

DESIGNS ON INDIANA'S TAX SYSTEM

Early Take on State Task Force

By Rebecca Patrick

The Indiana Legislature embarked in August on a major, two-year review of state and local tax systems with a declared goal to consider significant changes – with eliminating the income tax or expanding the sales tax on services among the possibilities.

Senator Travis Holdman (R-Markle), head of the Senate Fiscal Policy Committee, chairs the State and Local Tax Review Task Force, the group raising expectations and also tasked with delivering what makes good fiscal sense.

Holdman has not been shy about seeking “transformational” change. Most notably, he’s been a leading proponent for finding a path to eliminate Indiana’s individual income tax. That’s no small lift given it brings in roughly \$8 billion annually.

Joining Holdman on the Tax Review Task Force as the vice chair, is Rep. Jeff Thompson (R-Lizton), who leads the House Ways and Means Committee, as well as six additional legislators – three from each caucus and party.

The potential impacts – the opportunities and the risks – that arise from the Tax Review Task Force’s work “are huge for our state’s business and economic system, local communities and the path Indiana sets forth for the future,” says David Ober, the Indiana Chamber’s vice president of taxation and public finance, and former state lawmaker.

He offers his preliminary assessment two meetings into the process and having had extensive conversations with Holdman and Thompson.

BizVoice®: Will there be any preliminary recommendations or even proposed legislation from this first year of deliberation, or will it all wait until 2025?

David Ober: “I think there may be something, but it will be tiny or for discussion purposes only given it’s a short session. A bill on sales tax on services might be filed that

will generate some conversation in 2024, but it’s unlikely that they move it and take action on expenditure items in the middle of a budget (cycle). But maybe they want to generate headlines, work through the hurdles and get some public feedback on it that way.

“Representative Thompson has expressed interest in discussing the elimination of the business personal property tax or do something that would kind of reign that in or lower those taxes. That’s something that our members will be very interested in. But again, it’s not like that is going to move.

“My expectation is there will be a big tax reform package offered in 2025 when the budget is open and lawmakers are looking at expenditures and revenues for the next two years. It may even be wrapped into the budget bill.”

BV: Regarding sales tax on services, what’s the Indiana Chamber’s philosophy?

DO: “Historically the Chamber has been opposed to that idea and remains so. That’s partially because if you try to expand the base

and then you immediately are carving out some of the base – eliminating medical and potentially legal services, for example – in order to get your political compromise across the finish line, then the remaining tax rate may have to be higher to make the numbers work.”

BV: What tax change do you think is the least likely to be seriously considered?

DO: “Moving forward with eliminating property tax for primary residences. The fiscal impact to local governments is \$3-\$4 billion, and that would then shift that big burden over to business. I’ve expressed to Sen. Holdman that the Chamber is strongly opposed to that. And he doesn’t appear interested in that idea either.”

BV: Ultimately, where does the Indiana Chamber and business community want the Tax Committee’s recommendations to land?

DO: “We don’t want anything that’s



State lawmakers are in year one of a Republican-led effort to assess Indiana’s tax structure.

going to harm economic activity. If you're going to provide relief to individuals, you can't simply shift that tax burden onto employers. We would love to see the General Assembly eliminate business personal property tax. The House has voted for it numerous times; the ball is in the Senate's court. And, importantly, as mentioned earlier, we don't want to see an expansion of sales tax on services and will be on the defensive for that."

BV: With all the attention paid to this review, do you expect some of the really bold ideas to at least be offered in legislation?

DO: "Absolutely. I suspect there will be a bill filed on the elimination of the income tax. Legislators are looking at if you expand the sales tax base to include everything – even groceries – and then all services except for medical and business to business, what kind of revenue does that generate? That's the game being played. You eliminate the rate over here and you make up that revenue through an expanded sales tax base and that's how you get that policy accomplished. I imagine the Task Force would be piloting some of those ideas."

BV: How likely is taxing groceries?

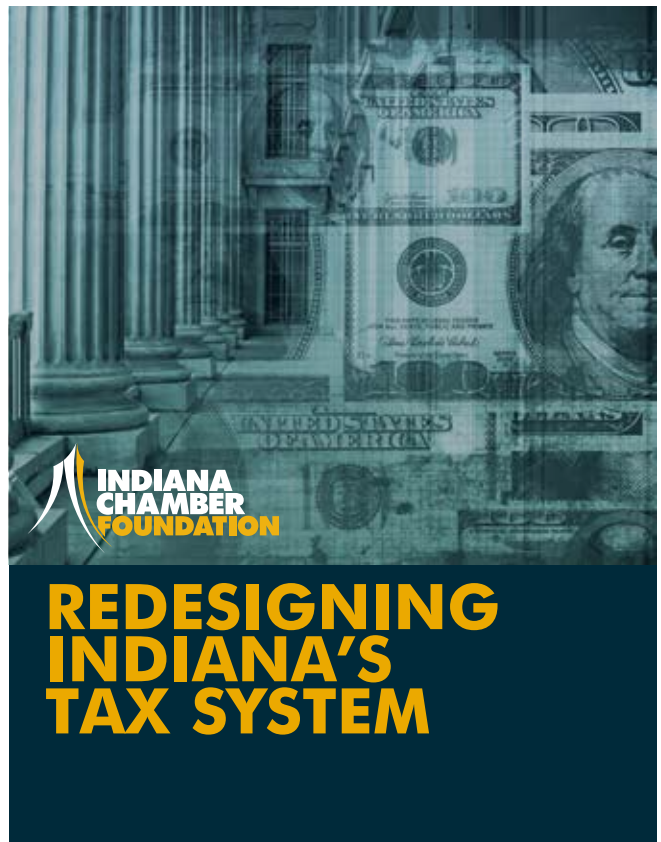
DO: "The political reality of eliminating the sales tax exemption for grocery items and then expanding the exemption for business-to-business transactions is going to be a pretty tough sell, especially in a gubernatorial election year. I mean if (lawmakers are) smart, they're going to beat down on that idea. It's going to hurt real people and it's going to be a huge benefit to businesses to enact that policy. But I don't know if that changes anything from their perspective; someone will file that bill."

"Still, I don't believe that you'll ever get the votes to eliminate the exemption around grocery items. It's regressive to do that. It means that you're raising taxes on those with lower income. Yes, higher income individuals consume more services, but if people are going to be paying sales tax on all their grocery items, then that would be more regressive and hit people without means."

BV: So where does that leave us? Is there room to thread the needle and get a big victory – tax reform that is welcome, or at least palatable, to both business and individual taxpayers?

DO: "There may be a way for them to eliminate or more likely lower the rate for the income tax. But again, I don't know how they're going to do that without giving up some things that are fairly important priorities for them. There may be tax credits and deductions and exemptions that they have to give up in order to do that, to lower the rate further from where it is. I believe that (Tax Committee leaders) are hoping – and this is where our tax study (see sidebar) is going to focus and come into play – that for each tenth of a percent in the (income tax) rate that they're able to drop, that you see more economic activity that offsets and exceeds the revenue that you lost from lowering the rate. So, more businesses are created and more sales and more income derived."

"I just think that there's a cap on that. There's no way that you can outgrow reducing the income rates at a certain point. And for practical purposes, that's kind of ancillary to the fact that what happens when there's a recession and your main revenue drivers are income tax and sales tax, and people are unemployed and people are saving their money instead of spending it. If you eliminate income tax, you're undiversifying revenue streams, which leaves the state vulnerable during a recession. But legislative leaders realize that and know what they're doing." ■



Role of Robust Tax Study

Recognizing what's at stake, the Indiana Chamber is taking action to build research, analysis tools and recommendations to help the organization advocate for a strong, competitive and growth-oriented tax structure to drive prosperity for Hoosier businesses and citizens.

Through its Foundation, the Indiana Chamber has commissioned an array of timely research projects around an in-depth analysis of Indiana's state tax system.

"This endeavor will complement the state's review, providing legislators with essential data to guide their deliberations," says Jeff Brantley, senior vice president of political affairs and foundation.

"This tax study package will be the biggest and maybe boldest research endeavor yet for the Indiana Chamber Foundation."

The effort is exploring the state's current tax structure, investigating its fairness, competitiveness and efficacy. Notably, the analysis will compare Indiana's tax system with those in neighboring states and other key competitor states.

The goal is to identify potential areas of improvement and provide insights into alternative tax scenarios and their fiscal and economic impacts.

The initial data from the study is expected by early January 2024 – in time for use by lawmakers.

"We also believe the development of a dynamic forecasting tool to predict fiscal, economic and industry cluster impacts based on different tax structures will be quite beneficial for running scenarios," Brantley remarks. "This comprehensive approach will provide policymakers with the data and tools necessary to make informed decisions on the state tax structure, which will have long-term implications for our state."