

Tax reform is down to nitty-gritty

Now, the real work of achieving property tax reform begins.

By Mary Beth Schneider and Bill Ruthhart
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The Republican-controlled Senate voted 33-14 Tuesday evening to pass the sweeping changes contained in House Bill 1001. The Democrat-controlled House earlier had voted 93-1 for a different version of the 900-page bill.

By March 14, the deadline for the legislature to finish its work this year, the two sides must come together on a final version that meets Gov. Mitch Daniels' call for permanent change that caps homeowners' bills and imposes spending controls on local government.

If they fail, Daniels has promised to call them back into session until they reach an agreement.

Tuesday's Senate vote came on the 90th birthday of former Gov. Otis "Doc" Bowen, who had made property tax reform the hallmark of his administration in the 1970s.

While lawmakers repeatedly have addressed the issue since then as property taxes continued to rise, legislators hope that this may be the last time Indiana has to confront property tax reform.

Key differences, though, remain to be resolved to reach that goal, as the Senate and House differ on how best to provide relief.

Democrats, in both the House and Senate, want more help for low- and moderate-income Hoosiers to help offset the impact of the higher sales tax increase that is part of the bill. That increase would bump the sales tax to 7 cents on the dollar, up from 6 cents.

Sen. Luke Kenley, the Noblesville Republican who will be a key player in the coming negotiations, expressed confidence the differences can be resolved.

"We've gone 99 miles down the 100-mile road to property tax relief. We've got one more mile to go," he said.

The urgency to deliver relief grew from the outrage provoked last summer when homeowners in many places, particularly Marion County, saw their bills double or even triple.

The plan that the Senate voted to approve Tuesday would cut the bills homeowners got in 2007 by a statewide average of 27 percent.

A key part of the bill would cap homeowners' bills at 1 percent of their home's assessed valuation; rental and agricultural property at 2 percent; and business property at 3 percent.

If enacted in its current form, that would mean more than \$619 million more in the pockets of taxpayers -- but \$619 million less for local government, including schools, around the state.

Tuesday, Democrats in the Senate, who cast all 14 votes against the bill, said the plan leaves schools, cities and counties without the money they need to provide necessary programs and services.

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“It does not adequately fund Indiana’s schools,” said Sen. Tim Skinner, D-Terre Haute.

The \$50 million in new money the bill gives schools in both 2009 and 2010 isn’t enough to make up for the shortfalls, he argued. Schools will lose \$90 million in 2009 and \$188 million in 2010 under the plan.

He and other Democrats also argued that the plan doesn’t deliver tax relief fairly.

With the sales tax increase, and the likelihood that many counties will raise local option income taxes to replace lost property tax revenue, they said many people will see their total tax burden go up.

“We believe low- and medium-income Hoosiers (will) pay for the relief for wealthier Indiana residents,” Skinner said.

Republicans and Democrats also remain far apart on whether the bill’s property tax caps are the right fix that should be permanently enshrined in the state constitution.

That issue took center stage earlier Tuesday in the Indiana House, which on party lines voted against capping homeowners’ property tax bills at 1 percent of a home’s assessed value.

Instead, Democrats who control the chamber continued to push for capping homeowners’ bills at 1 percent of household income.

As the architect of the income-based cap, Rep. Bill Crawford, D-Indianapolis, has said the provision is fairer to low-income Hoosiers who he thinks would be harder hit by the proposed sales tax increase.

On Tuesday, House Republicans attempted to reverse that move, proposing an amendment to Senate Joint Resolution 1 that would cap homeowners’ bills at 1 percent of assessed value -- the provision originally included in the legislation as it passed the Senate.

The amendment, however, failed by a 50-49 vote. “I think it puts the cap itself in jeopardy for the rest

of the session,” said House Minority Leader Brian Bosma, R-Indianapolis. “This was a chance to solve it right now.”

The House is expected to vote on SJR 1 Thursday.

Tuesday’s decision on the Republican amendment marked the first time this session the House has voted on constitutional property tax caps.

Under the Democrats’ proposal, homeowners with an annual household income of \$75,000 would pay no more than \$750 in property taxes under the cap, but also would have to pay the cost of local debt excluded from the cap. That debt on average represents about one-third of homeowners’ existing bills.

Excluding the debt, Crawford argued, is key to giving local governments better flexibility to offer essential services.

One other issue remains contentious: the proposed elimination of township assessors.

Daniels had wanted the legislature to eliminate all township assessors, shifting the duties to county assessors in order to provide more uniformity.

While that provision was in the bill as it passed the House, the Senate this week changed that to let voters in a township decide in a referendum whether to keep their assessor.

Sen. Teresa Lubbers, R-Indianapolis, had offered an amendment to eliminate all township assessors. When the vote tied, Lt. Gov. Becky Skillman could have cast the deciding “yes” vote but instead mistakenly declared the bill had failed.

Lubbers had planned on seeking a second vote Tuesday on her amendment to rectify that, but as the issue became even more controversial, gave up. Instead, she said, she would try to include the provision in the final version of the bill that is now to be crafted by the House and Senate.