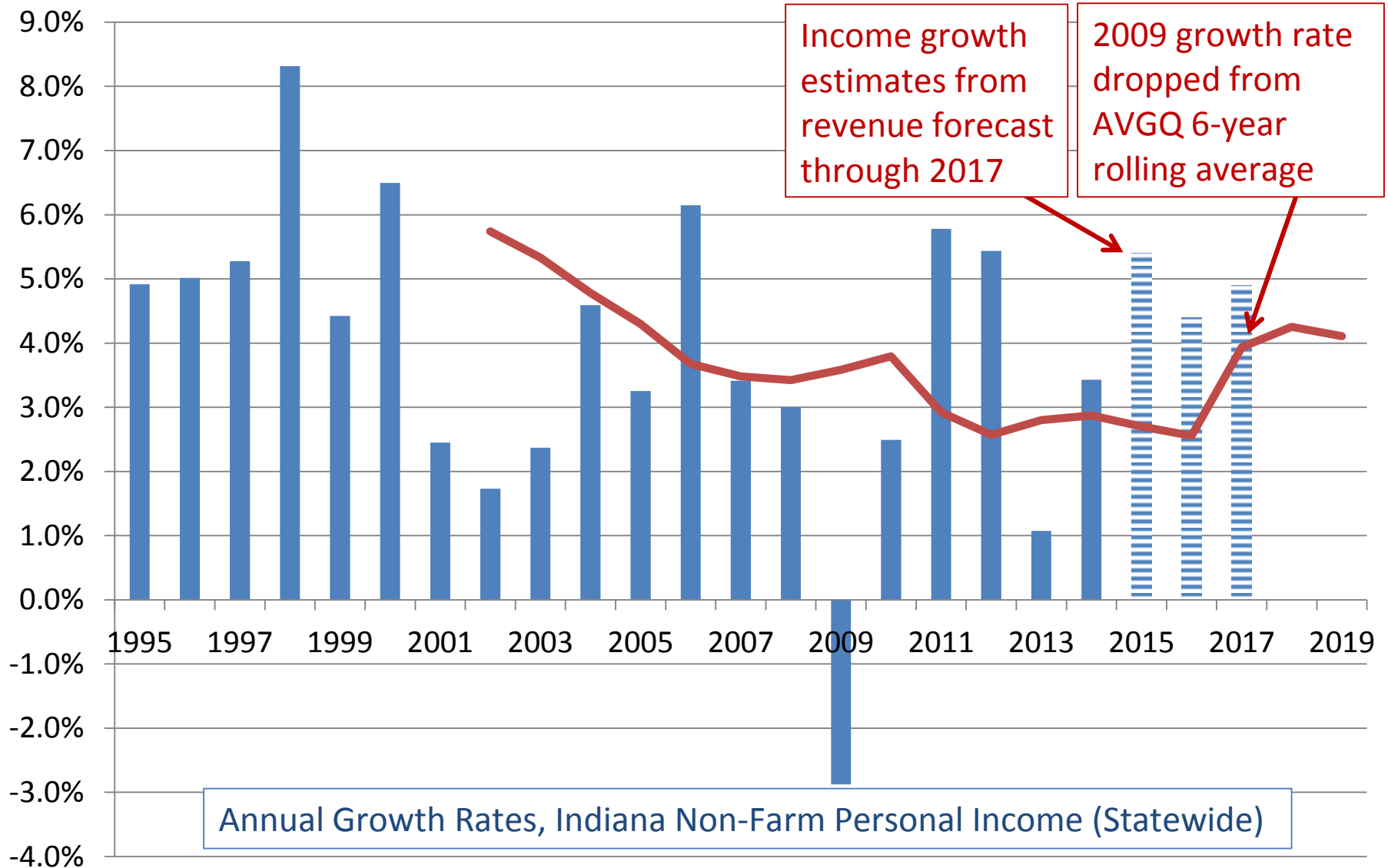


Local Government

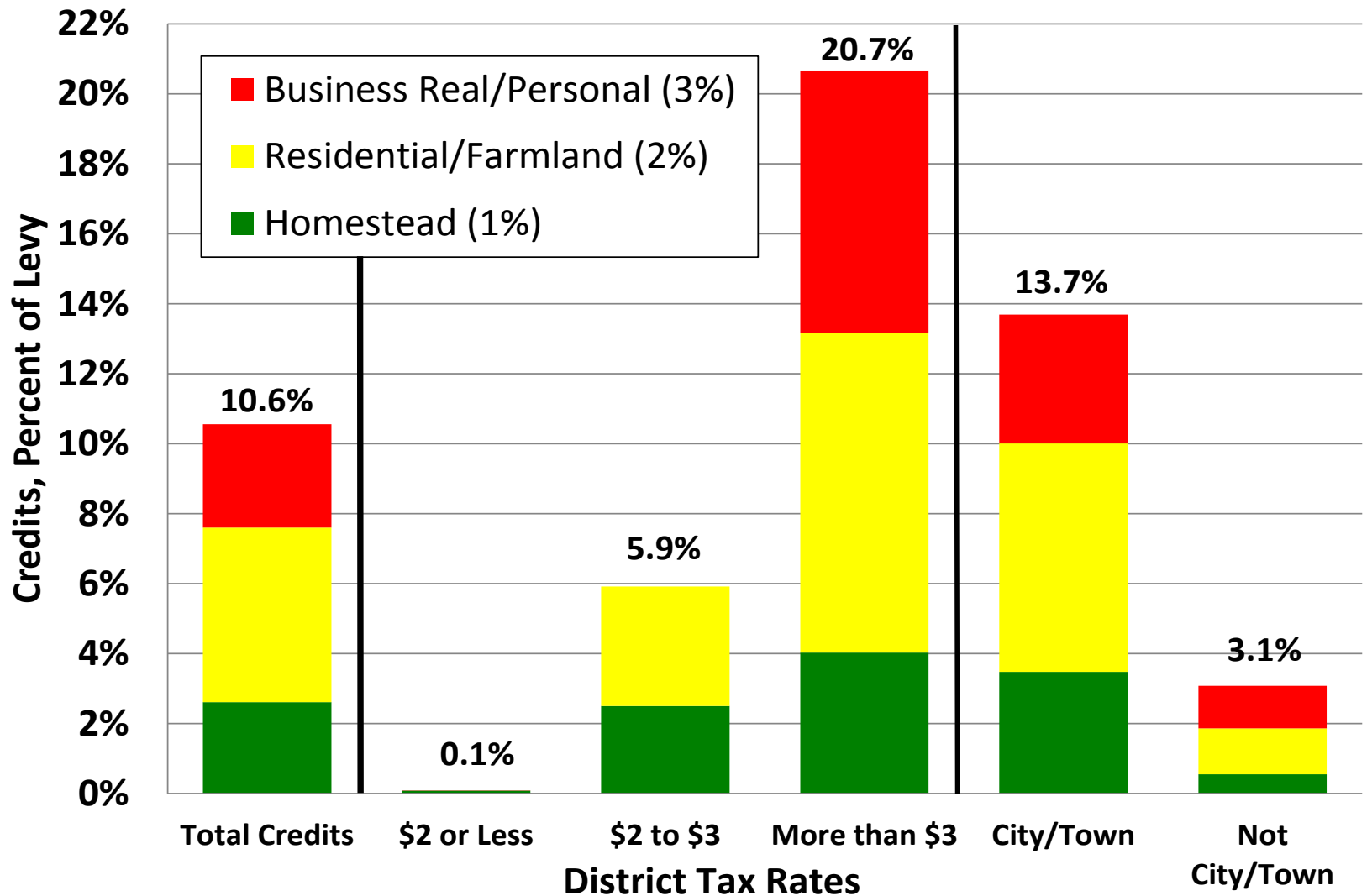
Indiana Total Property Taxes, 2007-2014



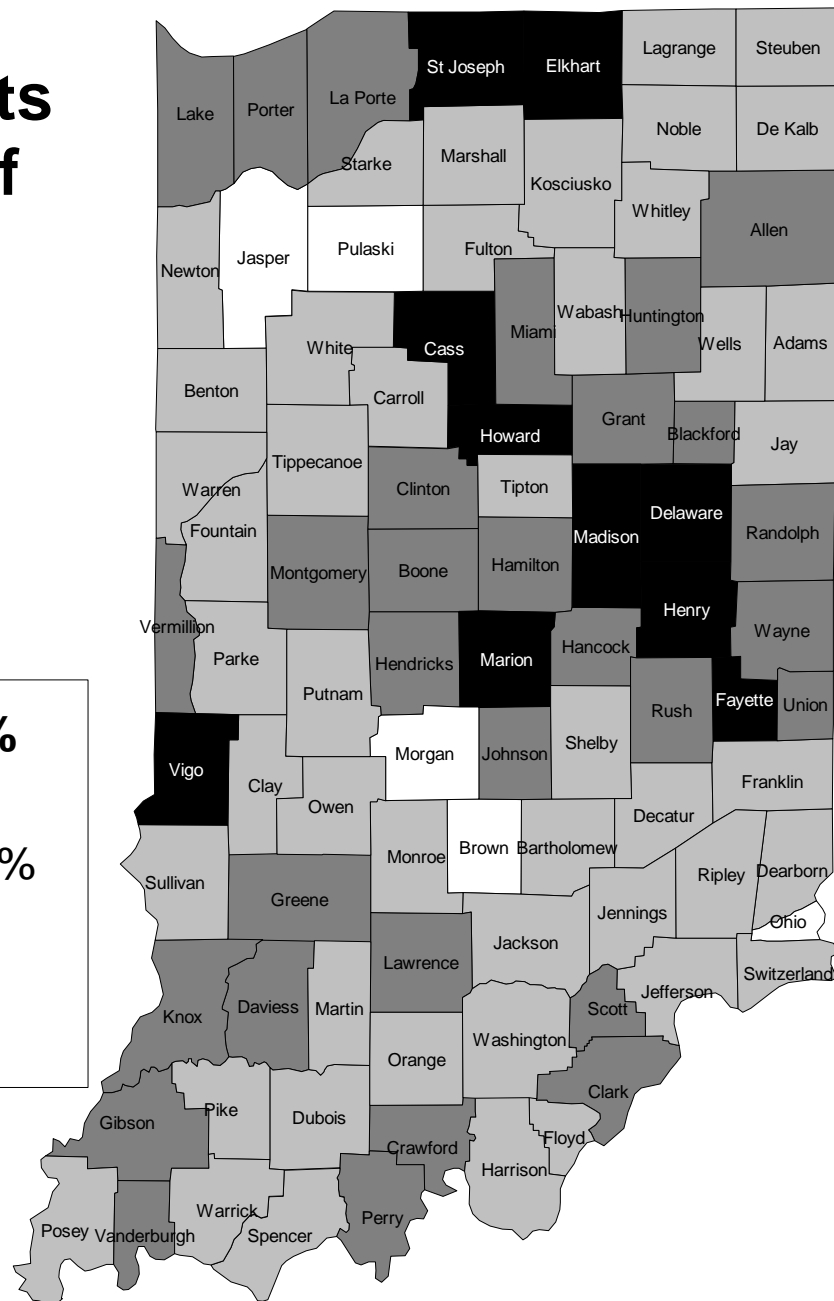
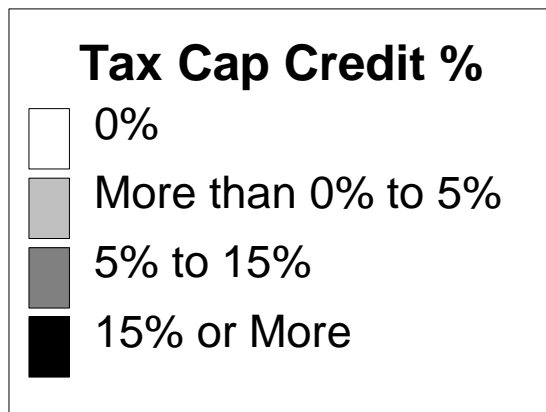
Calculation of Property Tax Maximum Levy Growth Quotient (AVGQ) 2003-2016 and Estimates 2017-19



Tax Cap Credits as Percent of Levy, 2014

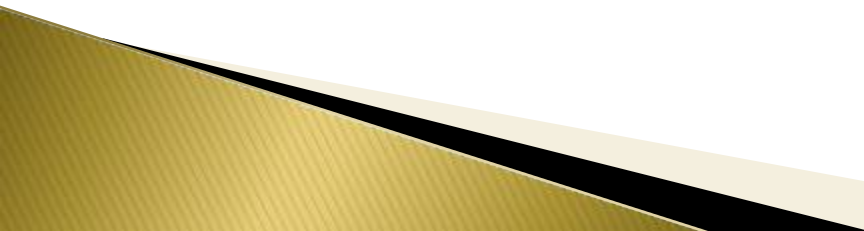


Tax Cap Credits as a Percent of Property Tax Levies, 2014




Local Government Funding Issues

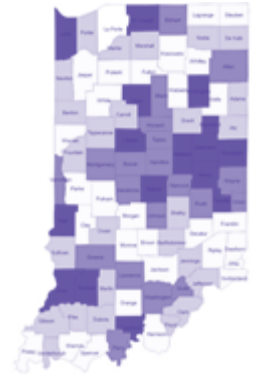
“Dark Store” Retail Assessments

- ▶ Should “big box” retailer property be valued using the sales comparison approach, or the construction less depreciation approach?
 - ▶ Such stores usually sell only when they’re abandoned (“dark store”). They often have unique features valuable only to the original owner, so they’re worth less to a buyer. There may be deed restrictions too, limiting the possible buyers.
 - ▶ Sales comparison assessments are usually much lower than cost less depreciation assessments.
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“Dark Store” Retail Assessments

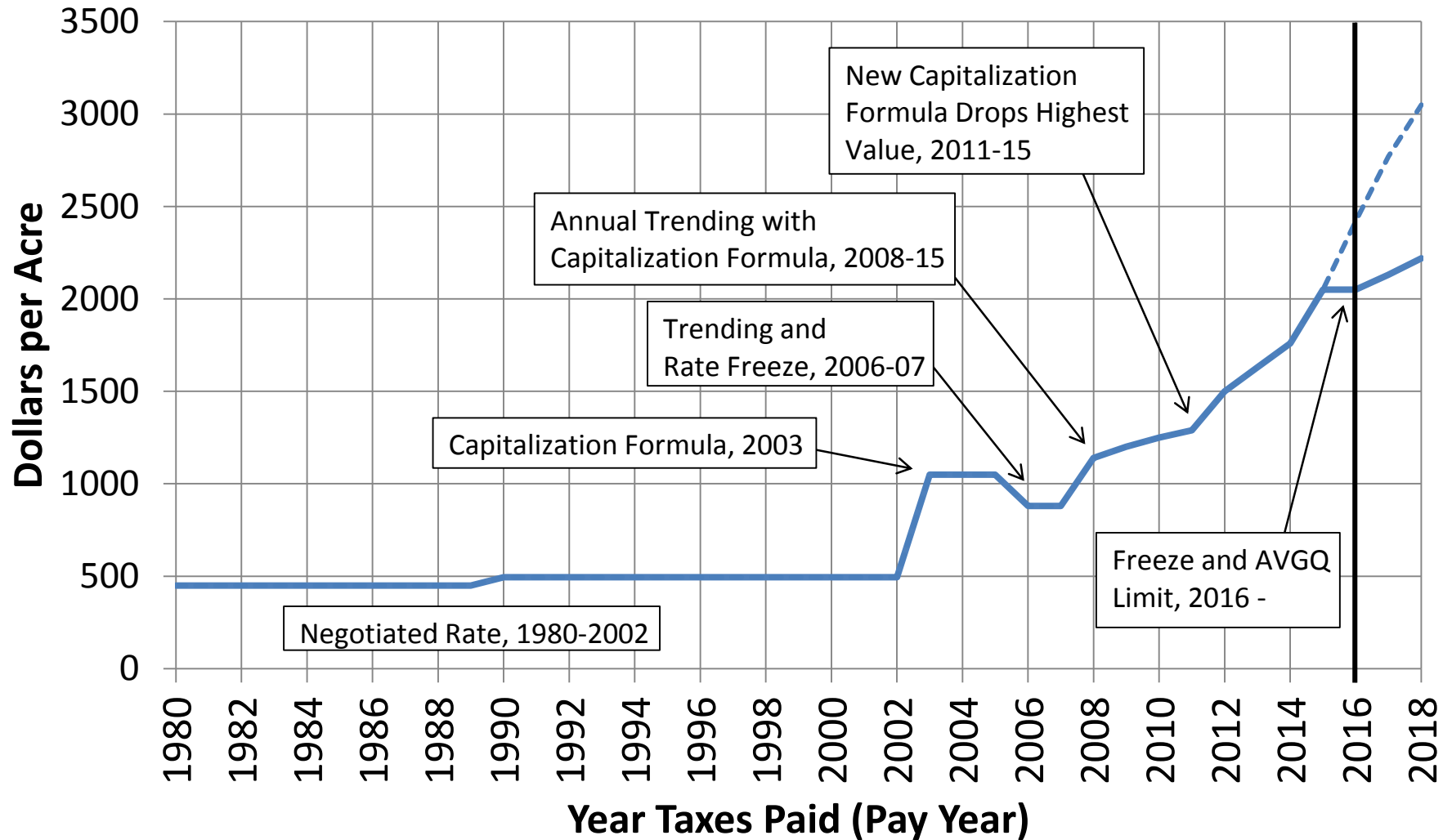
- ▶ Indiana Board of Tax Review decisions have reduced assessments on some large retail stores, based on comparative sales assessment method
 - ▶ Association of Indiana Counties analysis found that effect could have been \$50 million shift to other taxpayers and \$43 million in lost local revenues, plus \$25 million TIF loss
 - ▶ SEA 436 (2014) requires that big box retail buildings be assessed based on cost less depreciation method, not comparative sales method
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Farmland Property Taxes

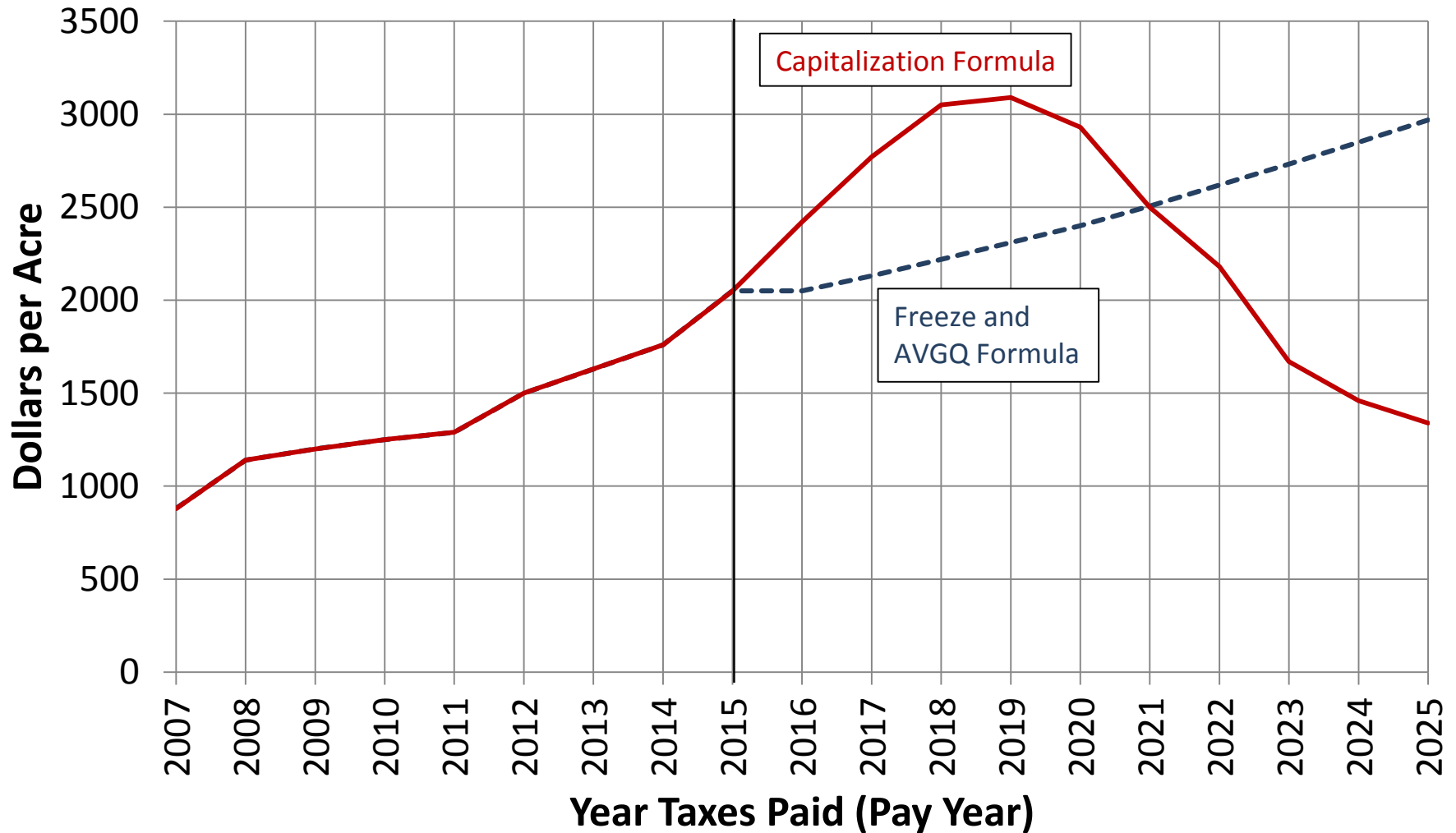


- Assessed Value of Farmland
 - **Equals the base rate per acre of farmland**
 - *Base rate calculated each year by the Department of Local Government Finance based on rents, yields, commodity prices, costs and interest rates*
 - **Times the acre's soil productivity factor**
 - *Accounts for variations in quality of farmland*
 - **Less its influence factor, if any**
 - *Reduce assessments for characteristics like frequent flooding or forest cover*

Base Rate per Acre of Farmland for Property Taxation, Actual 1980-2016; and Estimated 2017-2018



Base Rate per Acre of Farmland for Property Taxation, Capitalization Formula and AVGQ Formula, Projected 2016-2025



HEA 1485 (2015) will change the LOITs effective January 1, 2017.

LOIT to Local Income Tax Rate Comparison						
Current Statute				Proposed		
LOIT	Purpose	CAGIT County	COIT County	Rate Component	Sub-Allocation	Rate
CAGIT/COIT	Budgetary	1.0%	1.0%	Expenditure*	<ul style="list-style-type: none"> •Certified Shares •Public Safety •Economic Development 	2.5%
Public Safety LOIT*	Public Safety	0.25%	0.25%			
CEDIT**	Economic Development	0.25%	0.0%			
LOIT for Levy Freeze	Budgetary	1.0%	1.0%			
LOIT for Property Tax Relief	Property Tax Relief	1.0%	1.0%	Property Tax Relief	n/a	1.25%
CEDIT for Homestead	Property Tax Relief	0.25%	0.25%			
Special Purpose	Special Projects	varies	varies	Special Purpose	n/a	varies
Total Rate*		3.75%	3.50%	3.75%		

*The maximum tax rate for Marion County is 0.25% above the listed tax rate.

**Maximum possible CEDIT rate if the full CAGIT or COIT rate is adopted.

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