IFPI Issue Brief

INDIANA FISCAL POLICY INSTITUTE
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2023 Legislative Interim Study Committee Wrap-Up

As the Indiana General Assembly prepares for a new 2024 legislative session, they are wrapping up the work that was done this Summer and Fall vis a vis interim study committees. Each year, these committees study a wide variety of topics, often making recommendations for legislation to be considered by the full General Assembly to take up when it is next back in session. This year was no exception, with several fiscal policy-relevant committees meeting and weighing in on important public policy issues. Below is a (brief) synopsis of this work.

State and Local Tax Review Task Force (SALTR)

SALTR met four times between August and November in 2023. It is expected to reconvene in January 2024, where it will continue to hear public testimony, and will meet no fewer than four times before making legislative recommendations by December 1, 2024.

During the August SALTR meeting, the members heard from representatives of the Office of Management and Budget, the Budget Agency, Indiana Finance Authority, and the Indiana Public Retirement System to level set on the state of Indiana's finances, pension liabilities, and economic outlook. In short, everything looks good – Indiana is currently on track to spend less than it collects in taxes, keep an appropriate level of reserves, and maintain the critical AAA bond rating.

Upon conclusion of the initial presentations, the Committee welcomed **Americans for Prosperity**, who recommends that Indiana decrease spending, decrease regulations, and reduce (but not eliminate) the state income tax.

Background on SALTR

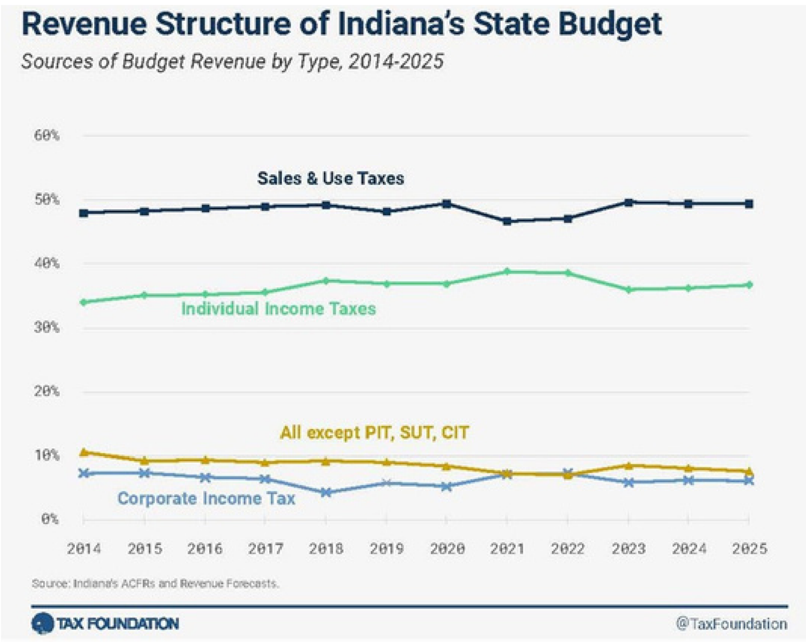
The State and Local Tax Review Task Force (SALTR) was created in the 2023 legislative session and is intended to review the state's short- and long-term financial outlook and fiscal position, including the state's debt obligations, and pension funding status. On the tax side, SALTR is tasked with reviewing options to reduce or eliminate the individual income tax, the state sales tax and tax base, the property tax, and ways to reduce or eliminate the tax on homestead properties and taxes on business personal property, corporate taxes, and local option taxes.

The information presented at these meetings acted as a primer on Indiana's tax system. Access to the meeting recordings and copies of presentation materials is found on the SALTR website, for those of our readers wishing to take a deep dive into Indiana tax policy.

The meeting was concluded by former Senate fiscal leader **Brandt Hershman**, who cautioned against eliminating the income tax. Senator Hershman recommended leaving the current property tax system alone, while suggesting that eliminating the corporate income tax and investing in more quality of place investments would help drive economic growth.

Legislative Services Agency (LSA) provided information on Indiana's income tax and local income tax systems during SALTR's September meeting. LSA also provided an extremely thorough history of Indiana tax reforms through the years.

Representatives from the **Pew Charitable Trusts** outlined that surpluses are dissipating across the U.S., although Indiana is in a better condition than many states. Pew recommends implementing a budget stress test system. Pew also expects to see more stabilization of state pension plans as we move forward. Indiana is in the middle of the pack as regards funding levels for public employee pensions.

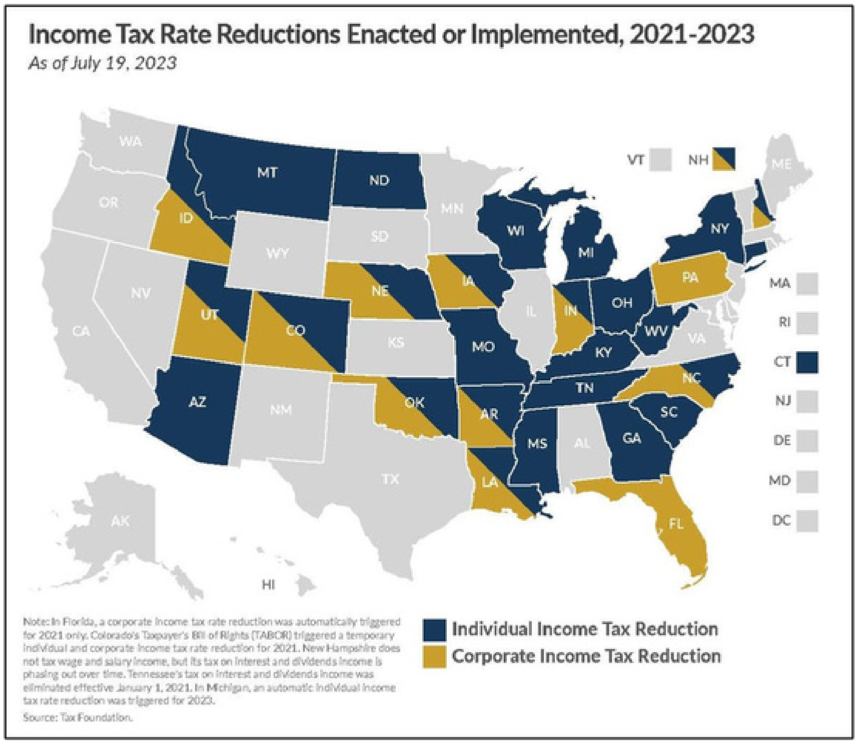


Long-time Senate fiscal leader **Luke Kenley** wrapped up the September meeting by suggesting that SALTR focus on reforming the property tax system and looking at the referendum process, as these are pain points for many local governments and taxpayers. Senator Kenley suggests that the state investigate sales tax on services, and he is concerned about a potential elimination of the income tax, as there may be a problem with insufficient revenue in the event of a recession.

LSA again provided content and context on the Indiana sales tax and the corporate income tax at the October SALTR meeting. **Dr. Tim Brown**, former House Ways & Means Committee Chair spoke to the members and strongly encouraged them not to institute local sales taxes, but rather expand the base for the state sales tax (to include services and food), while lowering the rate. Dr. Brown indicated that Indiana's current high sales tax rate (7%) is a problem, as the state has a reputation for having a very high rate. He recommends that sales tax collections and income tax collections should be in better balance.

The **Tax Foundation** spoke next and lauded Indiana for having a highly competitive tax system (9th overall according to their rankings), with one of the most efficient property tax systems in the nation and one of the lowest income tax rates. They recommended that Indiana consider continued reductions in income tax and a transition from local income tax to local sales tax, paired with a decrease in corporate income taxes. They also recommended expanding the sales tax base to include food and services and a phased-in elimination of tangible personal property taxes over time. It is the Tax Foundation's view that a structurally sound tax system is better than tax incentives for business attraction.

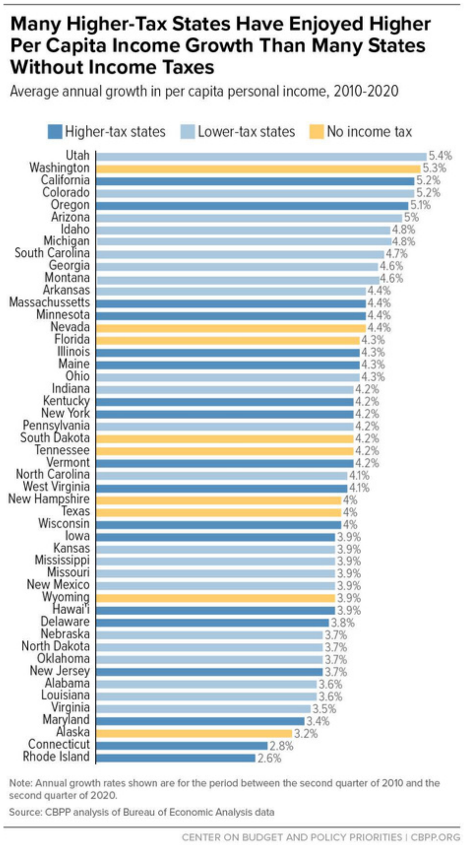
Representatives from the **American Legislative Exchange Council** then noted that Indiana is competing with states across the country – if you do not compete, you will lose. It appeared that ALEC's primary suggestion was to keep spending in check in Indiana to maintain competitiveness.



Next up was the **Center on Budget and Policy Priorities**, who concentrated on revenue adequacy in their presentation. Specifically, they believe that adequate income taxes are necessary to provide key services, and that lowering or cutting income taxes is not a primary reason people choose to move in or out of states.

The October meeting was rounded out by the **Institute on Taxation and Economic Policy**, who indicated that eliminating income tax would make Indiana's tax system more inequitable. According to ITEP, Indiana has a regressive tax system, driven by the high 7% sales tax rate. Through ITEP's microsimulation, they projected the impacts on Hoosiers by eliminating the individual income tax.

SALTR wrapped up its work for 2023 in November in a meeting that focused a bit more on property taxes. LSA's revered property tax guru Bob Sigalow presented to the Committee on the state's property tax system at length. Mr. Sigalow was followed by a presentation by the Department of Local Government Financed on the ins and outs of assessed valuation in Indiana. LSA then presented on the food and beverage and innkeeper's taxes.

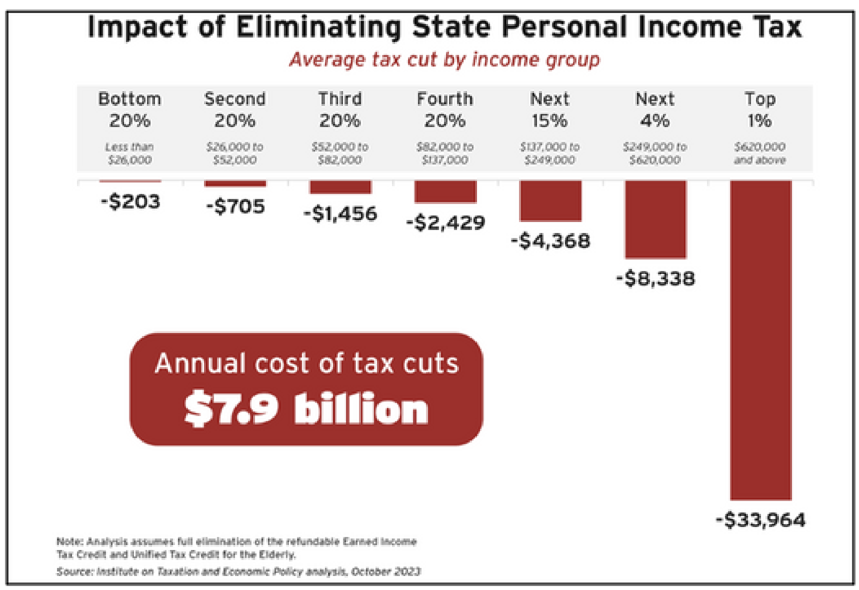


Grover Norquist from Americans for Tax Reform spoke next and outlined that states that have gradually (over 10-15 years) reduced income taxes have done better than those that did it rapidly or paired it with an increase in sales taxes. Mr. Norquist suggested setting up a reserve fund to pay for revenue shortfalls while decreasing income the tax rate. He also emphasized that the reduction in income tax must be paired with management of spending.

To everyone's delight, **Larry DeBoer**, former faculty at Purdue University (and long-time researcher partner of IFPI) presented on Indiana's property tax system, and a history of Indiana taxation more generally.

Dr. DeBoer indicated that Indiana is in the middle of the pack in terms of property taxes as compared to other states, but this has not always been the case – Indiana was a high property tax state until reforms in the 1970's.

As there has continued to be a shift of taxes from property to sales tax, this has limited growth in the property tax levy, but the total sales tax revenue as a percent of income has risen, and over the past 50 years, tax collection has shifted from local taxation to state taxation. However, total taxation, according to Dr. DeBoer, has remained roughly the same.



Summary: SALTR should be congratulated on covering so much dense material in four meetings in 2023. Former legislative fiscal leaders urged caution in eliminating income taxes, in order to maintain stability and revenue adequacy. Some who are proponents of eliminating the income tax suggested a phased-in approach. There appears to be some appetite to expand the base for sales tax by taxing food and services (with some caveats) and lowering the rate from the current 7% sales tax rate.

Other Relevant Committees

The Interim Committee on Pension Management Oversight (PMOC) recommended that 13th checks be made available to eligible public retirees and provide an annual cost of living adjustment (COLA) to eligible public retirees (for context, no 13th Check or COLA was approved for 2023 for retirees, many of whom are used to getting a 13th check each year). PMOC also recommended legislation to require the Indiana State Police (which is not administered by the Indiana Public Retirement System) to maintain a supplemental allowance reserve account to pay for postretirement benefits.

Two interim study committees investigated health care costs and provided oversight for Indiana's Medicaid program. The first of these, the Medicaid Oversight Committee, was created to review, consider, and make recommendations concerning all requests for new services and changes in existing services for the Medicaid program. This Committee made no recommendations at this time.

The Health Care Cost Oversight Task Force was established in 2003 and made a number of recommendations at their November meeting. Broadly, these include requiring more disclosures by insurance companies for prior authorization process, more pricing transparency, provider merger oversight, rules for pharmacy benefit managers, and to create price and claim transparency for employers who provide health care benefits for employees.

A recommendation from the Task Force would enhance the state's ability to review and approve provider mergers. The concern of the Task Force was that costs are increased by a lack of competition in some areas of the state when systems buy smaller chains (horizontal mergers) or purchase physician networks (vertical mergers).

Another recommendation would allow employers to audit claims and payment data for those employees and their family members covered by employer plans.

The Task Force recommended that Indiana prohibit spread pricing by pharmacy benefit managers, third party administrators, and insurers. Spread pricing is the practice of charging payers like Medicaid more than they pay the pharmacy for a medication and then the keeping the "spread" or difference as profit.

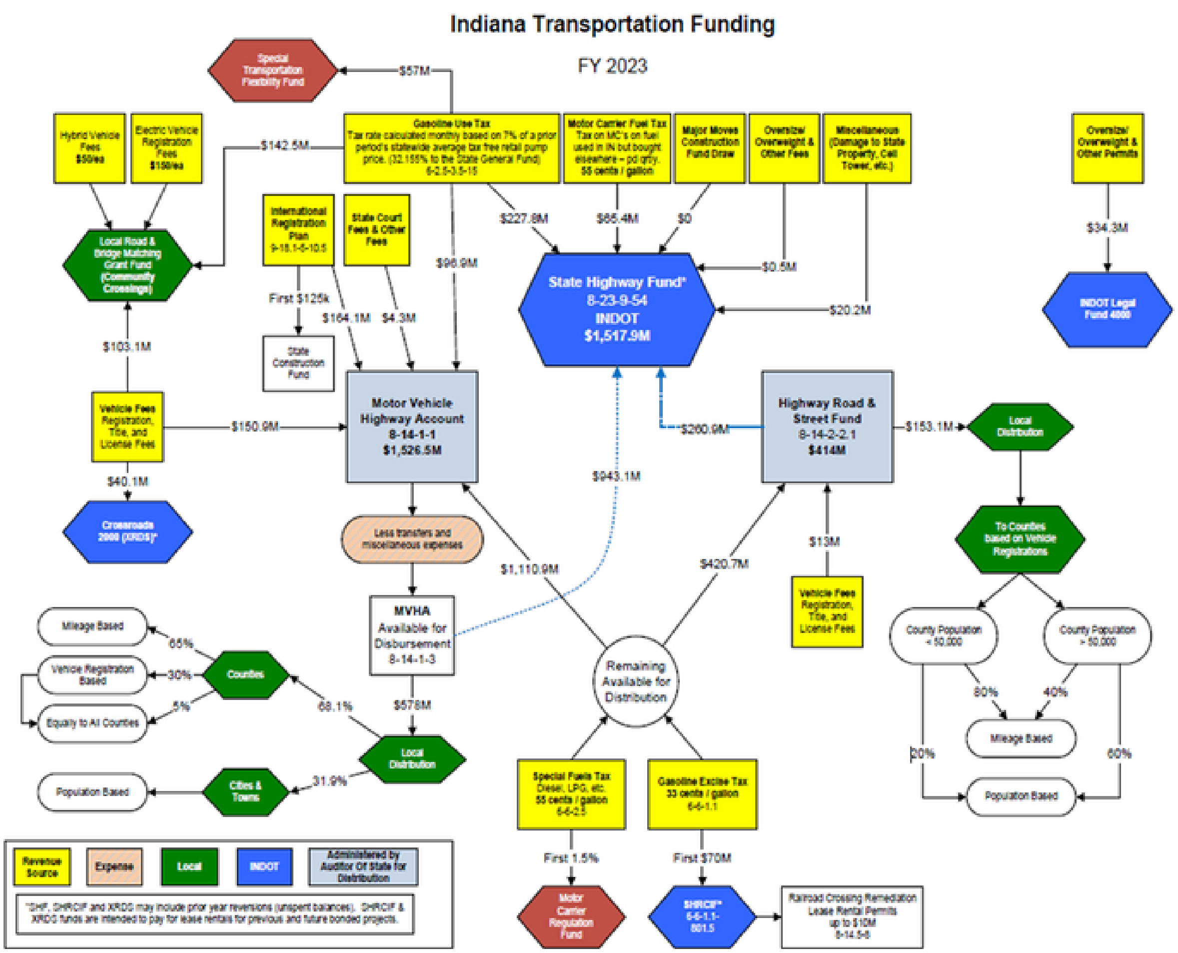
The Government Reform Task Force made twelve recommendations for consideration for legislation next year. Many of these recommendations are meant to reduce state fees/fines/penalties, to realign or eliminate state boards and commissions, provide more oversight for executive branch agencies, and close loopholes on dedicated funds that haven't been spent within the past two years.

The Task Force made also recommendations around administrative law judges, who preside over administrative hearings for dozens of state agencies. In effect, these recommendations would provide that the decisions of these administrative law judges would be subject to judicial review. In other words, the decision of the administrative law judge can be appealed to trial court.

The final vote on these recommendations was contentious.

The Funding Indiana's Roads for a Stronger, Safer Tomorrow Task Force (FIRSSTT) was created in 2023 and is to look at short-and-long term funding needs and funding mechanisms for Indiana's roads and bridges, particularly as the U.S. transitions to electric vehicles. The Task Force met twice and made no recommendations this year.

For an idea of the complexity of the work before the Task Force, refer to the visualization for Indiana's current transportation funding system:



The Interim Study Committee on Fiscal Policy met again this year to discuss the ongoing tax incentive study report and the workforce related program review, both projects of the Legislative Services Agency. The Committee also tasked LSA to work on a data project around the increasing costs of higher education, known as the State Educational Institution Survey. The Committee made a recommendation that, due to data collection issues, the cost analysis will continue with the participation of the Commission for Higher Education, legislative staff, and the Higher Education Institutions to refine the data points and collection process to get the most uniform and robust information before the committee meets during the next interim.

The Interim Committee on Public Health, Behavioral Health, and Human Services studied the critical issue of lack of child care in Indiana. The Committee recommended that childcare regulations be evaluated to determine which regulations need modified or eliminated, providing childcare subsidies for the children of early care and education workers, make education and training for early care and education workers free through the Workforce Ready Grant, reduce age requirements for working with infants/toddlers, and establish several programs and policies to expand access to childcare in hard-to-serve areas, such as micro-centers. One interesting recommendation includes requiring the Indiana Economic Development Corporation to provide updates to the Indiana General Assembly on funds dedicated to supporting childcare efforts associated with READI and the CHIPS Act.

Summary: These committees did enormous work during the interim to deal with critical fiscal policy issues to the state. IFPI especially applauds the work of the Interim Study Committee on Fiscal Policy and Legislative Services Agency on their continued work evaluating tax incentives and workforce programming in the state. More work needs to be done to solve long-term transportation funding issues as Indiana transitions away from motor fuels and towards electric vehicles.

About the Indiana Fiscal Policy Institute

The Indiana Fiscal Policy Institute is Indiana's only independent statewide source of continuing research into the impact of state taxing and spending policies in Indiana. The IFPI is privately supported by a variety of organizations, corporations, associations, and individuals in Indiana and surrounding states. IFPI's Mission is to enhance the effectiveness and accountability of state and local government through the education of public sector, business, and labor leaders on significant fiscal policy issues and the consequences of state and local decisions. The Institute makes a significant contribution to the important, ongoing debate over the appropriate role of government. The Institute does not lobby, support, or oppose candidates for public office. Instead, it relies on objective research evidence as the basis for assessing sound state fiscal policy. Learn more at www.indianafiscal.org