



**Indiana Manufacturers Association**

*Indiana's Leading Voice for Industry*

# **Letter to the Editor**

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## **Indiana's Future Being Decided Now**

By Patrick J. Kiely, President, Indiana Manufacturers Association

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Indiana's competitive advantage is manufacturing. It represents 24 percent of the jobs and 30% of the income in the state. Indiana must immediately adopt a tax structure that builds on these proven strengths. Income and wealth are created by making continuous improvements in productivity. It is through manufacturing, and in particular productivity growth in manufacturing, that Indiana can deliver to its citizen's growth and prosperity.

The two most determinants of technological innovations are high rates of investment in research and development (R&D) and in new capital equipment which incorporates the latest technological advances and disperses these innovations throughout industry.

In a global economy, the benefits that come in the form of higher living standards depend on the ability of industry to respond successfully to increasing competition. In the 1970s and 1980s, there were predications that many U.S. industries had lost their leadership position to Japanese competition and that the solution to this "perceived" loss of competitiveness was U.S. government intervention in the form of "industrial policies".

The answer was not in government policies but in low unit costs of production through strong, long-run productivity enhancements. Industry must continue to move resources to high-value activities in industries with high productivity growth rates.

Unfortunately, Governor O'Bannon signed on December 27<sup>th</sup> new personal property tax regulations for Hoosier businesses, which will have a chilling and devastating impact on manufacturing and productivity. The new regulations change our system from accelerated depreciation to straight-line depreciation

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and could add an additional \$140 million of new taxes on capital investment. The first year's tax costs for new investments in production equipment in Indiana will increase by 120 percent.

Our current state tax system penalizes the manufacturing sector, it discourages capital investment that would improve productivity, and it discourages the formation of new firms in capital-intensive manufacturing, research and development and distribution industries.

Indiana job growth in has been stagnant for the past several years; and in the last 24 months alone, more than 48,500 good manufacturing jobs have been lost. Indiana manufacturing employment after peaking at a decade high in January of 2000 has now fallen to 1993 levels.

The new regulations affect personal property taxes for 2002 payable in 2003. The majority of the business impact is on the manufacturing sector. About 70 percent of the property taxes paid by manufacturers are attributable to personal property and only 30 percent to real property.

An economic analysis of the new regulations was recently completed and the findings are strongly negative. That is—the adoption of the assessment rule changes by themselves in 2003 would, by 2008, result in the following:

- A loss of more than 31,000 jobs in the overall state economy;
- A loss in output of more than \$2.2 billion;
- More than \$900 million in lost earnings;
- A decline in the state's population of nearly 50,000 people.

Moreover, these economic losses widen over time, such that the output of the Indiana economy of 2035 under the new assessment rules is \$5.6 billion smaller than it would be if Indiana retained the same tax structure that is in place today. Population, earnings and employment impacts associated with the new assessment rules would also get worse in the long run.

We applaud Lt. Governor Kernan for recognizing that the new personal property tax regulations are bad for Indiana's future. We, also, applaud the Lt. Governor's recommendation to dramatically improve Indiana's Research and Development Credit. However, we believe to have a 21<sup>st</sup> Century plan for Indiana we need to recognize that taxing inventories and machinery and equipment belongs in the 20<sup>th</sup> century and so do these new rules.

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In that a picture is worth a 1,000 words, here is a simple comparison of the differences between the current regulations and the new ones:

**Changes in Depreciation Schedules (“Percent Good”)**

Life/Year	Pool 1		Pool 2		Pool 3		Pool 4		
	Current	New	Current	New	Current	New	Current	New	
1	65%	76%	40%	88%	40%	92%	40%	93%	
2	50%	53%	56%	76%	60%	84%	60%	85%	
3	35%	29%	42%	64%	55%	75%	63%	78%	
4	20%	5%	32%	51%	45%	67%	54%	71%	
5	20%	5%	24%	39%	37%	59%	46%	63%	
6	20%	5%	18%	27%	30%	51%	40%	56%	
7	20%	5%	15%	15%	25%	43%	34%	49%	
8	20%	5%	15%	15%	20%	35%	29%	42%	
9	20%	5%	15%	15%	16%	26%	25%	34%	
10		20%	5%	15%	15%	12%	18%	21%	27%
11		20%	5%	15%	15%	10%	10%	15%	20%
12		20%	5%	15%	15%	10%	10%	10%	12%
13		20%	5%	15%	15%	10%	10%	5%	2%

Among the four pools, Pool 2 is the largest component of all depreciable personal property. The following table shows the share of each pool of the total depreciable assets’ true tax value in Indiana in 1999:

Distribution

Pool 1	3%
Pool 2	82%
Pool 3	10%
Pool 4	5%