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Local Option Income Taxes Can Hurt Apartment Renters

By Lynne Sullivan

County Councils across the state are considering a Local Option Income Tax that would provide property tax relief in the county. The 2007 General Assembly passed House Bill 1478 that allows counties to adopt an additional County Adjusted Gross Income Tax or an additional County Option Income Tax in 2008. The money raised by these new taxes will help offset property tax increases, except in Marion County. The Indiana Apartment Association respectfully asks that officials in all counties think carefully about the negative ramifications these income tax increases would have on working class citizens. The Indiana Apartment Association represents thousands of rental housing units throughout the state – residents who can least afford and increase in their income tax or their rent.

Indiana is facing an increase in the number of commercial apartment foreclosures due to increased expenses in insurance and property taxes along with an inability to raise rents. Severely low occupancy rates, stagnant income levels and slow job creation compound this situation.

The move from the old true tax value of assessment rules to the more market-oriented rules; tax restructuring provision enacted in 2002 to help mitigate the effects of the assessment changes; and changes in the business personal property assessments have had a devastating effect on taxes for rental properties.

Legislative Services Agency data released in 2005 comparing tax payments

from 2002-2003 showed that the net assessed value of non-homestead residential property, primarily rental property, increased almost twice as much as homestead property, largely because the property did not receive the increased homestead deduction. For every new tax dollar collected from housing properties (homestead, non-homestead and commercial apartments) rental and commercial apartments paid \$0.76.



Raising the income tax 1 percent to provide property tax relief may have merits if the property tax relief is given to all residential property, which would include rental property. Local governments have the option of choosing which class of property can receive the property tax relief. If rental property does not receive the property tax relief, but gets an increase in income taxes this will have a negative impact on those citizens who can least afford increases. An increase in income tax coupled with potential rent increases that could be unavoidable if rental property owners are forced to pay a disproportionate level of property taxes, must not be overlooked as county councils around Indiana consider this new tax.

Lynne Sullivan is executive director of the Indiana Apartment Association Currently the Indiana Apartment Association represents over 200,000 units throughout the state, including members in 10 affiliated chapters.