

August 19, 2008

The Honorable Mitchell E. Daniels, Jr.
Republican Candidate for Governor
47 S. Meridian Street, 2nd Floor
Indianapolis, IN 46204

The Honorable Jill Long Thompson
Democratic Candidate for Governor
804 N. Delaware Street
Indianapolis, IN 46204

Dear Governor Daniels / Dear Ms. Thompson:

Your Charge to Improve Our Tax Climate

State and local tax burdens and the efficiency with which government services are delivered matter greatly to business investment and job location decisions.

Four guiding principles must be at the forefront of your decision-making in 2009:

1. Tax levels and responsibilities must be balanced and structured to promote economic development; Indiana must not reverse the recent improvements made to our business tax climate
2. Property tax assessments must be understandable, fair, consistent and predictable across the board
3. Tax relief can best be provided by reducing excessive spending by too many local units of government
4. The proposed constitutional amendment to allow for differential property tax caps based on property types warrants reconsideration; its implications for Indiana's prosperity could be detrimental and dramatic

“It’s the economy, stupid” is still as true and obvious a statement today as when the slogan was coined in the 1992 presidential campaign. Without a competitive and prosperous economic climate, citizens become frustrated and worried – and with good cause. Businesses are often forced to make tough decisions about layoffs, relocation or even shutting down.

Unfortunately, our state has already started to see some of that this year, even while promising investment and jobs announcements are being made. Recent reports show that the real estate industry, for example, has reigned in expectations as the development pipeline begins to narrow.

Indiana cannot afford for this to become an epidemic across industries. That’s why protecting our recent historic improvements to the business tax climate and further shaping our property tax policies are critical.

We’ve taken the positive steps of eliminating the inventory tax and corporate gross receipts tax and making permanent the venture capital tax credit. But we must build on these efforts in order

to better compete for job expansion and relocation. Our motivation is a powerful one: to help ensure opportunity and stability for our workforce – some three million strong.

Two areas where Indiana's tax climate remains less competitive deal with personal property tax on machinery and equipment, and the corporate income tax rate. Machinery and equipment investments drive innovation – a critical component to economic vitality, yet Indiana's tax burden on these items ranks among the highest in the country (in part because many states do not tax them at all). What should be taxed instead is the income and sales the machinery and equipment produce.

We also urge you to reduce Indiana's flat corporate income tax rate of 8.5 percent, which is ninth highest in the U.S. according to the Tax Foundation. When businesses consider where to place jobs and investments, this rate becomes a significant factor in the equation. It's only prudent then that we examine it and other sections of our tax code that are uncompetitive and work to improve them.

Case in point, a number of very positive policy changes were put in place during the 2008 session with the passage of the property tax legislation. Most notably: the full elimination of several property tax levies and requiring voter referenda for capital projects. The Indiana Chamber felt these were long overdue for the benefit of all Hoosiers. Still, some provisions didn't go far enough, while one – in our assessment – will prove detrimental to the state's long-term economic growth.

Let's begin with the "good starts" looking to make "great finishes" in 2009.

The first order of business is to complete the implementation of a functional property assessment system. In other words, get the assessments right. If these assessments continue to be inaccurate and inconsistent, no amount of property tax reform or relief will mask the public's anger.

House Enrolled Act 1001 makes considerable progress toward this objective by reducing the number of assessing officials involved in the process. Another step forward is centralizing authority over the system with the Department of Local Government Finance. However, the legislation fell far short by leaving township assessors in place in the state's 43 largest townships – the very same townships that have historically had the most trouble with inaccurate and unfair assessments.

This translates to 65 percent of homes and businesses statewide still at the mercy of township assessors with varying levels of expertise. Property tax assessing duties in all counties must be transferred to county assessors who, in turn, must be required to have the proper assessing credentials.

As with shoring up the assessment process, some positive action was taken in HEA 1001 to curb local government spending, which, in recent years, has grown on average at twice (6 percent) the rate of homeowner and business incomes (3 percent).

The Legislature wisely honed in on overspending for capital projects, which represents the largest single contributor to property tax growth. By requiring a referendum for these projects, it will allow the impacted taxpayers to have a direct say in the amount of debt they become responsible for.

The Indiana Chamber certainly acknowledges the valuable core functions that local government provides to each of us – from police and fire services to schools, libraries, parks, sewer districts and more – but we simply have too much local government that spends too much taxpayer money. Whether through forced constraint, self-restraint or taxpayer pressure, spending must be controlled.

How do we achieve that?

- Enact the consolidation and reform recommendations of the Kernan-Shepard Commission. Greater efficiencies through structural reform must be on the table for any long-term success on spending controls
- Spending must be tied to the unit's growth (or loss) in assessed valuation and population
- Spending needs to be reviewed and weighed against the cost and level of services provided
- Converge the budget-making procedures of overlapping taxing units so that a single entity ultimately approves the cumulative impact of otherwise independent budgets

Otherwise, we are only shifting the property tax burden among taxpayers.

For all the good accomplished in HEA 1001, one provision has the business and economic development communities extremely concerned. The 1-2-3 percent property caps on tax bills and the accompanying proposed constitutional amendment put the state on the path to a classified system of taxation; one that allows different types of property to be taxed unequally, particularly business property. States that have classification, without exception, tax business property at the highest rates – to the detriment of their own economic development efforts.

Our 3.5 percent cap for business property (effective for 2009) represents the highest effective tax rate for business properties in the entire U.S. (based on data from a national study by the Minnesota Taxpayers Association). At 3 percent (after 2009), the cap is the third highest effective tax rate for business property in the country.

The Indiana Chamber continues to support the current constitutional guarantee of uniform and equal assessments and taxation; the proposed amendment to eliminate this safeguard is extremely unwise. Our fear is that if business property is constitutionally allowed to be singled out for unequal property tax treatment, there will be no going back. And, local government spenders will be back every year seeking to dismantle the spending controls previously enacted.

In fact, HEA 1001 makes it much easier for future general assemblies to further widen the disparity when they feel the pressure to allow local governments to generate new revenues but don't want to burden homeowners.

We couldn't agree more that we can't lose sight of the plight of homeowners, but the full picture must be processed. Even a substantial reduction in homeowner property taxes (offset at least partially by sales and income tax increases) will be of little consolation to a 30-year factory worker or a single mother working in an office if their employer eliminates their job or takes it out of state because the company's property tax burden has become too high.

A far better alternative for Indiana's long-term economic prosperity than the 1-2-3 percent caps is to finally and truly fix the assessment system, eliminate duplicative and wasteful units of local government and get spending under control. Then, if you want to provide further protection, enact caps that are uniform and equal for all property owners consistent with the current constitutional protections.

We recognize these additional tax policy changes won't come easy. But for the benefit of all taxpayers, the governor and General Assembly must work to make them happen. Think about the family members, friends and neighbors who make our communities so special. Think about that small business doing everything right to become an Indiana success story.

If our state is to move forward in 2009, you must be willing to take a stand.

A stand to finish the job of repairing a broken assessment system.

A stand to equalize the property tax caps and to build on our positive business tax gains.

A stand to maintain and enhance local government spending controls and increase accountability.

A stand to implement the government consolidation recommendations of the Kernan-Shepard Commission.

No, it won't occur without difficulty, but the economic rewards to our citizens will be high and make it well worthwhile.

Sincerely,

The 125 members of the Board of Directors of the Indiana Chamber of Commerce, representing 4,800-plus member companies employing 800,000 Hoosier workers.