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Ind. Senate is urged to pass House tax-cut bill

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The Courier-Journal

INDIANAPOLIS -- Advocates for the poor urged state senators yesterday to keep special tax breaks for low-income Hoosiers in the property-tax relief bill passed by the House.

House Bill 1001 increases the state sales tax from 6 percent to 7 percent and cuts homeowners' property-tax bills by an average of one-third, as proposed by Gov. Mitch Daniels.

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"Those three provisions will offset the impact of that sales-tax increase as a matter of fairness," Kathy Williams, a lobbyist for the Indiana Community Action Association, told the Senate Tax and Fiscal Policy Committee.

Williams was among several people who testified yesterday in favor of the House additions to the property-tax plan during a five-hour committee meeting.

Afterward, Sen. Luke Kenley, R-Noblesville and chairman of the committee, said the Senate is likely to consider the proposed higher deduction for renters but probably will take out the income-tax credit for low-income workers and the provision reducing the property-tax cut for higher-value homes.

But committee member Connie Sipes, D-New Albany, said she will likely push the committee to keep all of those provisions.

"It's good to have those in there," Sipes said after the meeting. "It's all one big crisis so those issues belong in the property-tax bill."

Patti O'Callaghan, president of the Indiana Coalition of Human Services, told senators that the proposed increase in the earned income tax credit would particularly help poor working families and could also help the economy. The tax credit is refundable, meaning it can essentially supplement wages for workers whose incomes are low enough to qualify.

"It is a hand up, not a handout," O'Callaghan said. "It lifts people out of poverty."

Indiana currently provides a credit that is equal to 6 percent of the federal earned income tax credit. The House bill would increase it to 9 percent.

That increase would mean a family of four with an income of \$20,650 would save \$121 annually, according to the Indiana Coalition on Housing and Homeless Issues.

O'Callaghan said most of that money would be spent immediately, which could help boost Indiana's economy.

"Almost all of it is spent right there in the community because it's money that people need to feed, clothe and shelter their families and to pay bills," she said.

But the credit would cost the state about \$30 million a year, a key reason

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Kenley said the provision isn't likely to stay in the bill.

"We don't think the state is in a good enough fiscal position to consider that issue, which is not directly part of the property-tax issue, this year," Kenley said. "It needs to be part of the budget discussion next year."

Increasing the income-tax deduction for renters from a maximum \$2,500 a year to \$5,000 would cost the state even more -- an estimated \$52 million annually. But Kenley said the committee is more likely to discuss the idea because he believes it is directly related to the property-tax discussion.

As passed by the House, the tax plan uses what lawmakers call a circuit breaker to limit homeowners' property-tax bills to 1 percent of assessed value. That means the tax for someone with a home assessed at \$90,000 would be no higher than \$900.

HB 1001 also limits tax bills for other residential property -- including rental homes -- to 2 percent of assessed value. Landlords have complained that provision is unfair.

"The whole discussion about rental homes and the circuit breaker we do think is a pertinent part of this issue," Kenley said. "We need to continue to look at solutions in that area."

House Democrats also amended HB 1001 so that while every homeowner would get some tax savings, the percentages would be higher for homes assessed at less than \$245,000. The amendment means the savings percentage would go down for homes assessed between \$245,000 and \$800,000, and savings would be capped at an \$800,000 assessment.

Senate fiscal leaders said they are still trying to understand the impact of that change, but Republicans generally have opposed it.

Also, HB 1001 would freeze property-tax bills at 2008 levels for some Hoosiers who are 65 or older and whose homes are assessed at less than \$200,000.

The freeze applies to single homeowners with an income of \$35,000 or less or married homeowners with a joint income of \$50,000 or less.

Lisa Travis, program manager for the Indiana Association for Community Economic Development, told the committee yesterday that her group supports that idea but that lawmakers should consider easing the process of signing up for the freeze or making it automatic when homeowners turn 65.

Reporter Lesley Stedman Weidenbener can be reached at (317) 444-2780.

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