? ?Last Thursday afternoon, Purdue Cooperative Extension Service hosted a teleconference focusing on the impacts of the 2008 Indiana Property Tax reform Bill (HEA 1001) at Indiana University, Southeast. The interactive workshop was designed for anyone involved in county and local government budgeting process as well as any interested citizens.

Dr. Larry DeBoer, professor of Agricultural Economics at Purdue, West Lafayette was the featured speaker. In a no nonsense, yet lively, 90 minute presentation, DeBoer gave an overview of how the new law will impact not only individual property owners but also the local and county governments as they work through the process of setting their budgets with the new constraints and requirements..

DeBoer's visual examples made this complicated issue understandable to the average person by focusing on practical applications and step-by-step instructions on how governments will have to develop their tax rates. Of special interest in DeBoer's presentation was the section dealing with specific impacts of the new legislation on property owners and on those government officials responsible for providing public services.

According to DeBoer, most property owners will see a decrease in their property taxes next year and a slight rise in those taxes the following year.

However, DeBoer affirmed that the end result after all the credits are phased in during 2010 will be a net reduction in property tax owed.

The new law limits the amount of property tax that a individual homeowner will pay to 1 percent of the assessed value of the property. DeBoer used an example of a house and property with an assessed value of $120,000 which is the average assessed value of homes throughout the state.

Under the new law, and depending on the tax rate applied, the maximum that the home owner would pay in property taxes would be $1200 per year.

Now is when it gets interesting. The legislature is still working out the details of exactly who besides homeowners are going to come under the protection of the "circuit breaker" policy. Debate swirls around the inclusion of farmland, corporation property, and rental property. Regardless of how it all shakes out, property tax revenues to local governments will be declining. The only ambiguity remains about how much that decline will be once the dust settles.

Overall, local and county governments are expected to have less property tax revenue than in previous years. Depending on who you talk with, that could be either good or bad. With the rising cost of providing services such as road repair, fire and police protection, public health services, etc., local governments are either going to find it necessary to cut these vital services and/or excesses in the budgets, or look for some other way to increase revenues. That is where the Local Option Income Tax (LOIT) provision of the new legislation comes into play. LOIT allows county and local governments to enact income tax on workers and residents of the county to offset the loss of property tax revenues. Thus far fourteen Indiana counties have opted for LOIT. The bottom line of this strategy is that the tax burden is going to be shifted from the property owner to the wage earner. The fairness of that shift is still in debate. It would appear that those whose incomes are considerably less than the assessed values of their property will be the big winners in this realignment of taxation. In other words, homeowners with lower than average incomes stand the reatest

chance paying less taxes overall while working renters might well see the greatest overall increase in their taxes. Only time will tell if that comes to fruition; of course, that depends on whether the State Legislature adopts a hands off policy long enough for the new system to works its way through the implementation and evaluation phases.

DeBoer also pointed to another impact of the new legislation that will necessitate all governmental entities that contribute to the tax rate to sit down together and work out their budgets in concert with one another.

"Because of the "circuit breaker" credits, everyone must budget before anyone can budget." noted DeBoer. Apparently, all entities such as county government, town governments, city government, fire departments, solid waste management, school districts, etc. will need to sit down and come up with an overall, comprehensive budget that takes into account the reduction in tax revenue if the "circuit breaker" mechanism is triggered, In the event of that trigger being pulled, all entities will be forced to cut their budgets by an amount equal to their percentage of the total tax rate
times the total amount of the loss in overall revenue from the "circuit breakers.

DeBoer quipped that for many counties in Indiana, this may be the first time that representatives of different agencies and different municipalities find it necessary to sit down and work together. "This is truly a case of everyone being in the same boat. One group's aggressive or overly ambitious budgeting could hurt everyone. Realistic assessment of expected expenditures will be the key to this process working." observed DeBoer. This whole "sit down and come to an agreement" process must take place in no more than 15 days according to HEA 1010.

For a more in depth explanation and discussion of HEA 1001 along with DeBoer's research go to www.agecon.purdue.edu/crd/Localgov.