



40 Years of local income taxes in Indiana: Trends, challenges, and implications for the future

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Purpose

The Indiana Fiscal Policy Institute and the Indiana University Public Policy Institute share an important mission: to produce unbiased and evidence-based research to inform the public policymaking process. With this report on local option income taxes in Indiana, the IFPI and PPI collaborate to further that shared mission. The combined knowledge, expertise and diversity in perspectives from these organizations provide insightful analysis on complex issues. This document is a resource for a long-term discussion on local income taxation in the state and the IFPI and PPI intend to continue to analyze important topics in public finance for Indiana.

About the author

Matt Nagle is a senior policy analyst at the Indiana University Public Policy Institute.

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Indiana Fiscal Policy Institute

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Executive Summary

In 2013, Indiana local governments will mark the 40th anniversary of using local option income taxes (LOITs). Over the last four decades (as of 2012), 91 of 92 counties have adopted at least one of the seven available LOIT rates to reduce property tax burdens, to expand operating budgets, and to fund capital investments. Combined with the state income tax rate, effective income tax rates by county vary from 3.4 percent to 6.5 percent. Over \$1.5 billion in LOIT revenues were distributed to counties in 2012, representing 19 percent of total taxes and 9 percent of total local revenue.

Fundamental shifts in economic activity and in the state's property tax system over the last four decades have been met only with incremental changes to LOIT. Property tax caps enacted in 2008 and new LOIT rates to replace losses from circuit breaker credits will further increase the importance of LOIT revenues to local fiscal officers. In effect, LOIT in 2012 is very important to fiscal sustainability for local governments but vulnerable to business cycles and complex to administer.

This report describes how LOIT works in Indiana, including evaluating the impact that LOIT has had on property tax burdens and local budgets, estimating the capacity for growth in revenues, and assessing how the economy and changes in administrative policies affect distributions to counties. In addition, the report offers suggestions to guide policy discussions toward a simpler and efficient system that provides consistency and adequacy for local governments that are heavily invested in LOIT.

The results of the external audit of state accounting procedures and technologies for LOIT and the report of a state-commissioned working group of state and local officials that is examining the process of collections, calculations, and distributions of local income are forthcoming. The work of these groups is important and it is hoped that this report will assist in those efforts as well.

This report finds the following:

- LOITs have reduced property taxes. Counties that use at least half of the LOIT dollars for property tax relief have average property tax rates of \$1.70 per \$100 net assessed valuation (NAV). Counties that devote between 10 percent and 40 percent of their LOIT proceeds to property tax relief have average property tax rates of \$2.40 per \$100 NAV. Over the last 30 years, property tax rates and year-over-year growth in levies have been consistently lower in LOIT counties than in counties without rates.
- LOITs have bolstered local budgets. Over time the addition of new LOIT options has allowed local governments to diversify the use of these tax proceeds. LOIT revenue as a share of local tax revenue has increased from 6 percent in 1987 to 19 percent this year. While this diversity gives local officials greater flexibility to determine sources of tax revenue, the increased reliance on economically sensitive income taxes makes them more susceptible to economic swings.
- The LOIT system currently uses less than half of its capacity, so additional revenue dollars are possible for counties. In many cases counties have room to raise existing rates and to adopt other rates. An additional \$2.4 billion in revenue could have been realized on 2013 distributions by all counties utilizing maximum rates. Clearly, all counties imposing local income tax rates in excess of 3.5 percent of taxable income is politically and economically untenable. However, the analysis shows that a substantial amount of revenue is available for local units in need of additional funds for operations and investments.

- The process for collecting and redistributing LOIT produces a two-year lag between when the state collects the tax and when it is distributed to the counties. This makes planning difficult, though recent changes including quarterly reports may produce more accurate local budget projections.
- The complexity of LOITs makes the system hard to manage. This complexity stems from the fact there are seven different LOITs and each has specific conditions for enacting the tax and the use of its proceeds. The interdependency between LOIT and property taxes and the rigidity of the system make these decisions very important.

Based on these findings, this report suggests the following for policy discussions:

(1) Policy adjustments are needed to reduce structural uncertainty within the LOIT system. LOIT distributions are used to set property tax levies. In the case where too little goes to counties, property taxes can be set too high and those higher property tax rates could push more properties above the threshold to receive property tax circuit breaker credits. In the long term things should balance out, but in the short term governments face uncertainty based on the web of interconnectedness between the seven LOIT rates and with the rest of the budgeting process.

(2) State agencies and local fiscal officers should work toward a means of compressing the lag in information on income tax collections. The process for collecting and redistributing the tax produces a two-year lag between when the state collects the tax and when it is distributed to the counties. This makes planning difficult, though recent changes including quarterly reports may produce more accurate local budget projections. State and local policymakers should work toward compressing the lag in information used for budgeting purposes while not sacrificing the validity of the data.

(3) Policy makers should decide on the appropriate level of local control in recalibrating LOIT for local conditions. More than ever, governments must adapt in a timely fashion to meet the needs of the taxpayers and local economy. Policy makers should determine whether the statutory requirements of the Indiana Code provide sufficient maneuverability in adapting LOIT to meet needs in real time.

(4) State government should provide adequate technical assistance for counties looking to adopt and set local rates. Counties wanting to expand their investment in the LOIT system have a variety of factors to consider and should have sufficient guidance and capacity for evaluation for the costs and benefits of alternative courses of action. As it currently stands, LOIT laws place long term and in some cases permanent obligations on counties' use of these funds. The ability of local units to adapt to the changing needs of their residents and economies is affected by these laws.

(5) A discussion is needed regarding the benefits of streamlining LOIT into one rate, with well-defined but flexible parameters around the use of revenues. Complexity is inherently infused into LOIT by the number of LOIT rates. An independent and data-driven analysis of the costs and benefits of eliminating the seven individual rates in favor of one rate with guidance on its use (property tax relief, operating funds, economic development earmarks, etc.) would be of value.

There is plenty of work for policymakers—and research organizations—to consider regarding local option income taxes. This report endeavors to better understand that system. Its findings are meant to spur ideas to alter the system for the benefit of Hoosier taxpayers and the local officials elected to serve them.

Introduction

Over the last 40 years Indiana local governments have looked to the income tax base as a means to leverage revenue flow to supplement stocks of property taxes. The tax reforms championed by the administration of Governor Bowen in 1973 allowed local governments to “buy down” property tax rates by implementing local option income taxes (LOIT). Adopting counties could tap into income earned to fund growing needs in services and investments while also satisfying the public’s desire to limit growth in property tax burdens.

However, the economic realities of the 21st century are very different than those of the 1970s when LOITs were first made available. Fundamental changes to property taxes have been accompanied by incremental changes to local income taxes. The result is a highly complex and interrelated tax system of seven separate LOIT rates that must be individual forecast, administered, and used by counties to set property levies. Going forward, it is important to understand these complexities, to identify stress points, and to discuss ways of making it simpler, more transparent, and more robust. This report serves as an objective and comprehensive resource for elected officials and key stakeholders to use in that discussion.

First, we provide context on the reasons for and implications of using local income taxes. Second, we review the historical timeline for local income taxation and the rationales for the adoption of it. We identify the rates available for counties to adopt, their purposes, and extent of usage in the state. In particular, we pay attention to the collection of taxes and subsequent redistribution to counties as a point of concern for the state and for counties. Third, we provide analyze local income tax revenues and how it affects the bottom line for counties and local units. We identify those counties that have taken a significant stake in local income taxes and compare revenue capacity across all counties. Fourth, we discuss implications facing counties.

Data provided by the Indiana State Budget Agency, Department of Revenue, Depart of Local Government Finance, and Legislative Services Agency are supplemented by discussions with state and local officials that work within the system.

LOIT use in Indiana (1973 to the present)

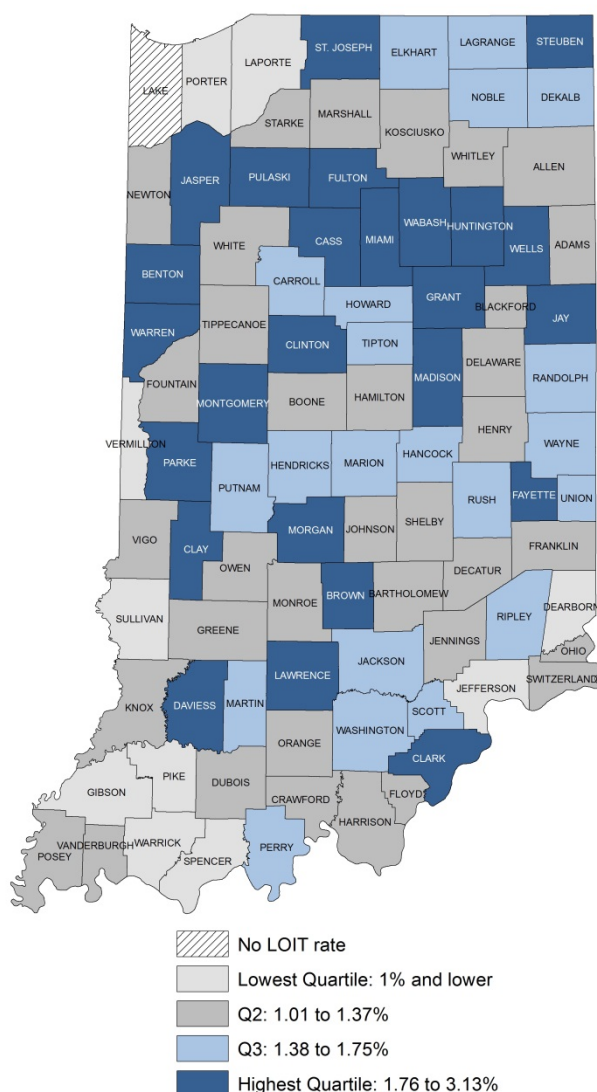
There are now seven LOIT rates available and used by Indiana counties.¹ The rates came into existence at different times over the last 40 years and carry with them varying restrictions and parameters for their use. While most were adopted and have been used to reduce property tax burdens, local units have gradually expanded the use of LOIT dollars to include general operating funds, economic development projects, and other investments. Since LOITs are levied by place of residence, those counties with LOIT rates also include commuter workers that live in counties without any LOIT rates. As of 2012, only Lake County does not levy any local income tax rates.

Each year the State Budget Agency certifies LOIT rates and the amount of revenues (known as certified distributions). For rates certified for calendar year 2013, 18 counties have total LOIT rates (including all individually adopted rates) at or above 2.5%. Pulaski (3.13%) and Jasper (3.11%) counties have the two highest in the state. When adding the state income tax rate of 3.4%, 30 counties have combined income tax rates above 5% and four counties (Jasper, Morgan, Pulaski, and Wabash) have rates at or above 6%

¹ The acronym *LOIT* is used as a general categorization for all local income tax rates available, and also commonly for the three newest rates. For this paper, LOIT is used to encompass all rates.

(Table 1). The mid-northern section of the state has the highest concentration of counties with high LOIT rates (Map 1).

Map 1 and Table 1: Total LOIT and combined state and local income tax rates by county, certified for 2013



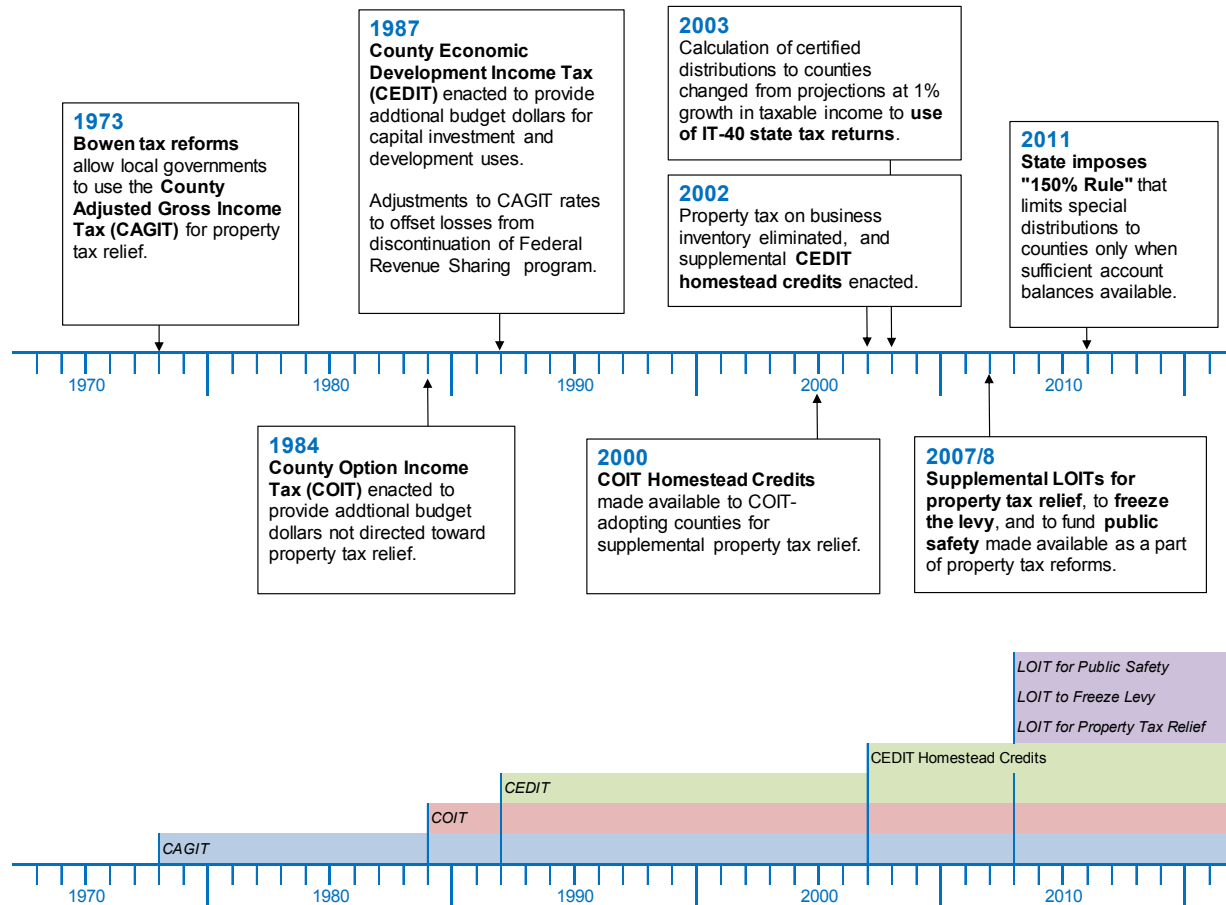
County	Local Rate	St+Loc Rate	County	Local Rate	St+Loc Rate
Adams	1.124	4.524	Lawrence	1.75	5.15
Allen	1	4.4	Madison	1.75	5.15
Bartholomew	1.25	4.65	Marion	1.62	5.02
Benton	2.29	5.69	Marshall	1.25	4.65
Blackford	1.36	4.76	Martin	1.5	4.9
Boone	1	4.4	Miami	2.54	5.94
Brown	2.2	5.6	Monroe	1.05	4.45
Carroll	1.7039	5.1039	Montgomery	2.1	5.5
Cass	2.5	5.9	Morgan	2.72	6.12
Clark	2	5.4	Newton	1	4.4
Clay	2.25	5.65	Noble	1.5	4.9
Clinton	2	5.4	Ohio	1	4.4
Crawford	1	4.4	Orange	1.25	4.65
Daviess	1.75	5.15	Owen	1.3	4.7
Dearborn	0.6	4	Parke	2.3	5.7
Decatur	1.33	4.73	Perry	1.56	4.96
Dekalb	1.5	4.9	Pike	0.4	3.8
Delaware	1.05	4.45	Porter	0.5	3.9
Dubois	1	4.4	Posey	1	4.4
Elkhart	1.5	4.9	Pulaski	3.13	6.53
Fayette	2.37	5.77	Putnam	1.5	4.9
Floyd	1.15	4.55	Randolph	1.5	4.9
Fountain	1.1	4.5	Ripley	1.38	4.78
Franklin	1.25	4.65	Rush	1.5	4.9
Fulton	1.93	5.33	Scott	1.41	4.81
Gibson	0.5	3.9	Shelby	1.25	4.65
Grant	2.25	5.65	Spencer	0.8	4.2
Greene	1	4.4	St. Joseph	1.75	5.15
Hamilton	1	4.4	Starke	1.06	4.46
Hancock	1.65	5.05	Steuben	1.79	5.19
Harrison	1	4.4	Sullivan	0.3	3.7
Hendricks	1.4	4.8	Switzerland	1	4.4
Henry	1.25	4.65	Tiptecanoe	1.1	4.5
Howard	1.6	5	Tipton	1.58	4.98
Huntington	1.75	5.15	Union	1.5	4.9
Jackson	1.6	5	Vanderburgh	1	4.4
Jasper	3.114	6.514	Vermillion	0.1	3.5
Jay	2.45	5.85	Vigo	1.25	4.65
Jefferson	0.35	3.75	Wabash	2.9	6.3
Jennings	1.25	4.65	Warren	2.12	5.52
Johnson	1	4.4	Warrick	0.5	3.9
Knox	1.1	4.5	Washington	1.5	4.9
Kosciusko	1	4.4	Wayne	1.5	4.9
LaGrange	1.4	4.8	Wells	2.1	5.5
Lake	0	3.4	White	1.32	4.72
Laporte	0.95	4.35	Whitley	1.2329	4.6329

Notes: State income tax rate is 3.4%; Table shows red-bordered counties with combined state and local rates above 6% of state taxable income.

Source: Authors, using data from State Budget Agency

History of LOIT policy changes

Figure 1: Timeline of local income taxation in Indiana, 1973-2013



	1973	1977	1982	1987	1992	1997	2002	2007	2012	2013
Counties with LOIT	33	37	38	65	78	85	85	91	91	91
As % total counties (92)	36%	40%	41%	71%	85%	92%	92%	99%	99%	99%
Average rate for counties (%)	0.70	0.89	0.90	0.82	0.94	1.01	1.06	1.27	1.44	1.45
Highest rate	1	1	1	1	1.25	1.25	1.55	3.13	3.13	3.13
Lowest rate	0.5	0.5	0.5	0.2	0.3	0.1	0.1	0.1	0.1	0.1
Total distributions (millions)	-	\$ 146	\$ 133	\$ 381	\$ 792	\$ 896	\$ 1,266	\$ 1,274	\$ 1,540	\$ 1,585

Note: Dollar values adjusted for inflation (2011=100).

Source: Authors, using data from State Budget Agency, Indiana General Assembly, and Department of Local Government Finance

1. County Adjusted Gross Income Tax (CAGIT, 1973)

CAGIT was created from the Bowen tax reforms in 1973 as an alternative funding mechanism for local governments and to buy down property taxes. Counties can adopt CAGIT at rates of 0.5%, 0.75%, and 1% of state taxable income for resident taxpayers, and 0.25% for non-resident payers living in counties without LOIT rates (IC 6-3.5-1.1; IC 6-1.1-18.5). Depending on the rate adopted, CAGIT-adopting counties must limit property tax levy growth initially and use the first quarter percent of the rate in distributed revenues to reduce property tax levies directly for all local units (Property Tax Replacement Credits, or PTRC). The remaining portion is, depending on the adopted rate, used for further property tax relief or for supplemental spending purposes among local units. The County Council is the governing body for CAGIT revenues and determines its rate, uses, and allocations. CAGIT is now distributed monthly to counties² and is then allocated to local units based on each unit's share of the collective property tax levy. The Indiana General Assembly has allowed Jasper, Jackson, Wayne, Elkhart, Marshall, and Daviess counties to use a higher rate to fund correctional facilities as well. As certified for 2013, 56 counties use CAGIT.

2. County Option Income Tax (COIT, 1984)

COIT was enacted in 1984 to provide funding flexibility for those counties that did not adopt CAGIT. COIT-adopting counties set the rate to 0.2% of state taxable income initially and then increase to 0.6% in 0.1% annual increments (IC 6-3.5-6). Indiana Code provides more flexibility in COIT use than in CAGIT use. COIT-adopting counties have the option to dedicate revenues to property tax relief, but are not statutorily required to do so. In effect, COIT dollars were budget builders rather than property tax replacers. Counties cannot impose both CAGIT and COIT at the same time. As with CAGIT, COIT distributions are allocated to local units within the county based the proportion of their respective levy relative to the county total. Unlike CAGIT, however, COIT counties establish a COIT council with 100 votes divided between the county unit and city/town units by population. In some cases, a city with a majority of the population takes a majority of COIT council votes. The General Assembly allows Miami County, Howard County, and Scott County to raise rates over normal limits for economic development purposes and allows Monroe County a supplemental rate to fund juvenile detention facilities. As certified for 2013, 28 counties use COIT.

3. County Economic Development Income Tax (CEDIT, 1987)

CEDIT is available for adoption by CAGIT counties, COIT counties, and to counties with no LOIT rates. CEDIT expands the possibilities for revenue diversification to fund economic development, capital improvement projects, and debt service from the income tax base (Indiana Department of Local Government Finance, 2009). After property tax reforms in 2008, the use of CEDIT was generally expanded to other non-economic development uses as well. CEDIT is distributed semi-annually and can be adopted at rates between 0.1% and 0.5% of state taxable income (IC 6-3.5-7). The combined rate for CAGIT and CEDIT cannot exceed 1.25%; the combined rate for COIT and CEDIT cannot exceed 1% (though exceptions now exist for county-funded homestead credits and for other specifically designed purposes).

The County Council is the adopting and regulating body in cases where the county has a CAGIT rate. For counties with a COIT rate, the COIT council assumes that role. In cases where the county does not have

² Changed from semi-annual distribution by House Enrolled Act 1072-2011.

a CAGIT or COIT rate, either body assumes the role. Counties allocate CEDIT dollars to local units based on property tax shares relative to the county total, though for counties that adopted after June 1992, the allocations may be made based on population rather than by property tax shares. As certified for 2013, 77 counties use CEDIT, either alone (7 counties) or in combination with CAGIT (50) or COIT (20).

3b. CEDIT for Homestead Credits (CEHC, 2002)

In 2002, the General Assembly moved the mix of local revenue sources further away from property taxes and toward local income taxes. In a special session, the General Assembly passed Public Law 192 (HEA 1001, PL 192, 2002) that required counties to deduct the full amount of assessed value from business inventory from the tax base by 2006. To offset the loss in property tax revenues from business inventory, counties with CEDIT rates were given the option of a supplemental homestead credit (Faulk, Kuhlman, Salimova, & Devaraj, 2011). As certified for 2013, 39 CEDIT counties have adopted a homestead credit component.

4. Supplemental LOITs (2008)

With the imposition property tax caps in 2007 and 2008, the General Assembly enacted three supplemental local income tax rates for counties to adopt (HEA 1478-2007). Colloquially, these rates are known as the supplemental LOITs. Two of these supplemental rates were designed to replace losses from property tax cap credits as a result of the constitutional caps on property tax rates. A third rate was added to supplemental general revenues for funding public safety operations. All supplemental LOITs use state taxable income as the base.

4a. LOIT for Property Tax Relief (LPTR, 2008)

The LOIT for Property Tax Relief (LPTR) provides direct relief in the form of county-funded homestead credits or property tax replacement credits to all taxpayers in the county, as a homestead credit to owner-occupied homes, as a residential property tax replacement credit, or through a combination of these groups (IC 6-3.5-1.1-26; IC 6-3.5-6-32). LPTR acts as a supplemental rate on either the base CAGIT or base COIT rates, depending on the county. As certified for 2013, 39 counties have adopted LTPR.

4b. LOIT for Property Tax Replacement, or the “Levy Freeze” (LPTF, 2008)

LPTF allows local budgets to grow based on income tax dollars rather than on property tax levy dollars (IC 6-3.5-1.1-24; IC 6-3.5-1.5; IC 6-3.5-6-30). The Department of Local Government Finance certifies the rate at which a county should levy LPTF to truly “freeze” the operating levy of local units. Counties that adopt LPTF initially have a rate set to double that of the levy freeze amount so that the additional revenues go to a stabilization fund to offset business cycle effects. In subsequent years, the LPTF rate returns to a level that fully replaces the incremental growth in the property tax levy. Counties have the discretion to set LPTF at some non-zero rate below the full freeze rate. The rate remains at the initial level until the County Council or COIT council votes to increase it. It is important to note that the freeze rate cannot be reduced or rescinded. As with LPTR, LPTF acts as a supplemental rate on either the base CAGIT or base COIT rates. As certified for 2013, 11 counties have adopted LPTF.

4c. LOIT for Public Safety (LPS, 2008)

The county that adopts the LOIT for Public Safety, which must also adopt either LPTR or LPTF, uses it to fund police protection and various emergency response services within the county (IC 6-3.5-1.1-25; IC 6-3.5-6-31). LPS is unique among the supplemental LOITs in that all of it is used for general operating costs rather than as a means of directly reducing levies in the county. As certified for 2013, 21 counties have adopted LPS.

Table 2: Local income tax usage in Indiana, selected years 1973-2013

	1973	1977	1982	1987	1992	1997	2002	2007	2012	2013
CAGIT counties	33	37	38	48	51	54	53	56	56	56
CAGIT only	33	37	38	48	31	17	11	7	7	6
CAGIT and CEDIT	-	-	-	-	20	37	42	49	49	50
COIT counties	-	-	-	17	23	25	27	28	28	28
COIT only	-	-	-	17	17	15	14	9	8	8
COIT and CEDIT	-	-	-	-	6	10	13	19	20	20
CEDIT only	-	-	-	-	4	6	5	7	7	7
CEDIT for Homestead Credits	-	-	-	-	-	-	-	42	39	39
LOIT for Property Tax Relief	-	-	-	-	-	-	-	10	30	30
LOIT for Levy Freeze	-	-	-	-	-	-	-	8	11	11
LOIT for Public Safety	-	-	-	-	-	-	-	7	21	21
Total counties with LOIT	33	37	38	65	78	85	85	91	91	91
As % total counties (92)	36%	40%	41%	71%	85%	92%	92%	99%	99%	99%
Average rate for counties (%)	0.70	0.89	0.90	0.82	0.94	1.01	1.06	1.27	1.44	1.45
Highest rate	1	1	1	1	1.25	1.25	1.55	3.13	3.13	3.13
Lowest rate	0.5	0.5	0.5	0.2	0.3	0.1	0.1	0.1	0.1	0.1
Total distributions (millions)	-	\$ 146	\$ 133	\$ 381	\$ 792	\$ 896	\$1,266	\$1,274	\$1,540	\$1,585

Note: Dollar values adjusted for inflation (2011=100)

Source: IU Public Policy Institute, using data from State Budget Agency, Department of Local Government Finance

Other policy changes

Beside new LOIT types made available, several important changes occurred to certified distributions to counties. Prior to 2003, the State Budget Agency would use projections of expected local income tax collections to determine the amount of LOIT revenue to be distributed back to counties for the upcoming calendar year. Senate Enrolled Act 167-2003 changed this method by requiring the Budget Agency to use official state tax returns (IT-40 returns) as the means of determining certified distributions. The use of official tax returns effectively eliminates errors in what *ought* to be distributed by using data on what was *actually* collected for taxpayers. However, the use of state tax returns creates a two-year lag in the collections-distributions process.

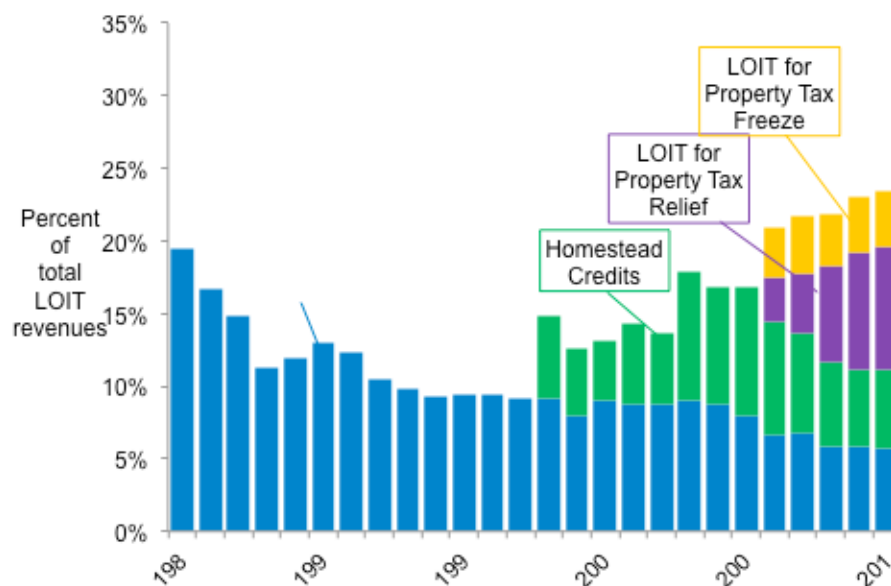
In addition to what counties receive based on income tax collections (certified distributions), counties occasionally receive additional tax revenues that accumulated in special LOIT fund balance accounts within the state's General Fund. SEA 167-2003 requires that the State Budget Agency remit all excess funds in county LOIT accounts back to counties as supplemental distributions.

These changes and the impact of the economic recession in 2008 led to significant over-distributions of LOIT revenue to counties. Certified distributions to counties in 2009 and 2010 were based on income taxes collected *prior* to the recession (tax years 2007 and 2008). Income taxes collected in late 2008 and 2009 were significantly lower due to higher unemployment, meaning less money earned to tax. As a result, collections for counties could not keep up with distributions during those times. Supplemental distributions and excess certified distributions led to significant negative balances for a majority of counties.

II. LOITs, and property taxes and local budgets

Over time and with the enactment of COIT and CEDIT rates for general operating purposes, total shares of LOIT revenue dedicated to property tax relief have declined. With the property tax reforms of 2008 and subsequent adoption of supplemental LOITs for property tax replacement, the total share of local income tax dollars dedicated to buying down property tax burdens has increased (Figure 2). Since the time that COIT and CEDIT were made available and a majority of counties began to adopt LOIT, average property tax burdens have been lower in adopting counties compared to non-adopting counties over time.

Figure 2: Percent of LOIT revenues going to property tax relief, 1987-2012

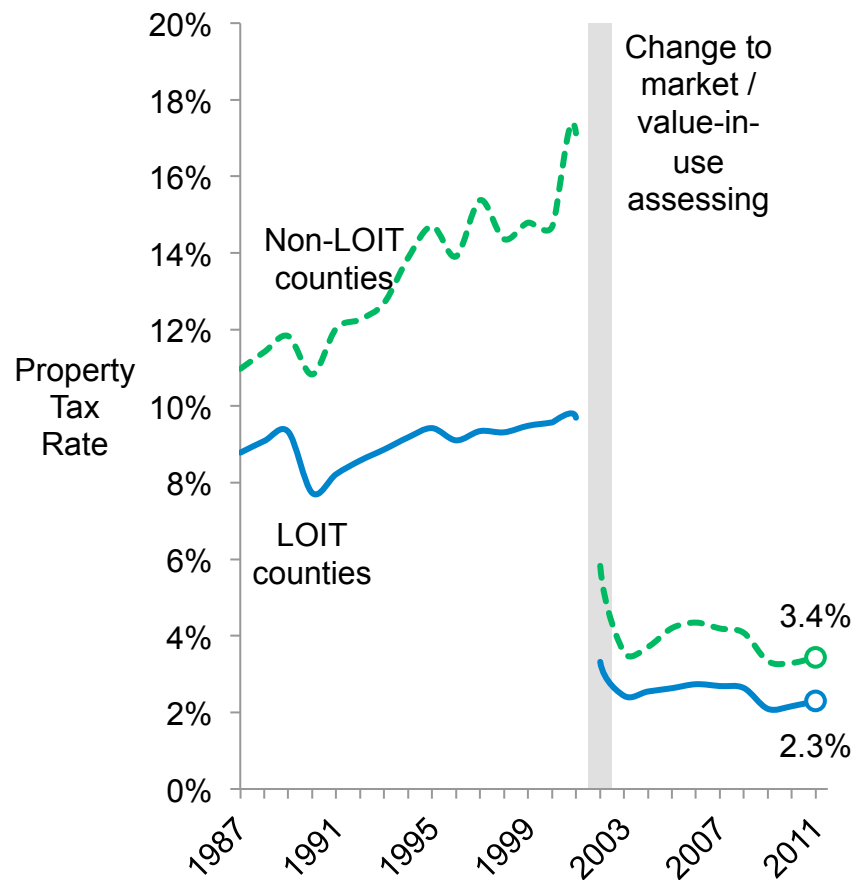


Source: IU Public Policy Institute, using data from State Budget Agency and Department of Local Government Finance

In general, counties have become increasingly reliant on local income tax dollars to buy down property tax rates. Year-over-year growth in property tax rates has been lower for LOIT counties than for counties without rates (Figure 3). Property tax rates are set by dividing the amount of money in addition to other revenue sources needed to fund budgets (the levy) by total assessed values of all properties in the county. LOIT dollars reduce the amount (levy) needed, so the property tax rate tends to be lower as greater amounts of alternative revenues are available. Counties that use at least 50 percent of LOIT

dollars to replace property taxes have average property tax rates of about \$1.70 per \$100 net assessed valuation (NAV) (Figure 4). Counties devoting 10 to 40 percent have average rates of \$2.40 per \$100 AV. Lake County, which does not use LOIT, has an average property tax rate of \$3.44 per \$100 NAV (calculated using data from Department of Local Government Finance).

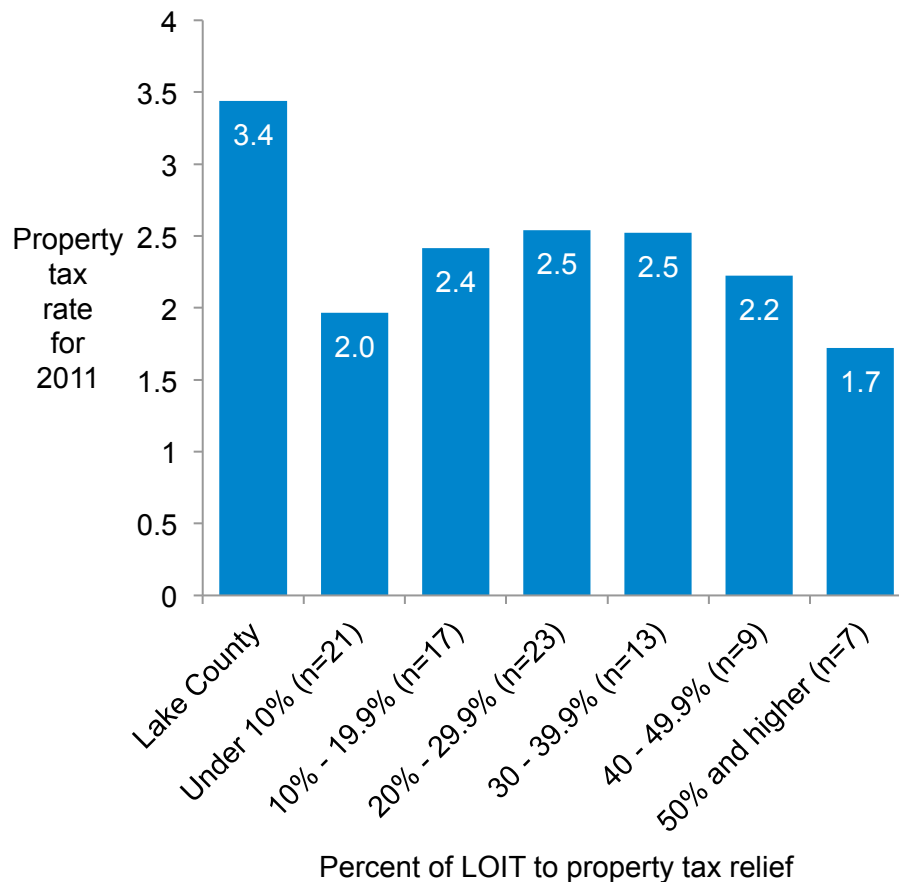
Figure 3: Property tax rates for Indiana counties, LOIT-adopting versus non-adopting, 1987-2011



Note: Property tax rate calculated as certified gross levies divided by net assessed value of property

Source: IU Public Policy Institute, using data from State Budget Agency and Department of Local Government Finance

Figure 4: Property tax rates for Indiana counties, by share of LOIT revenue going to property tax relief, 2011



Source: IU Public Policy Institute, using data from State Budget Agency and Department of Local Government Finance

Notes: Excludes Laporte County, which did not report property tax information for 2011

As mentioned above, counties have become increasingly reliant on local income tax dollars to buy down property tax rates, but also to fund general operating services and investments. After property tax reforms and with the new supplemental LOITs made available in 2008, local income taxes now represent over 9 percent of total local revenues and 19 percent of total taxes (Table 3). As a share of total local budgets, LOIT dollars have grown substantially while property taxes as a share of budgets have remained relatively constant, except for the sharp drop after 2008 when the state assumed funding responsibilities for schools and the welfare levy. (Indiana Department of Local Government Finance, 2010) (Figure 5).

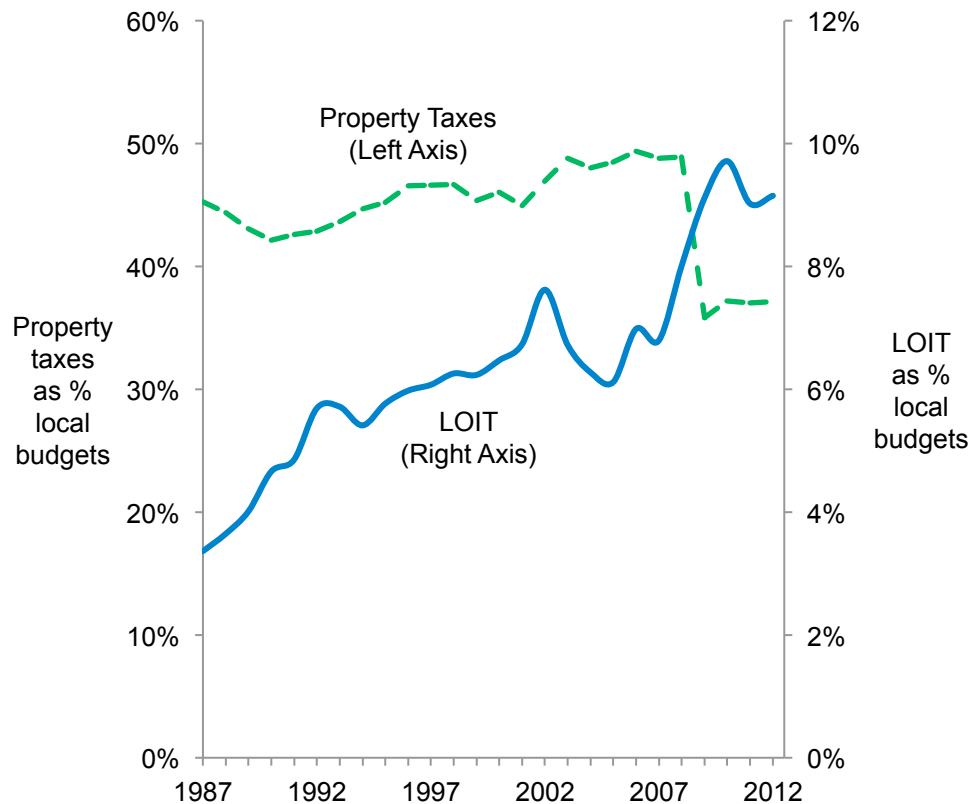
Table 3: Local income taxes as a share of revenues for Indiana local units, selected years 1987-2012

Revenues in millions \$	1987	1992	1997	2002	2007	2008	2009	2010	2011	2012
General own source										
Taxes										
Property	\$ 5,139	\$ 5,989	\$ 6,902	\$ 7,808	\$ 9,180	\$ 9,104	\$ 6,337	\$ 6,360	\$ 6,222	\$ 6,254
LOIT	\$ 381	\$ 792	\$ 896	\$ 1,266	\$ 1,274	\$ 1,487	\$ 1,609	\$ 1,661	\$ 1,508	\$ 1,540
Excise	\$ 255	\$ 276	\$ 335	\$ 320	\$ 294	\$ 289	\$ 241	\$ 228	\$ 200	\$ 205
Other	\$ 100	\$ 108	\$ 76	\$ 88	\$ 115	\$ 195	\$ 114	\$ 131	\$ 115	\$ 117
Total Taxes	\$ 5,876	\$ 7,166	\$ 8,209	\$ 9,482	\$ 10,862	\$ 11,075	\$ 8,301	\$ 8,380	\$ 8,044	\$ 8,116
Licenses, Permits, Fines, Fees	\$ 3,700	\$ 4,451	\$ 4,959	\$ 5,487	\$ 5,541	\$ 5,371	\$ 7,749	\$ 7,492	\$ 7,254	\$ 6,855
Total general own source	\$ 9,575	\$ 11,617	\$ 13,168	\$ 14,969	\$ 16,404	\$ 16,446	\$ 16,050	\$ 15,872	\$ 15,299	\$ 14,971
State distributions	\$ 780	\$ 753	\$ 841	\$ 835	\$ 919	\$ 829	\$ 905	\$ 893	\$ 812	\$ 719
Federal distributions	\$ 861	\$ 968	\$ 669	\$ 685	\$ 747	\$ 749	\$ 542	\$ 613	\$ 514	\$ 466
Sales, Investments	\$ 298	\$ 434	\$ 388	\$ 619	\$ 494	\$ 459	\$ 410	\$ 332	\$ 349	\$ 754
TOTAL LOCAL REVENUE	\$ 11,515	\$ 13,771	\$ 15,066	\$ 17,107	\$ 18,564	\$ 18,484	\$ 17,907	\$ 17,710	\$ 16,973	\$ 16,910
LOIT as % Total Taxes	6%	11%	11%	13%	12%	13%	19%	20%	19%	19%
LOIT as % General Own Source	4%	7%	7%	8%	8%	9%	10%	10%	10%	10%
LOIT as % TOTAL REVENUE	3%	6%	6%	7%	7%	8%	9%	9%	9%	9%

Note: Adjusted for inflation (2011=100)

Source: IU Public Policy Institute, using data from Department of Local Government Finance; State Budget Agency

Figure 5: Property Taxes and LOIT revenues as a share of local budgets, 1987-2012



Source: IU Public Policy Institute, using data from Department of Local Government Finance; State Budget Agency

III. Prospects for growth in LOIT revenue

Counties with LOIT rely on growth in population, employment, and salaries to grow LOIT revenues. However, counties in need of additional revenues might have the capacity to increase revenues by either adopting new rates or increasing existing ones. Local governments now operate in an increasingly revenue-constrained environment. Many counties have the ability to either increase already-adopted rates and/or to adopt other rate types as well. In determining the potential revenues from LOIT, the two primary components are growth in the income tax base and the capacity to adopt and increase LOIT rates to statutory maximums.

Statewide from 2000 to 2007, data from the Indiana Department of Revenue show that state taxable income grew at an annualized rate of 1.3%.³ For the recession of 2008, taxable income actually declined at an annualized rate of 3.5%. As for potential growth in LOIT revenues moving forward, we should recognize that income growth is not uniform across all counties. Depending on demographic and employment-related composition of residents, and the accessibility to job centers, some areas experience rapid growth whereas others do not. The highest rate of growth for counties from 2000 to 2007 was 5.9% (Whitley) and from 2008 to 2011 the highest was actually no growth at all (Carroll). The most extreme declines for those time periods were negative 2.7% (Fayette) and negative 9.5% (DeKalb), respectively. The point is that there is considerable variation in income growth by county and that some counties heavily invested in the LOIT system might not realize the income growth needed to fund expanding service demands.

The other opportunity for enhanced LOIT revenues comes through increasing the LOIT rates to statutory maximums. There are political challenges in getting approval not only from the County or COIT Council, but also from voters that may rebel in an anti-tax climate. In addition, the General Assembly must approve increases to LOIT rates beyond statutory maximums and must approve initial adoptions. In urban areas, there may also be the potential for incentivizing taxpayers to move to nearby, but less urban counties where rates are lower but that still allow them to commute to the employment county.

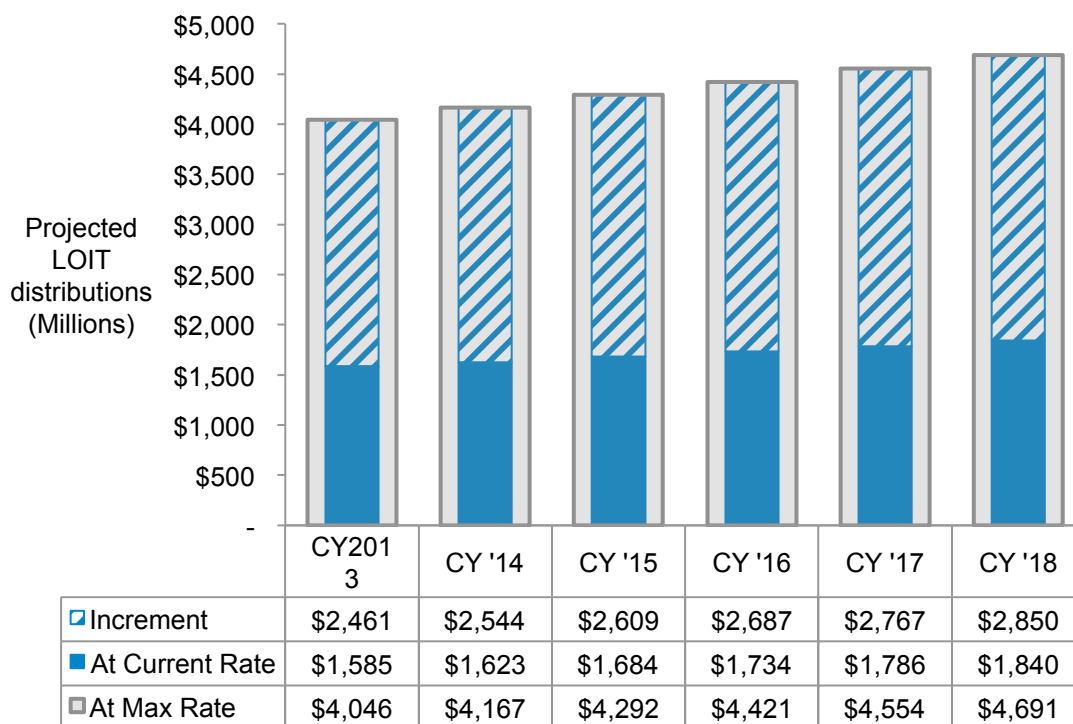
Eight counties have adopted six of seven possible and, since CAGIT and COIT cannot be adopted together, have effectively adopted all possible LOIT rates. Six counties have adopted five of seven. Of the 91 Indiana counties that have adopted LOIT rates, 37 have reached the maximum rate for the combined LOITs they currently utilize (Indiana Legislative Services Agency, 2011). Note that these counties are not truly “maxed out” in their rate; some could adopt other supplemental LOITs. Counties that have reached their maximum current LOIT rates will need to adopt new LOITs in order to increase future revenues, or work to control future expenditures. Seventy counties with legacy LOITs (CAGIT, COIT, or CEDIT) have reached their maximum base rates.

The total amount of LOIT revenue possible from all counties adopting all LOIT rates and setting all rates to statutory maximums more than doubles the current amount distributed to counties. CAGIT counties have a maximum rate of 3.75% (to include CAGIT, CEDIT, and all supplemental LOITs); COIT counties have a maximum of 3.5%; CEDIT-only counties have a maximum of 0.75% (DeBoer, 2009). With all counties (except Lake County) at maxed rates, over \$4 billion is estimated for LOIT revenues for CY 2013 using state taxable income from 2011, about \$2.4 billion above the current certified distribution amount. Over time, and with an expected 3% growth rate in state taxable income, potential LOIT revenues increase to nearly \$4.7 billion in CY 2018 (Figure 6).

³ Data available by request.

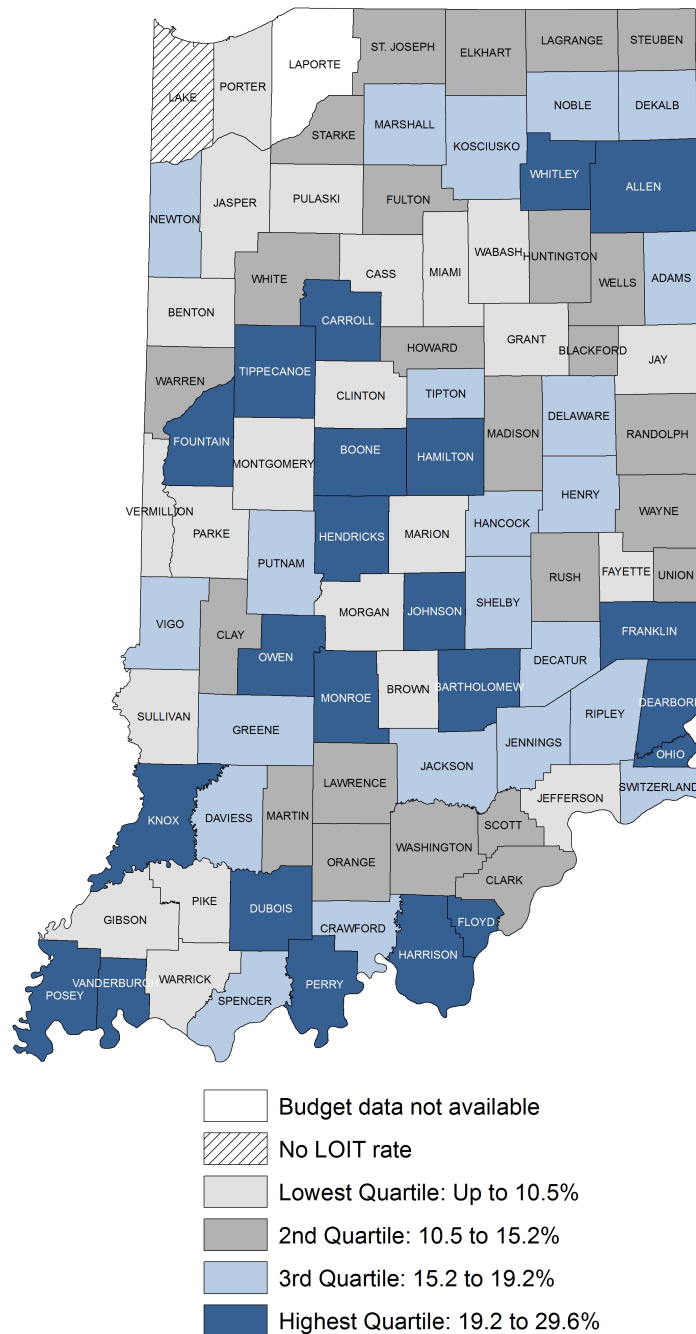
To put these numbers in perspective, we can examine the potential increment in LOIT revenues from maxing rates against the size of each county's combined budgets (Map 2). Taking the incremental gain in LOIT revenues as a percent of total budgets, the mean rate statewide is 15.2%, with the highest rate of 29.2% (Hamilton County). Urbanized counties including Allen, Hamilton, Boone, Hendricks, and Vanderburgh could realize significant gains in LOIT relative to budgeted obligations. However, this scenario is intended only for illustrative purposes. Clearly, for all counties to simultaneously increase their combined LOIT rates to 3.5% or 3.75% (effective state and local rate of 6.9% and 7.15%, respectively) could have adverse impacts on economic activity and could affect residential patterns, jobs growth, and other factors.

Figure 6: Forecast of LOIT revenues: Current LOIT rates versus maximum possible rates, 2013-2018



Notes: Forecasts assume the following --
 -- 3% annual growth in state taxable income
 -- CAGIT and COIT counties adopt CEDIT and all supplemental LOIT rates to maximum levels
 -- CEDIT-only counties maximum rate (no CAGIT, no COIT)
 -- Lake County does not adopt
 Source: IU Public Policy Institute, using data from State Budget Agency and Department of Revenue

Map 2: Maximum potential LOIT revenues as a percent of total budgets, 2013



Note: LOIT revenues estimated using state taxable income by county for 2011 multiplied by the maximum combined LOIT rate for each county (3.75% for CAGIT counties, 3.5% for COIT counties, and 0.75% for CEDIT-only counties)

Source: IU Public Policy Institute, using data from State Budget Agency and Legislative Services Agency

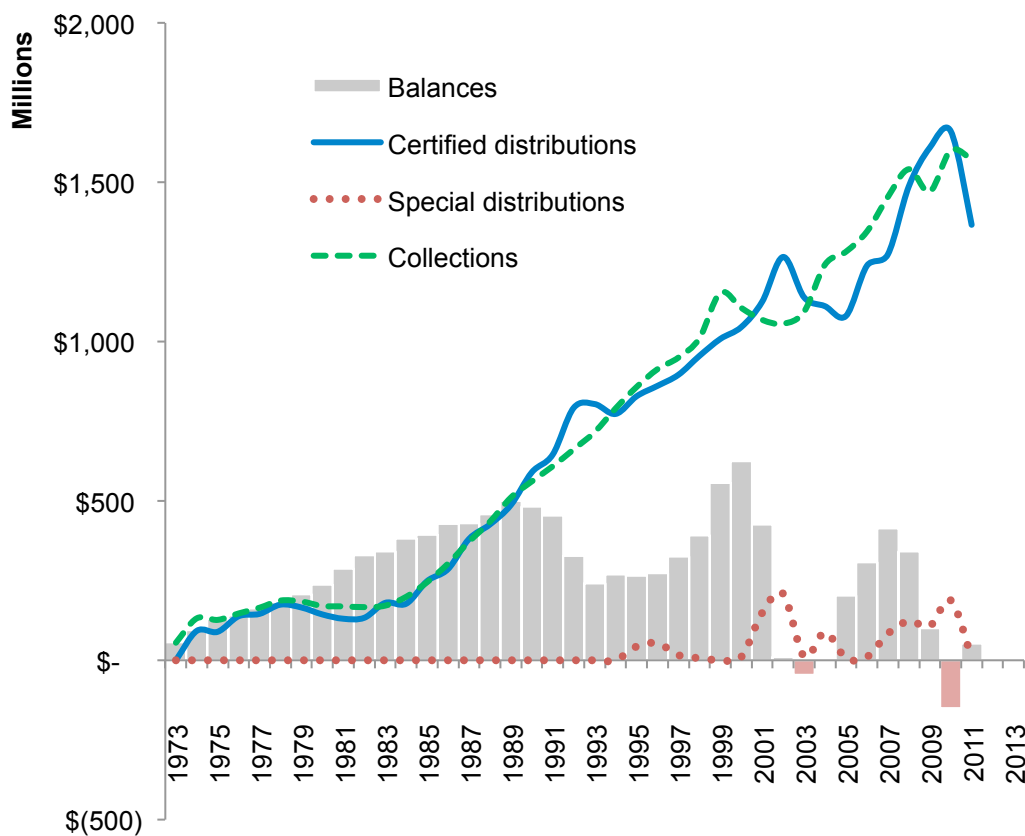
IV. Challenges with LOIT

Clearly, local income taxes are a central piece of local government budgets. While a significant amount of LOIT dollars replaces property tax dollars, localities are now using more income tax revenues for general operations, economic development projects, and other investments. In the property tax cap environment where alternative (non-property tax) revenue streams are increasingly important, we should consider a few things: (1) the income tax base is more vulnerable to business cycles than property taxes, which creates more volatility in revenue sources for local governments; (2) the timeline for administering LOIT is generally not well understood but is fundamental to local budgeting; and (3) the administration of seven LOIT rates has become very complex and is highly interrelated with property taxes.

The effects of economic cycles on LOIT and local budgets

In the 2000s the use of state tax returns and elimination on restrictions for supplemental LOIT distributions created greater volatility in LOIT account balances and made economic cycles increasingly relevant. A time series chart of county income tax collections, certified distributions, special distributions, and county LOIT balances highlight the loss of equilibrium in LOIT as compared to earlier years (Figure 7).

Figure 7: Local income tax flows and fund balances, 1973-2013



Notes: Adjusted for inflation (2011=100); Collections and ending balance not available for 2012 and 2013
Source: IU Public Policy Institute, using data from State Budget Agency

From 1973 to 2002, county income tax collections were generally on par with distributions to counties, and the accounts that held LOIT funds within the state General Fund accumulated balances. During this time the state required that the LOIT accounts maintain balances of at least six months' collections (except for a brief period during the mid-1990s when it was three months' worth) and distributions were calculated using forecasts of collections rather than official records of collections. Then, as amended by Public Law 267-2003, the state began to use state tax returns to calculate certified distributions instead of annual forecasts of income collected. In addition, the state rescinded the balance requirements and remitted any positive balances to counties as special distributions (not part of the normal certified distribution).

Two significant recessions in 2002 and 2008 constrained LOIT collections and the lagged timeline for distributions meant that counties received certified distributions from LOIT accounts that far exceeded collections from taxpayers. LOIT accounts were overdrawn and significantly so. In 2009 and 2010, 18 percent and 64 percent of counties, respectively, had negative account balances. Balances have recovered in 2011 and are expected to recover further in 2012 because of reduced distributions (the effect of less income to tax in 2008 and 2009) and state policy decisions to hold distributions at lower levels to allow negative account balances to recover.

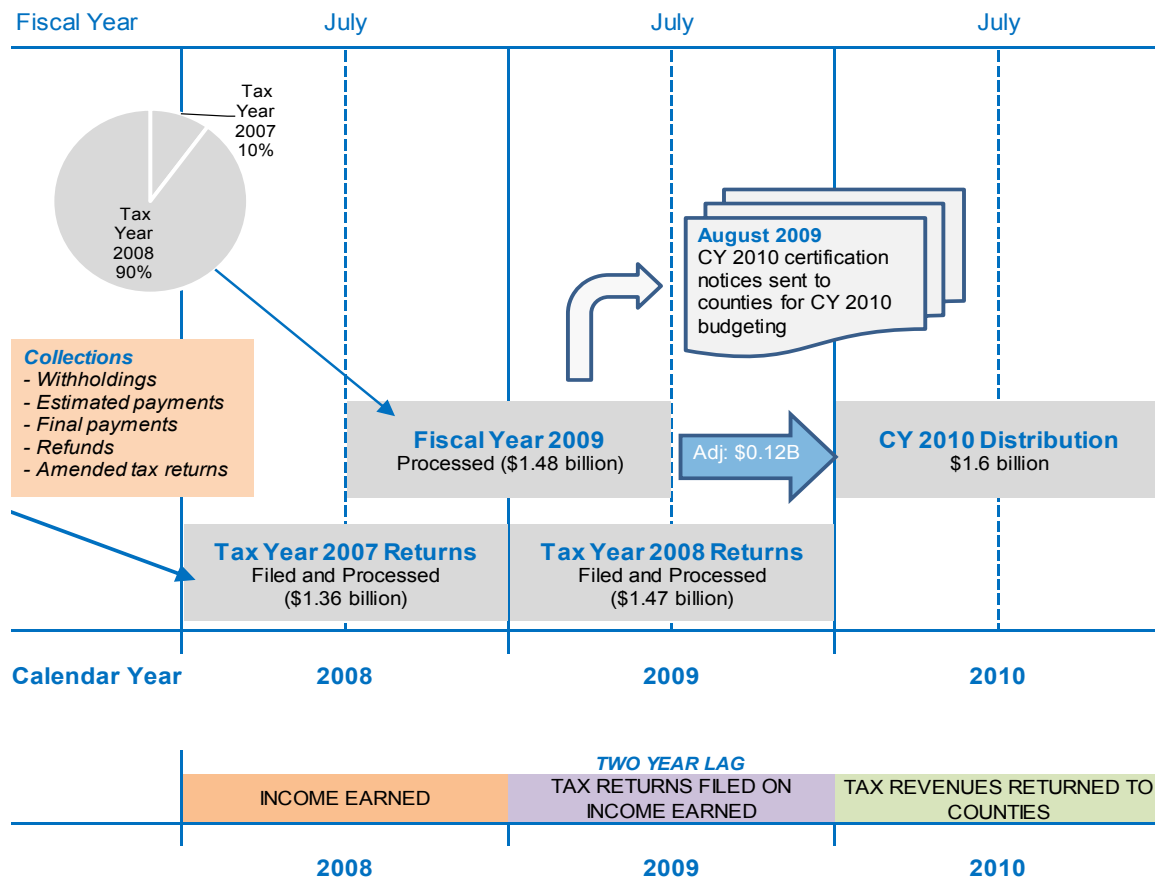
To prevent prolonged and future instances of over-distributions, the "150% Rule" was put into place, stating that supplemental distributions (i.e., extra money above the certified amount) occur only when LOIT account balances for a county exceed 150% of the upcoming year's certified distribution (Indiana State Budget Agency, 2011, and codified by IC 6-3.5-1.1-21.1, IC 6-3.5-6-17.3, and IC 6-3.5-7-17.3). It should be noted that the reinstatement of reserve requirements for LOIT accounts shields against the challenges seen in the 2000s and, while limiting distributions to counties in the short term, should prevent wild fluctuations in the long term that could further perturb the budgeting process.

The complexity in administration produced a sizable error in LOIT distributions in 2012. The Department of Revenue discovered an error in its account allocations for income dollars. In effect, a software error underreported to the State Budget Agency the correct amount to be transferred to counties as certified distributions (about \$207.8 million) for 2011 and 2012 (DeBoer, 2012). To correct the error, the State Budget Agency authorized a restated certified distribution for counties in April 2012 based on the incremental amount each should have received originally (State Budget Agency, 2012b). Local units were advised to use the incremental amounts for statutory uses only (State Budget Agency, 2012c). As is clear by now, the importance of LOIT to local budgets requires careful attention to avoid further adverse impacts on the abilities of local units to fund operations and keep property tax rates from increasingly significantly.

Timeline for administering LOIT

The complexity and scope of the system make it difficult for stakeholders to properly understand the system and how it can be improved. In particular, conversations with state and local officials highlight several important issues that warrant discussion. First, it is necessary to discuss how the system of collections, processing, and distribution for LOIT operates at a basic level (Figure 8). In addition, the interconnectedness between the property tax system and the local income tax system should be well understood to protect against improper funding and distributions of dollars to counties.

Figure 8: Process flow for administering local income tax collections and distributions in Indiana



Example: Setting 2010 certified distributions

Source: Authors, adapted from State Budget Agency (2012), Local option income taxes in Indiana, presentation to Local Tax Collection and Distribution Working Group, May 22, 2012

1. Income is earned and taxed

It is also important to understand how taxpayers are classified for LOIT purposes. According to the Indiana statutes regarding CAGIT, COIT, and CEDIT, the taxpayer is defined as an individual residing in a county at the start of the calendar year (or one who is employed in a county with a rate but resides in a county without a rate). County income tax is withheld from paychecks and/or through estimated payments.

Through the course of a calendar year, county taxpayers have income tax withholdings and estimated payments sent to the Department of Revenue. The amount reported on the *County Taxes Due* line of the state tax return is used to figure out how much money a county receives in the upcoming calendar year (the certified distribution). Those tax returns are the *only* source of information for determining certified distributions.

2. Tax returns are processed to determine certified distributions

Simply put, the use of state tax returns provides accurate and official determinations of what counties ought to receive based on returns filed for taxpayers. However, the use of tax returns introduces a lag between taxes collected and tax revenues distributed to counties. The benefit of accuracy comes at the expense of timeliness in the information used to determine those distributions.

The State Budget Agency then examines tax returns during the state fiscal year (July 1 through June 30), which generally represent 90 percent of the tax returns from the prior calendar year and 10 percent of the returns from two years prior. For example, tax returns processed during state fiscal year 2009 include about 90 percent from calendar year 2008 and 10 percent from calendar year 2007. The amount of local income tax dollars from those returns are adjusted for rate changes not fully processed on the tax returns and for negative account balances for respective counties. Clerical and mathematical errors are also taken into consideration to arrive at the certified distribution that a county is to receive for the subsequent calendar year.

The State Budget Agency must use known information from tax returns to determine certified distributions. This creates some lag however in the information used to set future distributions. However, the benefit from this lag is that distributions are set using *actual* income amounts rather than *forecasts* of amounts due. This process ensures that all taxes that are collected over time are distributed, but results in annual surpluses and deficits over a business cycle (State Budget Agency, 2012a).

3. Certified distributions notices sent to counties for budgeting purposes

In August of the year in which certified distributions are set, the State Budget Agency sends notices of certified distributions to counties so that they can use those amounts for budgeting purposes. The Department of Revenue moves funds from the state General Fund each month to cover distributions for that month.

4. LOIT funds are distributed to counties

The State Auditor then distributes funds to county auditors. In the case of CAGIT and COIT collections, local units receive a portion of the total county distribution equal to that unit's share of the total adjusted property tax levy. The Department of Local Government Finance provides guidance for the allocation of certified distributions and certifies the "levy freeze" rates.

Complexity in rates and relationship to property taxes

As mentioned, the base CAGIT, COIT, and CEDIT rates are now supplemented by CEDIT Homestead Credits, LOIT for Property Tax Relief, the LOIT for Property Tax Replacement, and the LOIT for Public Safety. Counties adopting these rates will receive individual certified distributions for each rate adopted, with restrictions and stipulations on the use of each rate. As of 2012, 14 counties also have special rates authorized by the Indiana General Assembly to fund correctional facilities and courthouse repairs. The State Budget Agency and Department of Local Government Finance must individually certify and forecast distributions for each LOIT rate. The complexity and administrative costs associated with maintaining a system of seven tax rates is difficult to assess but warrants further research.

Additionally, state agencies and county fiscal officers must determine the portion of LOIT dollars that are dedicated to property tax relief, which in turn determines the property tax levy on property within the county. This two-way influence between LOIT and property tax burdens is complex as well. Under- or over-distributions (as forecast and certified) might lead counties to over- or under-tax property owners in the short run, though in the long run the use of state tax returns will balance the issue out. Aside from the burden and fiscal risk to local governments, the uncertainty and lack of transparency in the taxpayer's eyes creates a political risk, too.

V. Summary of findings and considerations for policy discussions

Indiana counties have moved toward the income tax base and away from the property tax base as a means of financing operations. While this trend brings advantages in terms of revenue diversity, the inherent volatility in the tax base and the complexities of the local income tax system in the state present obstacles to long-run sustainability. The recent economic recession has highlighted concerns that make budgeting at the local level a challenging proposition. Moving forward, we can expect results from the external audit of state accounting procedures and technologies for LOIT at the state level. Also, a working group of state and local officials has been convened to examine the process of collections, calculations, and distributions of local income taxes and to find ways to improve the process. The work of these groups is especially important and it is hoped that this report will assist in those efforts.

This report finds the following:

- LOITs have reduced property taxes. Counties that use at least half of the LOIT dollars for property tax relief have average property tax rates of \$1.70 per \$100 net assessed valuation (NAV). Counties that devote between 10 percent and 40 percent of their LOIT proceeds to property tax relief have average property tax rates of \$2.40 per \$100 NAV. Over the last 30 years, property tax rates and year-over-year growth in levies have been consistently lower in LOIT counties than in counties without rates.
- LOITs have bolstered local budgets. Over time the addition of new LOIT options has allowed local governments to diversify the use of these tax proceeds. LOIT revenue as a share of local tax revenue has increased from 6 percent in 1987 to 19 percent this year. While this diversity gives local officials greater flexibility to determine sources of tax revenue, the increased reliance on economically sensitive income taxes makes them more susceptible to economic swings. It is likely local governments will look toward LOITs more for general government expenses as caps on property tax rates limit growth in revenues from that source.
- The LOIT system currently uses less than half of its capacity, so additional revenue dollars are possible for counties. In many cases counties have room to raise existing rates and to adopt other rates. An additional \$2.4 billion in revenue could have been realized on 2013 distributions by all counties utilizing maximum rates. Clearly, all counties imposing local income tax rates in excess of 3.5 percent of taxable income is politically and economically untenable. However, the analysis shows that a substantial amount of revenue is available for local units in need of additional funds for operations and investments.
- The process for collecting and redistributing LOIT produces a two-year lag between when the state collects the tax and when it is distributed to the counties. This makes planning difficult, though recent changes including quarterly reports may produce more accurate local budget projections.

- The complexity of LOITs makes the system hard to manage. This complexity stems from the fact there are seven different LOITs and each has specific conditions for enacting the tax and the use of its proceeds. The interdependency between LOIT and property taxes and the rigidity of the system make these decisions very important.

Based on these findings, this report suggests the following for policy discussions:

(1) Policy adjustments are needed to reduce structural uncertainty within the LOIT system. LOIT distributions are used to set property tax levies. In the case where too little goes to counties, property taxes can be set too high and those higher property tax rates could push more properties above the threshold to receive property tax circuit breaker credits. In the long term things should balance out, but in the short term governments face uncertainty based on the web of interconnectedness between the seven LOIT rates and with the rest of the budgeting process.

(2) State agencies and local fiscal officers should work toward a means of compressing the lag in information on income tax collections. The process for collecting and redistributing the tax produces a two-year lag between when the state collects the tax and when it is distributed to the counties. This makes planning difficult, though recent changes including quarterly reports may produce more accurate local budget projections. State and local policymakers should work toward compressing the lag in information used for budgeting purposes while not sacrificing the validity of the data.

(3) Policy makers should decide on the appropriate level of local control in recalibrating LOIT for local conditions. More than ever, governments must adapt in a timely fashion to meet the needs of the taxpayers and local economy. Policy makers should determine whether the statutory requirements of the Indiana Code provide sufficient maneuverability in adapting LOIT to meet needs in real time.

(4) State government should provide adequate technical assistance for counties looking to adopt and set local rates. Counties wanting to expand their investment in the LOIT system have a variety of factors to consider and should have sufficient guidance and capacity for evaluation for the costs and benefits of alternative courses of action. As it currently stands, LOIT laws place long term and in some cases permanent obligations on counties use of these funds. The ability of local units to adapt to the changing needs of their residents and economies is affected by these laws.

(5) A discussion is needed regarding the benefits of streamlining LOIT into one rate, with well-defined but flexible parameters around the use of revenues. Complexity is inherently infused into LOIT by the number of LOIT rates. An independent and data-driven analysis of the costs and benefits of eliminating the seven individual rates in favor of one rate with guidance on its use (property tax relief, operating funds, economic development earmarks, etc.) would be of value.

Future research should consider these elements and should add to the discussion in other ways. Understanding the issues and variation in allocations from counties to local units can help to evaluate how local income dollars are being spent within communities. The considerable increase in commuting across county lines creates challenges for employment centers because LOIT dollars follow the taxpayer to their place of residence. For those counties that provide employment, recreation, public safety, and other cultural amenities to regions, the ability to finance those goods and services is a challenge. An evaluation of the impact of the place-of-residence versus place-of-earnings issue would help to better understand how the tax code does or does not reflect regional economies.

Taxpayers should have a level of certainty and clarity in how taxes are administered. Local income taxation in Indiana is a prime and complicated example of intergovernmental relations in the state and it is in the collective interest to make that system as streamlined and purposeful as possible. A majority of voters put a constitutionally mandated cap on property taxes. This suggests that uncertainty and complexity in local income taxes (which directly affect property tax burdens in many cases) leaves the possibility for further uncertainty and distrust in the minds of voters. It is incumbent that state and local officials work toward reducing the complexity and uncertainty in a way that allows government to deliver services as transparently and efficiently as possible. LOIT is meant to provide flexibility and alternatives; does the current structure adequately meet that goal?

Appendix

Local income tax rates for CY2013 and certified distributions 2008-2013

	Rates adopted and certified for CY 2013											Certified distributions (millions \$)						Growth rates in distributions	
County	CAGIT	COIT	CEDIT	LOIT for Property Tax Relief	LOIT for Property Tax Freeze	LOIT Homestead Credits	LOIT for Public Safety	LOIT for Corrections Facilities	Total Local Rate	Effective (State and Local) Rate	Rank	2008	2009	2010	2011	2012	2013	2008-13 (annualized)	2012-13
Adams		0.6	0.4			0.124			1.124	4.524	61	\$ 5.93	\$ 6.63	\$ 6.22	\$ 5.75	\$ 5.75	\$ 6.46	1.7%	12.3%
Allen		0.6	0.4						1	4.4	68	72.21	76.21	77.81	68.65	69.36	75.28	0.8%	8.5%
Bartholomew	1		0.25						1.25	4.65	51	16.51	17.78	22.05	19.83	22.85	22.45	6.3%	-1.8%
Benton	1		0.25	1		0.04			2.29	5.69	10	3.26	3.72	3.67	3.49	3.57	3.75	2.8%	5.1%
Blackford	1		0.25			0.11			1.36	4.76	47	2.54	2.75	2.67	2.55	2.52	2.58	0.4%	2.7%
Boone		1							1	4.4	68	18.46	19.33	19.25	17.98	19.26	21.10	2.7%	9.5%
Brown	1		0.25	0.5	0.2		0.25		2.2	5.6	13	6.20	7.02	6.40	5.82	5.82	5.82	-1.3%	0.0%
Carroll	1		0.15	0.2	0.3539				1.7039	5.1039	26	3.73	5.65	5.78	5.47	6.21	6.76	12.6%	8.8%
Cass	1		0.25	1			0.25		2.5	5.9	6	9.23	9.61	9.48	14.84	14.95	15.02	10.2%	0.5%
Clark	1		0.25	0.25		0.25	0.25		2	5.4	17	27.85	30.03	39.27	38.14	39.33	41.79	8.4%	6.2%
Clay	1			0.75			0.25	0.25	2.25	5.65	11	4.96	5.23	9.35	9.12	9.38	9.60	14.1%	2.3%
Clinton	1		0.25	0.25		0.25	0.25		2	5.4	17	7.67	11.03	10.98	10.25	10.32	10.95	7.4%	6.2%
Crawford	0.75		0.25						1	4.4	68	1.32	1.41	1.35	1.31	1.33	1.38	0.9%	3.8%
Daviess	1		0.25			0.25		0.25	1.75	5.15	21	7.49	8.47	8.70	8.63	9.14	9.45	4.8%	3.3%
Dearborn		0.6							0.6	4	84	5.91	6.49	6.41	6.12	6.20	6.41	1.6%	3.4%
Decatur	1		0.25			0.08			1.33	4.73	48	5.86	6.12	6.03	5.63	5.92	6.07	0.7%	2.5%
DeKalb	1		0.25			0.25			1.5	4.9	33	11.17	11.67	10.92	13.48	10.75	11.23	0.1%	4.4%
Delaware		0.6	0.2			0.25			1.05	4.45	66	18.70	19.90	18.88	17.98	17.98	17.98	-0.8%	0.0%
Dubois		0.6	0.4						1	4.4	68	9.69	10.11	10.22	9.72	9.99	11.30	3.1%	13.1%
Elkhart	1		0.25					0.25	1.5	4.9	33	54.75	57.63	51.96	43.71	43.71	43.71	-4.4%	0.0%
Fayette		1	0.25	1		0.12			2.37	5.77	8	8.22	8.45	7.79	7.28	7.28	7.28	-2.4%	0.0%
Floyd	0.75		0.3			0.1			1.15	4.55	60	18.97	20.61	20.62	19.32	19.04	19.85	0.9%	4.2%
Fountain	1					0.1			1.1	4.5	62	3.04	3.18	3.40	3.31	3.21	3.61	3.5%	12.6%
Franklin	1		0.25						1.25	4.65	51	5.35	5.87	5.59	5.03	5.36	5.38	0.1%	0.4%
Fulton	1		0.18	0.25		0.25	0.25		1.93	5.33	19	4.53	6.68	6.52	6.00	6.03	6.72	8.2%	11.4%
Gibson			0.5						0.5	3.9	85	3.26	3.38	3.38	3.31	3.49	3.57	1.8%	2.4%
Grant		1	0.25	1					2.25	5.65	11	11.87	12.11	23.29	21.97	22.63	23.58	14.7%	4.2%
Greene		1							1	4.4	68	4.70	4.98	5.03	5.14	5.26	5.39	2.8%	2.4%
Hamilton		1							1	4.4	68	91.07	101.15	99.86	93.48	100.06	105.95	3.1%	5.9%
Hancock	1		0.15	0.25			0.25		1.65	5.05	27	17.87	19.02	20.19	23.92	27.50	28.00	9.4%	1.8%
Harrison	0.75		0.25						1	4.4	68	6.82	7.48	7.45	7.08	7.67	7.50	1.9%	-2.2%
Hendricks	1		0.25	0.15					1.4	4.8	44	43.63	46.91	47.30	46.89	48.40	50.69	3.0%	4.7%
Henry		1				0.25			1.25	4.65	51	9.50	10.01	9.97	9.46	9.34	9.66	0.3%	3.5%
Howard		0.7	0.2	0.5				0.2	1.6	5	29	25.82	27.64	25.46	23.59	23.34	23.34	-2.0%	0.0%
Huntington	1		0.25	0.25			0.25		1.75	5.15	21	7.96	10.53	10.47	10.46	11.01	11.11	6.9%	0.9%
Jackson	1		0.25			0.25		0.1	1.6	5	29	11.50	12.20	11.87	11.14	11.52	11.63	0.2%	1.0%
Jasper	1		0.25	1	0.364		0.25	0.25	3.114	6.514	2	17.16	18.94	19.26	19.31	19.50	20.39	3.5%	4.6%
Jay	1		0.25	0.5	0.4	0.1	0.2		2.45	5.85	7	7.06	7.30	7.50	6.83	7.10	7.43	1.0%	4.5%
Jefferson			0.35						0.35	3.75	89	1.94	1.98	2.25	1.92	2.01	1.99	0.5%	-1.1%
Jennings	1		0.25						1.25	4.65	51	4.90	5.12	5.09	4.79	4.84	4.98	0.3%	3.0%
Johnson	1								1	4.4	68	30.56	32.60	32.51	30.69	31.30	32.95	1.5%	5.3%
Knox		0.6	0.25					0.25	1.1	4.5	62	6.61	7.00	7.04	7.03	7.39	7.71	3.1%	4.3%
Kosciusko		0.7	0.3						1	4.4	68	16.02	20.40	17.16	14.56	14.56	14.56	-1.9%	0.0%
LaGrange	1		0.25			0.15			1.4	4.8	44	7.84	8.05	7.25	6.35	6.35	6.35	-4.1%	0.0%
Lake									0	3.4	92	-	-	-	-	-	-	-	-

Notes: Effective rate is the sum of local and state income tax (3.4%); Distributions in millions of dollars, not adjusted for inflation

Source: IU Public Policy Institute, using data from State Budget Agency

(continued): Local income tax rates for CY2013 and certified distributions 2008-2013

	Rates adopted and certified for CY 2013											Certified distributions (millions \$)						Growth rates in	
County	CAGIT	COIT	CEDIT	LOIT for Property Tax Relief	LOIT for Property Tax Freeze	LOIT Homestead Credits	LOIT for Public Safety	LOIT for Corrections Facilities	Total Local Rate	Effective (State and Local) Rate	Rank	2008	2009	2010	2011	2012	2013	2008-13 (annualized)	2012-13
LaPorte	0.5		0.45						0.95	4.35	82	17.93	19.34	19.52	17.95	18.20	19.13	1.3%	5.1%
Lawrence	1			0.5			0.25		1.75	5.15	21	7.22	7.62	13.31	12.22	12.50	12.72	12.0%	1.8%
Madison		1		0.25		0.25	0.25		1.75	5.15	21	26.04	27.01	36.91	35.06	34.95	34.95	6.1%	0.0%
Marion		1			0.27		0.35		1.62	5.02	28	296.57	305.40	299.70	273.81	273.81	273.81	-1.6%	0.0%
Marshall	1							0.25	1.25	4.65	51	9.90	10.82	10.71	9.42	9.67	9.67	-0.5%	0.0%
Martin		0.8	0.2	0.25			0.25		1.5	4.9	33	1.60	1.68	1.79	1.71	2.64	2.70	11.0%	2.2%
Miami		0.6	0.25	1		0.19	0.25	0.25	2.54	5.94	5	6.77	14.27	13.57	12.61	12.54	13.02	14.0%	3.8%
Monroe		1						0.05	1.05	4.45	66	23.22	25.29	25.93	24.82	25.15	26.74	2.9%	6.3%
Montgomery		1		1		0.1			2.1	5.5	15	14.49	13.91	13.86	13.35	13.36	13.38	-1.6%	0.2%
Morgan	1		0.2	1	0.2	0.07	0.25		2.72	6.12	4	36.37	39.75	37.82	36.09	35.76	37.34	0.5%	4.4%
Newton	1								1	4.4	68	2.38	2.58	2.88	2.51	2.59	2.94	4.3%	13.5%
Noble	1		0.25			0.25			1.5	4.9	33	10.80	11.78	11.03	10.09	10.47	11.30	0.9%	7.9%
Ohio	1								1	4.4	68	1.02	1.10	1.16	1.02	1.08	1.07	1.1%	-1.2%
Orange	1		0.25						1.25	4.65	51	3.36	3.80	3.76	3.25	3.25	3.25	-0.7%	0.0%
Owen	1		0.3						1.3	4.7	50	3.89	4.25	4.19	3.99	4.01	4.15	1.3%	3.5%
Parke	1		0.25	0.25	0.3	0.25	0.25		2.3	5.7	9	5.99	6.23	5.52	5.43	5.46	5.55	-1.5%	1.5%
Perry		0.5	0.5			0.06		0.5	1.56	4.96	32	3.17	3.19	3.24	3.04	3.21	4.73	8.3%	47.1%
Pike			0.4						0.4	3.8	88	0.87	0.91	0.90	0.89	0.96	1.05	3.9%	9.4%
Porter			0.5						0.5	3.9	85	19.55	23.68	21.60	19.72	20.89	21.65	2.1%	3.7%
Posey		0.5	0.5						1	4.4	68	1.66	2.34	5.92	5.80	5.98	6.11	29.7%	2.2%
Pulaski	1		0.25	1	0.4	0.18		0.3	3.13	6.53	1	6.92	7.67	7.73	7.32	7.62	8.66	4.6%	13.8%
Putnam	1		0.25			0.25			1.5	4.9	33	8.33	9.00	8.97	8.69	8.70	8.72	0.9%	0.2%
Randolph	1		0.5						1.5	4.9	33	5.49	5.83	5.82	5.50	5.77	6.02	1.9%	4.4%
Ripley	1		0.25			0.13			1.38	4.78	46	6.82	7.31	7.41	6.75	7.09	7.14	0.9%	0.7%
Rush	1		0.25			0.25			1.5	4.9	33	3.61	3.70	3.68	3.61	3.61	3.74	0.7%	3.8%
Scott		1				0.16		0.25	1.41	4.81	43	4.65	4.85	4.64	4.52	4.58	4.58	-0.3%	0.0%
Shelby	1		0.25						1.25	4.65	51	9.81	10.34	10.43	9.78	9.96	10.41	1.2%	4.5%
Spencer		0.3	0.5						0.8	4.2	83	2.95	3.08	3.07	3.12	3.13	3.28	2.2%	5.1%
St. Joseph		0.6	0.4	0.5			0.25		1.75	5.15	21	43.71	46.74	97.56	88.50	87.88	87.88	15.0%	0.0%
Starke	0.5		0.5			0.06			1.06	4.46	65	3.20	3.50	3.53	3.23	3.39	3.53	2.0%	4.2%
Steuben	1		0.25	0.25		0.04	0.25		1.79	5.19	20	7.10	10.92	10.50	10.36	10.90	11.62	10.4%	6.6%
Sullivan			0.3						0.3	3.7	90	0.90	0.95	0.99	1.01	1.02	1.05	3.1%	2.9%
Switzerland		1							1	4.4	68	1.34	1.46	1.37	1.29	1.33	1.33	-0.1%	-0.2%
Tippecanoe		0.6	0.4			0.1			1.1	4.5	62	31.25	33.25	33.31	32.02	33.26	35.21	2.4%	5.9%
Tipton	1		0.25	0.25		0.08			1.58	4.98	31	4.19	4.38	4.50	4.58	5.08	5.20	4.4%	2.5%
Union	1.25		0.25						1.5	4.9	33	1.60	1.73	1.66	1.62	1.65	1.77	1.9%	6.9%
Vanderburgh		1							1	4.4	68	34.75	36.21	35.44	33.54	36.27	35.29	0.3%	-2.7%
Vermillion			0.1						0.1	3.5	91	0.29	0.30	0.31	0.31	0.30	0.29	0.1%	-1.9%
Vigo	0.75		0.5						1.25	4.65	51	21.76	22.94	22.67	21.72	22.16	22.35	0.5%	0.9%
Wabash	1		0.25	1	0.4	0.25			2.9	6.3	3	16.43	17.09	16.67	15.36	15.21	15.21	-1.5%	0.0%
Warren	1		0.25	0.25	0.3	0.07	0.25		2.12	5.52	14	3.18	3.43	3.73	3.41	3.57	3.95	4.4%	10.6%
Warrick			0.5						0.5	3.9	85	7.04	7.68	7.72	7.46	7.66	8.06	2.7%	5.2%
Washington	1		0.25			0.25			1.5	4.9	33	5.60	6.01	5.90	5.50	5.58	5.93	1.1%	6.3%
Wayne	1		0.25					0.25	1.5	4.9	33	15.63	17.06	16.26	15.32	15.32	15.32	-0.4%	0.0%
Wells	1		0.25	0.2	0.4	0.2	0.05		2.1	5.5	15	10.40	11.64	12.28	10.23	10.35	10.35	-0.1%	0.0%
White	1		0.25			0.07			1.32	4.72	49	5.66	5.68	5.88	5.50	5.79	6.19	1.8%	6.9%
Whitley	1		0.2			0.0329			1.2329	4.6329	59	8.45	8.13	10.80	7.36	7.98	7.98	-1.1%	0.0%
TOTAL												\$ 1,424	\$ 1,534	\$ 1,610	\$ 1,508	\$ 1,540	\$ 1,585	2.2%	2.9%

Notes: Effective rate is the sum of local and state income tax (3.4%); Distributions in millions of dollars, not adjusted for inflation

Source: IU Public Policy Institute, using data from State Budget Agency

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