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County Income Tax...An Alternative to Property Taxation

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COUNTY INCOME TAX ...an alternative to property taxation

A GUIDE TO LOCAL GOVERNMENT OFFICIALS AND COMMUNITY LEADERS

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COUNTY INCOME TAX ...an alternative to property taxation

Adoption of Tax by County Council

House Bill No. 1144 passed by the 1973 session of the Indiana General Assembly authorizes counties to impose a tax upon the adjusted gross income of all individual taxpayers in the county. Persons subject to the tax are: a state resident who resides within an adopting county; a state resident living in a non-adopting county but working in an adopting county; or an out-of-state resident who works in an adopting county. A county council may adopt or increase the tax at a rate of 1/2, 3/4 or 1% by resolution prior to April 1 of any year. Adoption of the tax requires a majority of all members of the county council. The tax or tax increase shall then be in effect as of July 1 of the same year (as per amendment, 1974).

Repeal of the County Adjusted Gross Income Tax

Once adopted, the tax must remain in effect for not less than four full consecutive calendar years. After that a majority of the county council may vote to rescind the tax. The vote must take place not later than August 1 of the year prior to the calendar year for which such recision shall be effective. Upon repeal of the tax, the same controls apply to which non-adopting counties must conform (see page 5).

Disbursement of the Certified Distribution

The state acts as collecting agent for counties adopting the county adjusted gross income tax. The money collected from the county adjusted gross income tax is deposited in a fund to be distributed to the treasurers of the adopting counties. One-half is distributed on May 1 and one-half on November 1 of each year beginning May 1 of the year succeeding the effective date of the tax.

The residence or principal place of business or employment of an individual is determined as of January 1 of the calendar year in which his taxable year begins. Any change in an individual's residence after January 1 will not affect his liability for county income taxes or the allocation of the certified distribution of the county.

Certified Distribution - Certified Share - Property Tax Replacement Credit

On or before July 1 of each year the Department of Revenue must certify to the auditor of each county imposing the county income tax the amount of revenue the county treasurer will receive in the next succeeding calendar year for distribution to the taxing units and school corporations within the county. This amount, the "certified distribution," is based on estimated revenue for a twelve-month period beginning July 1 of each year.

The "certified distribution" is composed of two parts. One termed the "property tax replacement credit" is that proportion which must be used by local units of government for replacement of property tax revenue. Secondly, "certified shares" is that portion of the revenue which may be used to expand the budget of all units of local government receiving shares. These two parts are calculated according to Table 1.

Table 1. Calculating Property Tax Replacement Credits and Certified Shares

Item	Property tax replacement credits		Certified Shares	
	Percent of revenue	Income tax rate equivalent	Percent of revenue	Income tax rate equivalent
First Year				
County rate of 1/2 of 1%	50%	1/4	50%	1/4
County rate of 3/4 of 1%	66 2/3%	1/2	33 1/3%	1/4
County rate of 1%	75%	3/4	25%	1/4
Second Year				
County rate of 1/2 of 1%	50%	1/4	50%	1/4
County rate of 3/4 of 1%	33 1/3%	1/4	66 2/3%	1/2
County rate of 1%	50%	1/2	50%	1/2
Third Year and All Subsequent Years				
County rate of 1/2 of 1%	50%	1/4	50%	1/4
County rate of 3/4 of 1%	33 1/3%	1/4	66 2/3%	1/2
County rate of 1%	25%	1/4	75%	3/4

Allocation and Use of Property Tax Replacement Credit

Property tax replacement credits are to be allocated to all local taxing units including school corporations in the same manner as property tax collections. Amounts of federal revenue sharing and certified shares used by taxing units for property tax replacement are added to the property tax levy in allocating the property tax replacement credits.

Each taxing unit and school corporation shall treat the property tax replacement credit as additional property tax revenue. In fixing its budget for the next year during which a property tax replacement is to be distributed, a taxing unit shall not adopt a property tax levy that shall exceed (1) the total dollar amount of the taxing unit's 1973 property tax levy less (2) the amount of property tax replacement credit allocated to the taxing unit.

Allocation and Use of Certified Shares

All local taxing units, except local school corporations, participate in revenue from the county's certified shares. Allocation of the certified share (revenue which may be used to expand budgets) to the participating taxing units is based on the relationship that each participating taxing unit's "attributed total levy" bears to the total levies of all participating taxing units within the county. "Attributed total levy" means (1) current ad valorem property tax levies of a participating taxing unit. Plus (2) current property tax levies of any special taxing district, authority, board or other entity formed to discharge governmental services or functions on behalf of or ordinarily attributed to the participating taxing unit. Plus (3) amounts used by participating taxing units from federal revenue sharing and the amount of revenue distributed as certified shares and used for property tax replacement.

The use of revenue from certified shares by the participating taxing unit shall be determined by the body responsible for fixing the budget of the participating taxing unit. It may be used for property tax replacement or in any other manner deemed necessary by that body.

Credit for Elderly Taxpayers

Any taxpayer allowed a retirement income credit against his federal income tax liability is allowed a credit against his county adjusted gross income tax equal to: (1) the county rate in his county of residence or, if none, 1/4% multiplied by (2) the amount received by the taxpayer as "retirement income." Retirement income is income from (1) pensions and annuities, (2) interest, (3) rents, (4) dividends, and (5) certain bonds. Retirement income is limited to $1,524 for a single return, and $2,286 for a joint return, less the following: amounts received as a pension or annuity under the Social Security Act, under the Railroad Retirement Act, or otherwise excluded from gross income, and certain other deductions for persons under 72 years of age.

Reciprocity Agreement - County Councils

The county council of any adopting county is authorized to enter into reciprocity agreements with the taxing authority of any city, town, municipality, county or similar local governmental entity of any other state to provide for reciprocal exemption agreements for local income taxes. The agreement must be approved by the Department of Revenue.

In the event of no reciprocity agreement, an Indiana resident liable for the Indiana county adjusted gross income tax, who pays local income taxes in another state, is allowed a credit against his county adjusted gross income tax liability for out-of-state local income taxes paid. However, the credit may not exceed an amount needed to equate the tax liability the taxpayer would incur if the income subject to local taxation out-of-state were ignored.

A non-resident of the state who is liable for Indiana county adjusted gross income taxes, and who pays local income taxes in his state of residence, is entitled to a credit against his Indiana county adjusted gross income tax liability for the amount of local income taxes paid in his resident state. However, such credit is allowed only if the taxpayer's resident state allows a similar credit to Indiana residents working out-of-state and subject to a local income tax out-of-state.

Local Government Property Tax Controls

<u>In Counties Adopting the Tax</u>: If a county adopts the county adjusted gross income tax, no taxing unit within the county has the power to adopt, advertise or impose an excessive tax levy. An "excessive tax levy" means an ad valorem property tax levy by a taxing unit for a budget year which shall exceed in amount (1) the total dollar amount of such taxing unit's ad valorem property tax levy collectable in 1973, (2) plus the amount of federal revenue sharing funds actually received in 1972 and applied in reduction of its proposed or initially adopted tax levy for taxes payable in 1973, <u>less</u> (3) the amount, if any, of the property tax replacement credit to be distributed to such taxing unit during the year such levy is to be collected.

<u>In Counties Not Adopting the Tax</u>: Taxing units in counties not adopting the county adjusted gross income tax have no power to adopt or to advertise or to impose an ad valorem property tax levy for a budget year in excess of the following product:

(1) such taxing unit's 1973 ad valorem property tax levy

multiplied by

(2) total assessed valuation of property subject to tax
divided by
total assessed valuation of property subject to the taxing unit's 1973 ad valorem property tax levy

This has the effect of limiting additional revenue available to a taxing unit primarily to increases in assessed valuation. Levies may be increased to the extent that they were decreased in 1973 through the use of federal revenue sharing funds. Automobile excise tax revenue, federal revenue or other non-property tax revenue is not affected.

The above property tax levy limitations shall not apply to (1) bond indebtedness existing as of July 1, 1973, or (2) lease rentals pursuant to a lease or leases having an original term of not less than 5 years, which lease or leases were executed on or before July 1, 1973. The limitations also do not apply to bond indebtedness or lease agreements created or entered into after July 1, 1973, if approval is given by the State Board of Tax Commissioners.

No approval is necessary for temporary loans made in anticipation of and to be paid from current revenues of the taxing unit actually levied and in the course of collection.

Taxing units which did not levy an ad valorem property tax in 1973 must submit their budget, proposed tax rate and levy to the Local Government Tax Control Board (explained below) for approval. The levy approved by the Board shall then be considered as that taxing unit's "1973 ad valorem property tax levy" for purposes of local government property tax controls.

For taxing units which had an unusually low and inadequate property tax levy in 1973 it is possible to substitute the average property tax levy for 1970, 1971, and 1972 for the 1973 levy (if the three-year average is higher than the 1973 levy) for the purpose of determining the limits on future property tax levies.

Local Government Tax Control Board

Composition of Membership: The local government tax control board is composed of seven voting members and two ex officio non-voting members as follows:

(a) One member appointed by the State Board of Accounts,
(b) One member appointed by the State Board of Tax Commissioners,
(c) Two members appointed by the Governor (he may seek the recommendation of representatives of cities and towns and representatives of counties),
(d) Three members appointed by the Governor (citizens of the state not holding either a political or elective office),
(e) One ex officio member appointed by the Speaker of the House,
(f) One ex officio member appointed by the President Pro Tem of the Senate.

Appeal Procedures: Any taxing unit which shall deem it not possible to carry out its governmental functions and responsibilities within the limitation imposed by the control features on the property tax levies may appeal, on or before October 1 of each year, to the State Board of Tax Commissioners for relief. A "reasonably detailed statement of facts" as to why the responsibilities and functions cannot be carried out must accompany the appeal petition. The state Tax Board must forward all petitions for appeal to the Local Government Tax Control Board.

The Local Government Tax Control Board has power to require any officer or member of the appealing taxing unit to appear before the Board, or to produce such books and records as the Board deems pertinent to the appeal. The Tax Control Board is also empowered to seek court assistance, including the court's contempt powers, to enforce its orders.

Relief Available from the Board: In respect to appeals to the Tax Control Board, the Board may recommend the following types of relief:

(a) loan or loans from any funds of the state available for such purposes;
(b) permission to the taxing unit to reallocate the amount of county adjusted gross income set aside for property tax replacement credits (in this event the Tax Control Board shall also state the amount to be so reallocated);

(c) permission to the taxing unit to increase its levy above the limitations if the Tax Control Board deems that the increase is reasonably necessary due to increased costs of such taxing unit resulting from annexation, consolidation or other extensions of governmental services by such taxing units to geographic areas or to persons whose property was not subject to ad valorem property taxation in 1973;

(d) permission to the taxing unit to increase its levy in excess of limitations if such taxing unit is a city or incorporated town which has not imposed an ad valorem property tax levy for four (4) or more budget years; however, the aggregate rate for such levy shall not exceed $1.50;

((e) permission to the taxing unit to increase its levy in excess of limitations for the purpose of raising revenue to provide or operate community mental health or mental health retardation centers;

(f) permission to the taxing unit to increase its levy in excess of limitations if such a levy is necessary to pay operation and maintenance of a new or expanded capital facility which was under construction on July 1, 1973 and was not built as a replacement for an existing capital facility;

(g) permission to alter property tax control limits of any governmental unit for which the property tax had been erroneously computed in 1973;

(h) a combination of the above described forms of assistance.

Revenue Considerations

Total Revenue Impact: To assist in evaluating the revenue consequences of either adopting or not adopting the county income tax, information on property and income tax revenue for 1974 (the latest available data) is presented in Table 3. It should be emphasized that these are county-wide estimates for 1974. In some individual counties exceptional growth in either assessed valuation or income may have considerably altered the relationships presented.

In general, one expects income tax revenue to grow at a considerably higher rate than property tax revenue with no change in tax rates. This holds during periods when the general economy is strong and expanding. However, during a recession, the income tax collections will decline more than will property tax collections. Thus, one consequence of the local income tax is a shift from a relatively stable slow growth source of revenue to one in which revenue tends to fluctuate, but which will generally tend to expand more rapidly. For example, for the state as a whole assessed valuations have been increasing at an average rate of about 3 to 3.5% per year while personal incomes have been increasing by about 8% per year.

In most counties the income figures shown in Table 3 are conservative. For example, if incomes are increasing faster in a county than has assessed valuation, then the additional tax as a percent of property tax will be greater than is shown.

It should also be pointed out that these estimates will hold only for taxes of residents of a county. If adjoining counties decide not to levy the tax, and your county does levy it, you will receive additional revenue from residents of adjoining counties that are employed in your county.

It must also be remembered that when property is reassessed that substantial increases in assessed valuation will occur.

Impact on Local Government Budgets

The above discussions relate to total revenue. A percentage of the revenue collected from the local option tax must be allocated to property tax replacement.

An individual taxing unit in a county may estimate available revenue for local budgets by multiplying the total estimated county revenue for local budgets by a fraction. The fraction is determined by dividing that unit's attributed total tax levy by the total attributed levy of all taxing units in the county except local schools. (Definition of "attributed levy," page 4.)

To estimate available local option revenue for additions to budgets of all local units of government, the procedure in Table 2 may be used.

Because of the many different local conditions existing in the state, the procedure shown in Table 2 will be useful for preliminary planning purposes or for deciding on the level of tax to impose, if any. However, it should not be used for budget preparation. In some cases, local conditions may cause substantial differences from those obtained above. Therefore, estimates should be checked with local authorities who have more complete information than is available at the state level. For example, the above estimates do not provide for the possibility of new taxing districts

Commuting Patterns

As previously indicated, residents of non-adopting counties who work in an adopting county are liable for an adjusted gross income tax of 1/4 of 1% in the county of employment. To assist in evaluating the impact of commuting patterns on the tax, Figures 1 and 2 contain data on the number of people working outside their resident county.

Table 2. Estimating Available Local Option Revenue

Item	Revenue for certified shares: County total	Revenue for certified shares: Specified taxing unit
(1) Estimated county revenue from Table 3*	____	____
(2) Multiplied by tax rate	(1/2, 3/4, 1)	
(3) Equals estimated revenue from local tax	____	
(4) First year revenue for local budgets		
(a) If tax rate is 1/2%, multiply line 3 by 50%	____	____
(b) If tax rate is 3/4%, multiply line 3 by 33 1/3%	____	____
(c) If tax rate is 1%, multiply line 3 by 25%	____	____
(5) Second year revenue for local budgets		
(a) If tax rate is 1/2%, multiply line 3 by 50%	____	____
(b) If tax rate is 3/4%, multiply line 3 by 66 2/3%	____	____
(c) If tax rate is 1%, multiply line 3 by 50%	____	____
(6) All subsequent years revenue for local budgets		
(a) If tax rate is 1/2%, multiply line 3 by 50%	____	____
(b) If tax rate is 3/4%, multiply line 3 by 66 2/3%	____	____
(c) If tax rate is 1%, multiply line 3 by 75%	____	____

* In most cases this amount may be increased to account for growth in income since 1973-74. Remember state income tax collections have been increasing by about 8 percent per year.

Table 3. Property and Income Tax Data by County, 1973-74

County	Assessed Valuation ($000)	Average Rate	Levy ($000)	Local Income Tax Rate Adopted %	Anticipated Local Income Tax Revenue	Income Tax as % of Property Tax Levy	Income Tax As Property Tax Rate Equivalent
Adams	71,953	8.51	6,124		854	13.95	1.19
Allen	741,922	9.59	71,187		9,716	13.65	1.31
Bartholomew	167,481	8.91	14,930	1.00	1,835	12.29	1.10
Benton	46,223	6.41	2,963	0.50	115	3.88	.25
Blackford	30,123	9.34	2,812	0.50	165	5.85	.55
Boone	75,969	7.97	6,055		1,040	17.17	1.37
Brown	18,816	7.32	1,377	0.50	83	6.03	.44
Carroll	56,008	6.98	3,909	0.50	170	4.35	.30
Cass	102,088	7.55	7,706	0.50	471	6.11	.46
Clark	149,116	10.06	14,996		2,302	15.35	1.54
Clay	37,672	7.91	2,978		646	21.70	1.72
Clinton	77,544	6.86	5,318	1.00	632	11.88	.81
Crawford	13,033	7.00	912		167	18.29	1.28
Daviess	37,765	8.94	3,375		634	18.78	1.68
Dearborn	87,219	7.13	6,216		714	11.48	.82
Decatur	50,500	7.33	3,704	1.00	481	12.98	.95
DeKalb	65,293	7.98	5,212	0.50	369	7.09	.57
Delaware	236,743	10.85	25,694		3,675	14.30	1.55
Dubois	74,382	7.59	5,644		937	16.60	1.26
Elkhart	362,804	8.64	31,359	1.00	4,188	13.35	1.15
Fayette	64,060	8.41	5,389		773	14.34	1.21
Floyd	104,250	9.17	9,561		1,575	16.47	1.51
Fountain	41,466	7.46	3,095	0.50	181	5.86	.44
Franklin	26,369	7.29	1,923		304	15.81	1.15
Fulton	51,772	6.49	3,360		510	15.17	.98
Gibson	56,377	8.98	5,065		851	16.80	1.51
Grant	188,658	8.85	16,698		2,522	15.10	1.34
Greene	44,984	7.55	3,398		690	20.29	1.53
Hamilton	165,340	8.21	13,569		2,321	17.10	1.40
Hancock	82,067	7.77	6,375	1.00	1,097	17.20	1.34
Harrison	30,652	8.30	2,543		578	22.75	1.89
Hendricks	118,764	8.41	9,987	0.50	432	4.32	.36
Henry	105,242	8.68	9,130		1,771	19.40	1.68
Howard	240,025	8.03	19,271		3,372	17.50	1.40
Huntington	77,325	7.58	5,858	1.00	888	15.16	1.15
Jackson	67,298	8.26	5,560		968	17.41	1.44
Jasper	58,648	7.56	4,433	0.50	245	5.54	.42
Jay	53,888	8.94	4,819		654	13.57	1.21
Jefferson	73,519	7.62	5,604		638	11.38	.87
Jennings	29,378	7.95	2,336		427	18.29	1.45

Table 3. (continued)

County	Assessed Valuation ($000)	Average Rate	Levy ($000)	Local Income Tax Rate Adopted %	Anticipated Local Income Tax Revenue	Income Tax as % of Property Tax Levy	Income Tax as Property Tax Rate Equivalent
Johnson	112,599	9.15	10,306	0.50	1,018	9.87	.90
Knox	75,263	8.92	6,713		1,061	15.81	1.41
Kosciusko	148,663	6.49	9,654	0.50	717	7.42	.48
LaGrange	66,798	6.12	4,086		445	10.90	.67
Lake	1,264,772	14.49	183,311		18,451	10.07	1.46
LaPorte	266,036	10.22	27,188		3,267	12.02	1.23
Lawrence	67,800	7.04	4,770	1.00	900	18.87	1.33
Madison	280,257	9.58	26,840		4,955	18.46	1.77
Marion	1,955,381	11.21	219,211		27,393	12.50	1.40
Marshall	101,155	6.35	6,423	1.00	908	14.14	.90
Martin	15,839	7.23	1,146		264	23.02	1.67
Miami	68,068	8.90	6,055		960	15.85	1.41
Monroe	169,944	9.33	15,854		2,172	13.70	1.28
Montgomery	101,253	7.58	7,677		1,077	14.03	1.06
Morgan	78,721	8.61	6,780	0.50	622	9.18	.79
Newton	40,974	7.96	3,261	0.50	57	1.75	.14
Noble	71,428	7.28	5,202	1.00	851	16.37	1.19
Ohio	6,206	8.56	531	0.50	39	7.31	.63
Orange	31,361	6.50	2,038		331	16.24	1.06
Owen	22,404	8.63	1,933		295	15.24	1.32
Parke	31,633	7.35	2,324		382	16.43	1.21
Perry	28,809	6.95	2,002		460	22.99	1.60
Pike	54,483	6.20	3,380		306	9.04	.56
Porter	375,719	7.47	28,048		2,491	8.88	.66
Posey	73,335	6.93	5,084		641	12.60	.87
Pulaski	44,552	7.48	3,334		387	11.62	.87
Putnam	61,165	7.81	4,774		690	14.46	1.13
Randolph	70,392	6.71	4,726	0.50	332	7.02	.47
Ripley	42,482	7.89	3,350		597	17.82	1.41
Rush	55,867	6.32	3,531	0.75	249	7.06	.45
Scott	26,830	8.36	2,243		438	19.53	1.63
Shelby	88,491	8.19	7,245		1,116	15.40	1.26
Spencer	37,136	6.58	2,445		420	17.19	1.13
Starke	48,344	6.72	3,249	0.50	186	5.72	.38
Steuben	64,100	6.34	4,064	0.50	118	2.92	.18
St. Joseph	495,524	11.25	55,751		7,714	13.84	1.56
Sullivan	53,272	7.17	3,820		508	13.31	.95
Switzerland	15,981	8.05	1,287		106	8.25	.66
Tippecanoe	272,967	8.96	24,463		3,284	13.43	1.20
Tipton	47,067	7.80	3,673	0.50	227	6.17	.48

Table 3. (continued)

County	Assessed Valuation ($000)	Average Rate	Levy ($000)	Local Income Tax Rate Adopted %	Anticipated Local Income Tax Revenue	Income Tax as % of Property Tax Levy	Income Tax as Property Tax Rate Equivalent
Union	14,491	7.06	1,024	1.00	114	11.12	.79
Vanderburgh	336,478	10.72	36,078		5,211	14.44	1.55
Vermillion	64,116	5.31	3,403		417	12.26	.65
Vigo	212,708	10.81	23,000		2,863	12.45	1.35
Wabash	84,986	6.99	5,936	1.00	720	12.13	.85
Warren	30,026	6.96	2,090		171	8.16	.57
Warrick	143,922	4.81	6,927		1,006	14.52	.70
Washington	38,173	6.04	2,307	0.50	174	7.54	.46
Wayne	182,850	8.52	15,578	1.00	1,522	9.77	.83
Wells	68,203	6.61	4,509	0.50	305	6.75	.45
White	80,461	6.47	5,208	1.00	511	9.81	.64
Whitley	62,107	7.25	4,505		822	18.25	1.32
Totals	12,434,332	9.56*	1,188,783		150,260	12.64*	1.21*

* These values were computed from column total.

Explanation of Table 3

Column 1. Total county assessed valuation for 1974 in thousands of dollars.

Column 2. The average county property tax rate is obtained by dividing the total county property tax levy (Column 3) by the total county assessed valuation (Column 1).

Column 3. Total county property tax revenue for 1974 in thousands of dollars.

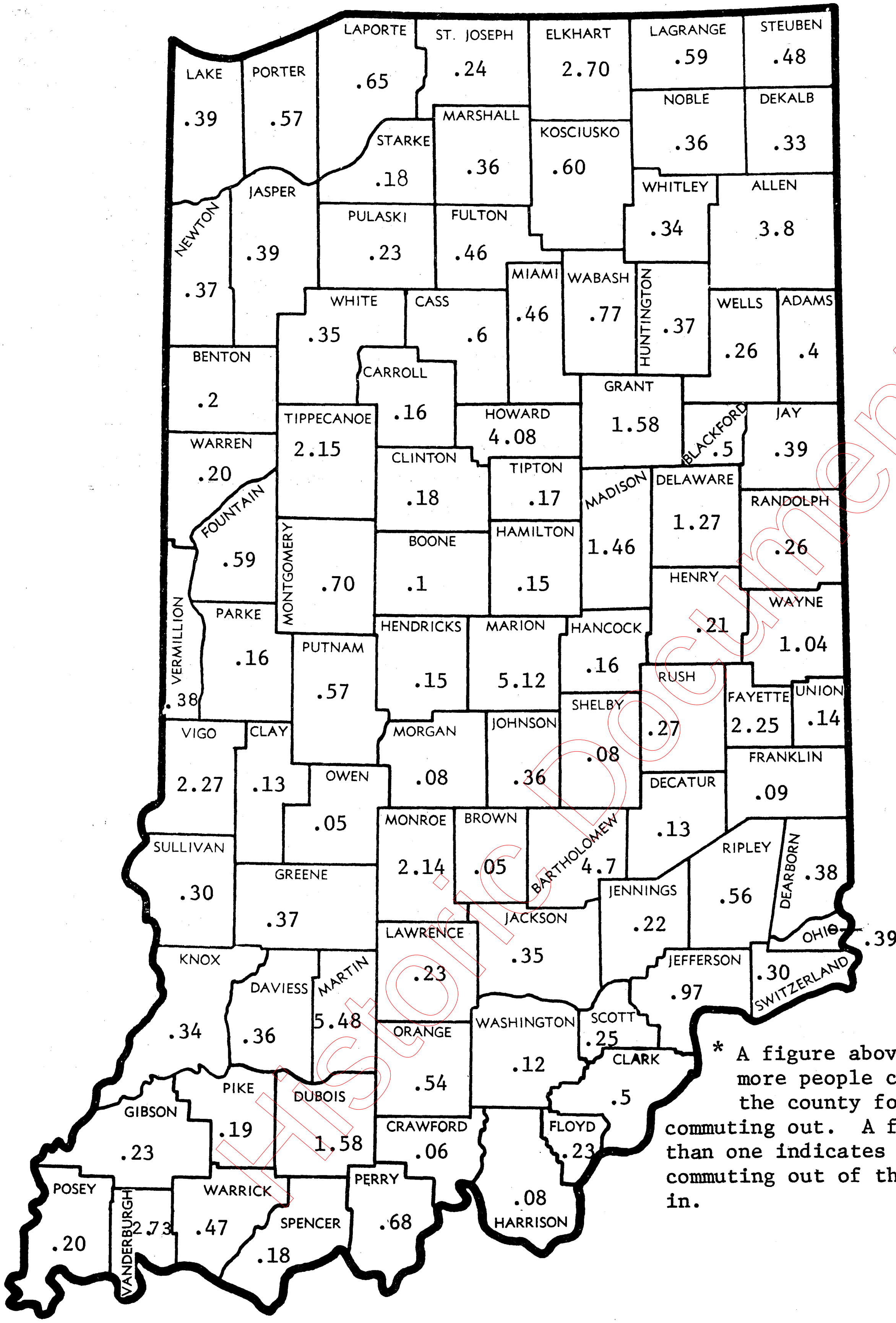
Column 4. Local Income Tax Rate adopted by each county; blank indicates a non-adopting county.

Column 5. For counties adopting the local income tax the amount of tax certified for distribution in 1974 is given; for non-adopting counties the anticipated revenue from an additional 1 percent income tax is given.

Column 6. Income tax (column 5) as a percent of the property tax levy (column 3)

Column 7. Income tax (column 5) as property tax rate equivalent, i.e. the increase in property tax rate which would give the amount of revenue shown in Column 5.

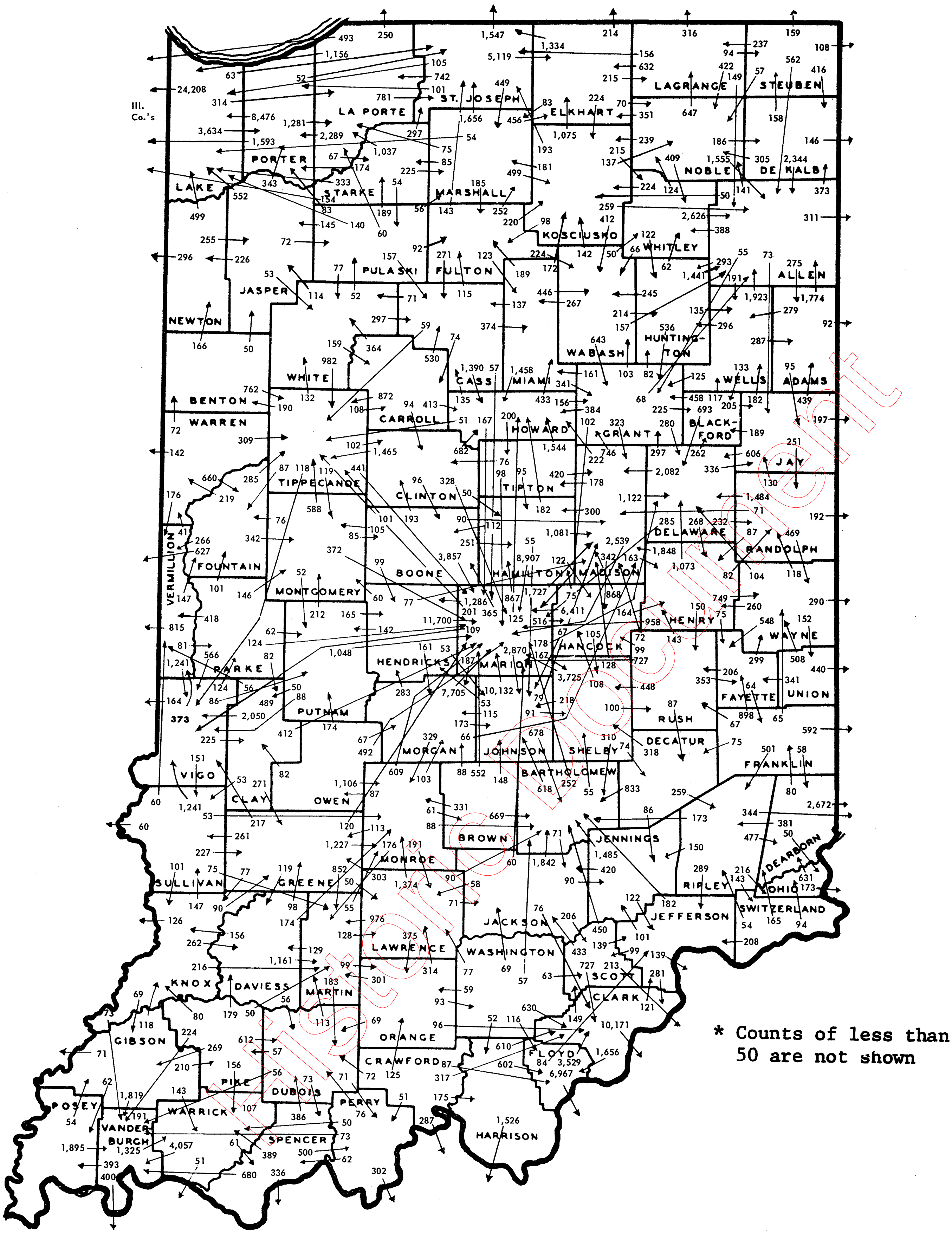
Figure 1. Ratio of Number of Non-resident Employees to Residents Employed Out of County*



* A figure above 1 indicates more people commuting into the county for work than commuting out. A figure of less than one indicates more people commuting out of the county than in.

Source: U. S. Census of Population

Figure 2. Number of Persons Employed Out of Their County of Residence, 1970*



Source: Indiana Employment Security Division as reported in 1970 Census of Population