

TAKING THE TAX TEMPERATURE

Two-Phase Report Offers Guidance

By Rebecca Patrick

Indiana has long stood out as a state fostering a competitive, business-friendly environment with a tax system designed to support economic growth.

But that doesn't mean there isn't room for improvement. A detailed accounting should occur to accurately gauge the current climate – including state needs.

That's occurring through two much-anticipated efforts, which are now marching to conclusion and culminating with anticipated legislation in the 2025 Indiana General Assembly.

The first of those wrapped up this fall with the release of the Indiana Chamber Foundation's dual-focus study, conducted by Ernst & Young LLP, that's designed to inform lawmakers' decision-making on potential changes to the state and local tax structure.

Setting the stage

Part one – "Indiana's Tax System: A Comparative Analysis" – offers key insights into precisely how the state stacks up against its peers, including neighboring states like Ohio and Illinois, and national competitors

such as Tennessee, Texas and North Carolina.

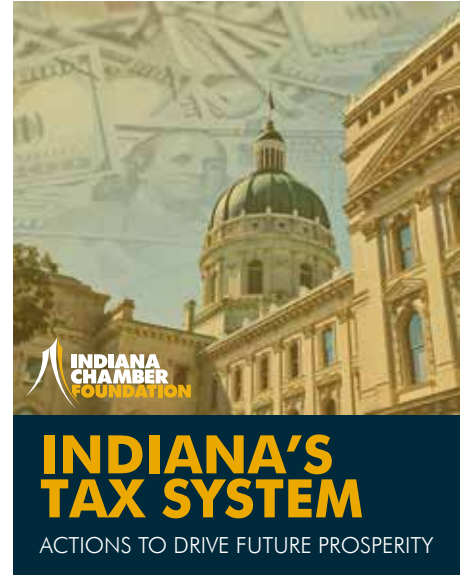
While Indiana remains a leader in tax competitiveness, particularly for businesses, the study reveals areas where reforms are necessary to ensure that we continue to grow appropriately and sustainably. Among them: The report identifies challenges in sectors like manufacturing and life sciences, where property and personal property taxes drive up effective tax rates.

Despite these hurdles, Indiana's overall tax burden remains lower than the U.S. average, making it an attractive environment for business and economic growth.

"Our state's tax climate is the result of sustained efforts over decades to build a strong, business-friendly environment," says Vanessa Green Sindors, president and CEO of the Indiana Chamber. "Indiana is well-positioned among our peers to attract capital investment and support long-term economic growth. The data from phase one of this study highlights key opportunities for improvement, which will help us gain a competitive edge moving forward."

Specific key findings from the study include those around tax burden, business tax competitiveness, business share of taxes and competitiveness for key industries.

- Indiana has consistently had a lower tax



burden compared to the U.S. average from FY12 to FY22. In FY22, Indiana's state and local tax revenue per capita was \$5,618 compared to \$7,097 nationally. Indiana's combined state and local tax burden is 9.6% of personal income, which is lower than the 10.8% U.S. average and is in the middle of the benchmark states.

- Businesses pay 38% of state and local taxes in Indiana, which is the third lowest among peer states. Businesses pay a higher share of property taxes in Indiana than the benchmark state average.
- Indiana has higher effective tax rates in capital-intensive industries such as manufacturing and life sciences due to the taxation of personal property, which drives high effective property tax rates. For example, manufacturing is a capital-intensive industry, and Indiana's high taxation of both real and personal property results in the 4.9% property tax effective rate, more than double the benchmark state average, with personal property tax accounting for 2.5 percentage points of the total effective rate.

"Indiana ranks fifth lowest among benchmark states for total effective business tax rate at 3.8%, well below the U.S. average of 5%," conveys the Indiana Chamber's David Ober, senior vice president of business operations and finance. "We are well-positioned as a leader in overall business tax competitiveness. However, when you focus



The Indiana Chamber's tax expert, David Ober (shown testifying recently at the Statehouse), expects lawmakers to pay close attention to the organization's research as they look to pass noteworthy tax legislation in 2025.

on specific industries for which Indiana is known, such as manufacturing and life sciences, the data shows opportunities for improvement. By addressing these areas, we can further sharpen our competitive advantage and continue to drive economic growth.”

What to do

The Indiana Chamber will unveil the advocacy element of the research at its annual legislative preview gathering just prior to the Indiana General Assembly’s Organization Day in November.

“Indiana’s Tax System: Actions to Drive Future Prosperity,” delves into opportunities for tax reform and provides detailed recommendations on how Indiana can refine its tax system to boost business investment, economic growth and quality of life for all Hoosiers.

Key highlights of the proposed reforms include property tax changes, such as the potential exemption of newly acquired business personal property, which could save Indiana businesses up to \$1.5 billion by 2034, making the state more attractive for capital investment.

Eliminating the depreciation floor on business personal property could further reduce tax liabilities by up to \$100 million, providing immediate financial relief to businesses.

On the income tax front, corporate tax rate reductions could deliver an estimated \$100 million in annual savings, while individual taxpayers

may benefit from up to \$600 million in relief, reducing effective tax rates and enhancing Indiana’s competitiveness for future growth.

These proposals are crafted to drive down effective tax rates, enhance Indiana’s business environment and foster long-term economic growth. Given the deadline for this publication came before the public release of part two of the study, the full analysis, including all recommendations, are available in a *BizVoice*® online exclusive on November 19.

“This collective research marks the first step in a larger effort. As we move forward, we will meet with key lawmakers, administration officials and local leaders across Indiana to ensure that the findings are used to drive policy decisions,” Sinderson offers.

“Our goal is to work collaboratively to shape policies that strengthen Indiana’s economic foundation and keep us ahead in the competitive landscape.”

Both studies were informed by consultations with the Indiana Chamber Tax Research Advisory Committee, comprised of representatives from key business sectors, tax policy experts, consultants, relevant state agencies and economic development professionals.

Lead investors in the tax project were Ambassador Enterprises and AES Indiana. Other key contributors were Maple Leaf Farms, bp America, dormakaba Americas, Cleveland-Cliffs Inc., Al & Kathy Hubbard and CountryMark.

RESOURCE: “Indiana’s Tax System” studies at www.indianachamber.com/tax



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