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**STATE NEEDS MORE TRANSPARENCY AND ACCOUNTABILITY  
FOR LOCAL TAX COLLECTIONS**

**Note to Editor: The following opinion editorial submission is from AIC President, Therese Brown, Allen County Commissioner.**

For county officials, all local units of government and taxpayers, the announcement on April 5 by the State of Indiana that a software mapping error resulted in more than \$206 million being diverted to the state general fund instead of local units of government was a financial relief. However, the error created even more lingering doubt, causing local officials to question if local option income taxes have been collected and distributed correctly over the last several years. Regrettably, there has never been a high level of confidence in the distribution of local option income taxes. Due to the multitude of factors that contribute to distributions of local income taxes, it is without a doubt one of the more complicated services that state government performs. However, now is the time to introduce more transparency to this process.

We appreciate the efforts of the Governor Daniels' administration to correct the local option income tax distribution error and the directive for an independent audit of the Department of Revenue. Obviously, the reporting and distribution error has had numerous effects on taxpayers and local government services in 91 counties.

The distribution of local option income taxes has been a historic problem. Sudden changes in economic conditions have usually resulted in dramatic changes to local option income tax distributions. Evidence for these changes was not accompanied with a detailed report on exactly why a county's distribution increased or decreased dramatically. Reasons from the state varied from less income being earned to less returns being processed in a state fiscal year. However, no matter the cause, little data was produced to verify the distributions.

How can we add transparency to the process? The answer is more detailed reporting and a better accounting process.

Counties are already receiving quarterly reports on local income tax collections and this should be expanded to include more information. The state should include in the reports the number of processed income tax returns, attributable to the correct filing year.

The most critical change needs to be an end to the co-mingling of income tax revenue and a clearer distinction between each county's local collections and those collected for the state's revenue needs. When withholdings and estimated payments are reported to the Department of Revenue, the withholdings for the counties should be deposited into the proper county account. Statute already requires the Department of Revenue to segregate the money and there is no longer any reason for the state to ignore its statutory duty; this should occur immediately. We encourage the state to make each county's account available to the local units of government and to the public on a real time basis via a posting on the state's website. County income tax withholdings should never be co-mingled with the state general fund.

The only way to have a transparent and accountable system is if the local units of government can track the amount of withholdings and processed returns. This is not to suggest that local units receive estimated amounts because locals should still only receive that which is actually collected and reconciled after taxpayers file their tax returns. Fundamentally, more eyes need to be on this data. If the state would introduce more transparency into the process, local officials would be in a better position to compare their community's histories and anticipate problems when collections don't match distributions. This would be a benefit to all: the state, local governments, and taxpayers.

We urge the audit of the Department of Revenue to include other revenues and accounting processes. The state collects other revenue for local units of government such as food and beverage taxes, lodging taxes, gas taxes and 911 fees. We would prefer the collection and distribution of these revenues to be reviewed as well to reassure taxpayers that due diligence on their behalf has been served. We also ask that county officials be included among the members of the audit review committee when a vendor is selected to conduct the audit.

The state has suggested that local units of government be more transparent with their budgets and spending. The Indiana Department of Revenue, likewise, should be held to a similar standard. The state has more than a \$1.5 billion surplus. It's time to invest in a better accounting system at the Department of Revenue. The investment may just pay for itself.

*The Association of Indiana Counties, Inc. is a nonprofit organization established in 1957 for the betterment of county government. The various functions of the AIC include lobbying the Indiana General Assembly on behalf of counties, serving as liaison among counties, state and federal agencies as well as providing technical assistance and training to county officials and employees.*

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