REPLACE DON'T ERASE

BUSINESS PERSONAL PROPERTY TAX

TALKING POINTS

The Replace Don't Erase coalition opposes all legislation that contemplates eliminating any portion of the personal property tax without permanent FULL replacement guaranteed by the state. The personal property tax is a longstanding and relied upon method for funding local government. Local governments are not asking for the elimination or significant reduction of this funding source. If the state wishes to eliminate or reduce the personal property tax, they need to propose and guarantee a permanent state implemented funding source that does not unduly harm municipal governments and the people we serve. Any contemplated revenue replacement cannot be a temporary band-aid or a partial replacement – it needs to be a source of revenue that continues to grow over time just as a property tax base would in order to allow growing communities to meet the demand for services.\

While creating a state tax credit applied to certain state-related taxes to replace the 30% depreciation floor on existing equipment shows an appreciation for our concerns, the elimination of the depreciation floor on new equipment simply defers the negative impact. HB 1002 proposes a tax credit on various state taxes to offset what business pay on equipment hitting the 30% depreciation floor. However, by coupling this move with a provision that eliminates the 30% floor entirely for new equipment purchases, the negative financial hit to local units of government is inevitable.

You might hear that locals can grow their way out of the revenue loss associated with eliminating a portion of the business personal property tax in HB 1002. While AV continues to grow, so too do costs, necessary services, inflation, and often population. AV grows along with local tax levies so that property tax rates remain similar over time. Reducing the tax base through BPPT reduction will reduce AV growth relative to normal increases in levy and costs. This will raise rates and trigger more tax cap losses that represent a real loss to local governments. *Normal growth is not a replacement mechanism any more than it represents a real windfall for local governments every year.*

HB 1002 represents a reduction in business personal property tax revenues in communities all across the state. For taxing units not at the caps, a reduction in the tax base could result in property owners paying more in residential property taxes. For those communities at the caps, any phase out of the business personal property tax means a loss in revenue for local units of government.

The state of Indiana is rightfully proud of their unprecedented surplus. If the state believes this is a necessary tax cut for businesses, it should be funded entirely with state dollars. Again, local units are not requesting this reduction. The legislature shouldn't pull these funds from local coffers, thus increasing taxes for homeowners, without implementing a fair, sustainable state replacement source. While local units, like the state, have received recent infusions of federal funds, these dollars shots in the arm that will not sustain our cities, towns, counties, libraries, schools, and other local units. It is a false narrative that funds from the American Rescue Plan Act are in ANY way a replacement for the relied upon funds derived from Indiana's Business Personal Property Tax.

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Local government units from cities and towns are essentially operating at expenditure levels seen in 2004. This level of spending, outlined in a recent report by the Indiana Fiscal Policy Institute report, is admirable. However, it's not going to help Indiana grow our population and it's not going to help these entities provide the value their residents, parents, business owners and visitors expect. SB 378 offers a BPPT holiday and increases the exemption to the tax from $80,000 to $250,000. These moves may be strong business incentives, but they are not strong policies for local units who depend upon this funding

Significantly reducing or eliminating the business personal property tax could have a dramatic impact on the ability to repay TIF bonds. Debt service for general obligation is protected by Indiana's protected tax levy system. This is not the case for bond obligations made using tax increment financing (TIF). Many active TIF bonds throughout the state are backed by property taxes on business personal property. A significant reduction in personal property AV could place the ability to repay TIF bonds in jeopardy if a significant portion of the revenue backing them comes from personal property, a practice that is not uncommon throughout the state.

Local Income Taxes (LIT) are not equipped to be the exclusive replacement mechanism. There has been consistent talk that local units can use LIT to replace any lost BPPT revenues. LIT rates are set by the county government in most counties and even in those counties with a LIT council, cities and towns cannot act alone to raise their LIT rates. Replacing lost revenue via LIT would require a broad coalition to occur and would not necessarily have the capacity to replace all of the lost revenue or distribute it to the communities hardest hit by the loss in the business personal property tax base.

Growing Indiana's economy is about much more than a checklist of business taxes. Indiana ranks in the top 10 for business tax climate in most rankings, with Indiana's property taxation system usually ranked even higher. This is just one of the recruiting tools necessary for attracting businesses. Growing jobs is about so much more than our tax menu. When companies choose a community, deteriorating parks, failing infrastructure, deferred maintenance on buildings and sidewalks, and cuts in public safety and schools, all speak to the quality of life they and their employees can expect in a city or town. In this economy, if we don't invest in ourselves we will not be the communities where business want to locate and grow.

Replace Don't Erase! That's the simple, urgent, and critical message to communicate to your lawmakers today! The impact is too great to wait. Reach out now, again next week and all through the session. Do not be swayed by the notion that small chunks, weak "local options" and room within the current income tax framework is adequate. If the state wishes to eliminate this tax than we encourage an intense and global discussion about how we fund government at all levels before anything moves forward.