

Act Early, Realize Benefits

Counties Consider Inventory Tax Elimination

A

more than 20-year battle to eliminate the state's inventory tax reached a successful legislative conclusion in the 2002 special session.

The work, however, is not complete. A statewide referendum to change the Constitution, which currently requires the taxation of business inventory, will take place in 2004 (see story on Page 28).

In addition to the elimination, which begins with taxes assessed in 2006 and payable in 2007), the General Assembly offered counties the option to do away with the tax even earlier and stimulate their economic development efforts. Sixteen of the state's 92 counties have taken action, with at least several more to vote on the accelerated elimination before the end of the year.

With governments at all levels facing continued economic struggles, it's somewhat surprising that only 17% of the counties have moved forward with the early elimination. (The 14 that voted yes before the end of 2002 made their counties free of inventory tax assessments in 2003).

The continued uncertainty of reassessment and its impact on property taxes has apparently prevented some county and city officials from taking the inventory tax leap.

"It's taken some political will to jump out there and do this," notes Stan Pinegar, Indiana Chamber director of tax and fiscal policy. On the other hand, he adds, "All Indiana counties are going to be looking at these issues in three years. Why not do it now? When the tax is eliminated, they will likely face a CEDIT decision anyway."

CEDIT is a county economic development income tax. The


legislation passed in 2002 allows a CEDIT increase of no more than .25% above the current maximum rate to offset property tax shifts that occur as a result of the inventory tax elimination. A 2003 bill signed into law simplifies the process for counties, allowing them to make the changes in one ordinance rather than two, and gives greater flexibility as to when CEDIT changes can be made.

Sen. Tom Weatherwax (R-Logansport) was the primary Statehouse proponent of the accelerated

elimination, which was carried out in five of the districts he represents. Indiana Chamber President Kevin Brinegar presented in-person testimony in Clark County earlier this year, assisting county officials in recognizing the advantages of the early elimination. Pinegar continues to work with county and economic development officials across the state.

The tangible benefits are beginning to be realized.

- Michigan City's Hartmarx Corp. (formerly Jaymar Ruby), a well-known maker of suits, sport coats and casual attire, was planning to close its facility after 80 years of business. The tax restructuring was a major factor in the reversal of that decision, saving approximately 130 jobs
- A warehouse/distribution facility in Wells County represents a \$3.5 million investment and at least 23 new, high-paying jobs. Additional investment in the county is expected before the end of the summer
- Retention of existing businesses, which were candidates to move their operations elsewhere, has been aided in a number of other counties



"The county took a big step forward with the total elimination. ... They have to go out and promote and bring some more business in here."

*Bob Kramer
Marion*

By Tom Schuman

Effort falls short

Although the accelerated elimination passed in 14 counties in 2002, approximately twice that many gave the issue some consideration. Jackson County was close to approval before the measure was defeated in the final council vote.

Scott, Jennings and Washington counties to the south and east had already approved early elimination. “We pursued it as a matter of competitiveness,” says Bill Bailey, president of the Greater Seymour Chamber of Commerce and a former state legislator.

Local chamber members, representing both industry and retail, presented testimony during initial council consideration. Two weeks later, those in opposition to the proposal outnumbered the supporters by a 5-to-1 ratio.

“We had a nice broad approach to the issue. That’s why it passed the first time,” Bailey explains. “My impression is that homeowners, particularly in rural areas, contacted county officials and persuaded them that while this may be beneficial to business, the property tax shift was not worth it. Their forces were bigger than ours (at the next meeting).”

According to numbers compiled by the Legislative Services Agency and distributed by Sen. Weatherwax, Jackson was one of five counties in which a .25% CEDIT tax increase would not cover the entire cost of eliminating the inventory tax. But, the county will face that same situation in three years, and will not have the benefit of business investment and expansion that likely would have resulted from the accelerated elimination.

Bailey says part of the problem was a longtime philosophical opposition in the community to tax abatement. Despite the companies attracted by such incentives having lived up to their commitments and becoming strong members of the community, the abatements and inventory tax changes were linked in some people’s minds.

“Some believe that tax abatements are bad for homeowners. It’s an issue that has been raised over and over and over,” he sighs. The inventory elimination will likely not resurface, he adds, due to the comments of a council opponent who prefers to wait for the statewide removal.

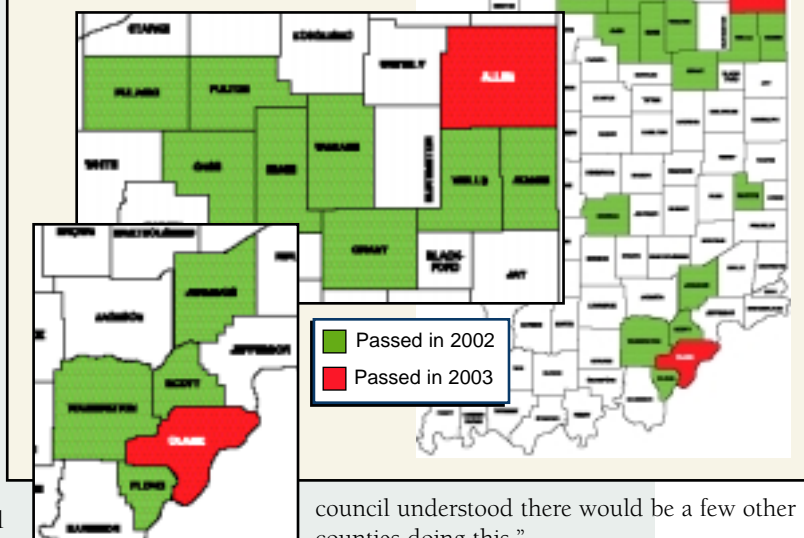
Successful actions

Wells and Grant counties were two of the 14 that passed the accelerated elimination in 2002. Economic development officials in both areas point to leadership as helping pave the way to success.

Garry Jones is CEO of the Wells County Chamber of Commerce and also heads economic development efforts. Key advantages for the area, he notes, are the CEDIT tax already supporting economic development and the presence of top town, city and county officials on the chamber’s board and economic development committee.

“The local assessor came forth and suggested this might be something the county should look at,” Jones relates. “Our

Accelerated inventory tax elimination has been focused on two areas within the state



council understood there would be a few other counties doing this.”

Westland Park is the developer for the aforementioned warehouse facility. Poore Brothers, a snack food manufacturer, is creating the new jobs with an average salary of more than \$37,000.

Jones adds, however, that the inventory tax relief will be felt far and wide. The common perception that it only helps big corporations is inaccurate.

“We live in a rural community. Our backbone is agriculture and small business,” he says. “You have to think of the auto dealer, the jewelry store, the funeral home, the appliance dealer.”

In Grant County, research began almost immediately after the legislation passed. Consultants and legal advisors helped deliver the facts to elected officials and other interested parties.

“What we saw was a real rise in local leadership,” claims Tim Eckerle of the Grant County Economic Growth Council. “There was some opposition, some inertia to change. But they saw it as a win-win for the community. It’s moving from a blind tax to one based on the ability to pay.”

Sending a message

The impact in the counties that have moved forward is twofold – opening the door for new businesses/expansions and also letting existing companies know that their operations are important to the community’s economic success.

Jones says he has “no doubt” that the inventory tax elimination was a major factor in landing the warehouse facility. A second company that has looked at the county as a potential location for some time is expected to commit soon, with the tax change one of the key reasons.

“It’s not only attracting, but retaining what you have,” Jones contends. “If you have a production facility or distribution center that is part of a national or international chain, you have to assist the local manager to help sell the corporate board on your operation. I’ve been in business for 35 years. The elimination

Going the Constitutional Route

When John Frenz moved to Indiana in 1981, he was introduced to the inventory tax and acquired an immediate distaste. When Frenz (D-Vincennes), a restaurant owner, was elected to the Indiana House in 1996, he was in a position to try and do something about it.

"It's something that has been important to me for a long time," Frenz recalls. "I remember being surprised about that when I moved here – penalizing a business for having inventory. The more you have for sale, the more it costs you?" he questions.

Frenz filed a constitutional amendment in 1996 to remove the inventory tax requirement. He tried again the following year, the year after that and the year after that. For a long time, the measure was blocked from even receiving a hearing.

When tax restructuring surfaced as a priority in 2002, Pat Bauer (chairman of the House Ways & Means Committee at the time) told Frenz a hearing would take place.

"I was surprised that it was allowed to move forward. Then we ended up with only one vote against it," Frenz says. "So much of Indiana is based on manufacturing. Why should we punish manufacturers based on the materials they have?"

In order to change the state Constitution, a resolution had to be approved twice by the General Assembly. There was no opposition in 2003. The final step is a statewide referendum next year.

The Indiana Chamber worked to help ensure that the issue was not subject to political battles in the legislature. Stan Pinegar testified in favor of the measure. The Chamber is commissioning a study on the impact of eliminating the inventory tax and will establish a coalition of interested parties to help educate voters on the issue.

"It's incumbent on the business community as a whole to get the word out and support this," Pinegar says. "It's an important vote for the future of economic development."

Frenz doesn't anticipate strenuous opposition, but admits the public needs to be educated about the issue. He expects a long chapter in the state's history to end at the ballot box.

"It will be a great thing to see that happen next November."

Resources: Rep. John Frenz at (317) 232-9722

**Stan Pinegar at (317) 264-6887 or
e-mail: spinegar@indianachamber.com**

of the inventory tax sends a message."

Eckerle received comments both during and after the debate about the importance of the measure. A prospective newcomer firmly established the acceleration elimination as the top criteria for coming to the county (negotiations continue, with the economy the major factor in delaying an announcement).

In addition, an existing business owner who was a candidate to move operations elsewhere, told Eckerle that "this shows how committed the community is to local businesses."

Small businesses benefit

Marion businessman Bob Kramer is happy that the inventory tax deadline day is a thing of the past. His two adjacent companies, Canine's Choice (dog bones and other pet supplies) and United Marketing Inc. (auto parts distribution) "are both pretty inventory intensive."

The warehouses contain rows and rows of products ready for shipment to grocery stores, hardware outlets and a variety of other destinations. The inventory tax carried annual costs "in the thousands of dollars," he reports.

Kramer was recently looking to open a southern division. Georgia was the ultimate choice. One of the main factors was the absence of the inventory tax.

"The county took a big step forward with the total elimination," he asserts. "If they don't use that as a selling tool, there's a big problem. They have to go out and promote and bring some more business in here."

Regional pressure

Begin at Adams and Allen counties on the Ohio border and travel west and you'll find nine counties that implemented the accelerated elimination. Not acting in 2002, but seriously considering their options in 2003 are leaders in the middle (Huntington) and on the edge (Howard and Delaware) of that region.

Bob Brown, president of the Huntington County Chamber of Commerce, is concerned about his county standing out like a sore thumb on a regional map. A final county council decision is expected in the fall, with

Brown confident that the one additional vote needed for passage will be found.

"It's absolutely been an education process," he comments. "And it's been frustrating to try to get people to understand. They want to know how the county is going to make up that money. If we had good, hard figures, that would make life a lot easier."

Jones, of neighboring Wells County, is not a fan of the local rivalries that have been established.

"One thing I didn't like to see was that this kind of pitted county vs. county. In the short term, that could be an advantage for Wells County," he confirms. "Long term, it could be a detriment. I'd rather be a direct competitor with Ohio, Illinois, Michigan."

Active auto dealers

The most visible sign of the tax for many comes in the form of automobile dealer ads early each year touting inventory tax sales. The Automobile Dealers Association of Indiana (ADAI) and its members are also proactive in pushing for the accelerated elimination.

Association president Tim Dowling says the "creative" legislative solution benefits businesses of all types. A subsequent consequence of not having an immediate elimination, however, was



If Delaware County moves forward with early elimination of the inventory tax, expect additional investment in this industrial park located near Interstate 69.

setting up different business climates depending on county location.

“The reason we initially got involved was that the legislature upset that overused cliché of a level playing field,” Dowling notes. “It was clear to us that we better become proactive, with a net result of getting back to that level playing field. We tried to mobilize new car dealers to let elected officials know this option exists. My personal observation is that a lot of elected officials don’t want to tackle this.”

The reluctance of some counties to give serious consideration has prompted several car dealers to “throw their hat in the ring and run for county council.”

Although saying it’s the car buyers who will realize the eventual savings, Dowling reiterates some of the longstanding arguments against the inventory tax.

“I’ve always believed it was a very unfair tax. If you sell a car on March 2, it’s subject to inventory tax and excise tax. It’s also assessed whether a dealer made a profit or not,” Dowling states. “If a business is not having a good year and their inventory is high, you add insult to injury by them having to pay the tax.”

“The timing of March 1 was also onerous, a time when you’re starting to fill the pipeline for the sales season. So you’re forced to try and keep your inventory in line for March 1.”

Add the state’s largest newspaper to the list of major beneficiaries. A \$72 million production facility on the northwest side of the city added an estimated \$600,000 to the inventory tax liability of the *Indianapolis Star*. The eventual elimination will result in annual savings of \$200,000.

“It’s certainly a welcome relief,” says Dave Licko, vice president of finance. “A lot of management time goes into trying to manage the inventory tax. When you need to be running more newsprint, you’re trying to minimize your inventory on March 1.”

The good news is that only three more February sales (and management of inventory for tax purposes) remain. Counties, of course, can still act this year, to do away with those sales in 2004-2006, provide immediate relief for their existing businesses and jump-start economic development efforts.

“I’m really surprised that more counties haven’t moved on this,” Eckerle professes.



INFORMATION LINK

- Resources:** Bill Bailey, Greater Seymour Chamber of Commerce, at (812) 522-3681
Garry Jones, Wells County Chamber of Commerce, at (260) 824-0510
Tim Eckerle, Grant County Economic Growth Council, at (765) 662-0650
Bob Kramer, Canine’s Choice, at (765) 662-2633
Bob Brown, Huntington County Chamber of Commerce, at (260) 356-5300
Tim Dowling, Automobile Dealers Association of Indiana, at (317) 635-1441
Dave Licko, Indianapolis Star, at (317) 444-8101

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