Freedom and Opportunity Agenda – Plan to Fight Inflation

Across the country, American families are confronting historic inflation and skyrocketing costs off the back of unchecked federal spending. Due to this cycle of Bidenflation, stagnant wages have been stretched further to support families through runaway property taxes, on-the-rise utility bills, and an overall higher cost of living.

In order to provide relief to Hoosiers, the State will need to implement comprehensive fiscal policies that address the immediate needs of Hoosier families, as well as the long-term stability of the state economy.

In order to support the financial well-being of Hoosiers, this plan proposes policies that deliver:

1. Historic Tax Relief.
2. Good-Paying Jobs.
3. Affordable and Reliable Energy.
4. Streamlined Regulations and Government Services.
5. Leaner, Efficient State Government.

By enacting the Freedom and Opportunity Agenda – Plan to Fight Inflation, the State of Indiana can help Hoosiers weather these economic challenges and build a stronger, more prosperous state for everyone.

Historic Tax Relief

As Hoosiers contend with inflation, the State should provide comprehensive tax relief that protects taxpayers from runaway property taxes, supports retirees and families with targeted relief, and reduces the burden on Main Street businesses.

Plan of Action

Property Tax Relief: Since 2021, inflation has caused home values to skyrocket while, at the same time, wages have remained stagnant. As a result, Hoosiers are paying more of their paycheck to property tax bills, putting too many homeowners at risk of losing their homes. The State should provide property tax relief by cutting homeowner property taxes, capping property tax increases, increasing transparency, reforming the referendum process, and updating the farmland base rate formula.

The Freedom and Opportunity Agenda Property Tax Relief Plan was originally released in July, and updated to include proposals for the farmland base rate formula in September.

- *Cut Homeowner Property Taxes:* Overhaul the homestead deduction in order to bring every homeowner's property tax bill back to 2021 levels.
- *Cap Property Tax Bills:* Freeze future property tax increases by capping the increase in tax bills at 2% for seniors, low-income Hoosiers, and families with children under the age of 18; and 3% for all other taxpayers (including agricultural, commercial, and industrial).
- *Increase Local Government Transparency:* Establish a Property Tax Transparency Portal that allows taxpayers to compare their current tax bill with potential changes under proposed tax rates and provides a platform for taxpayer feedback.
- *Reform the Referendum Process:* Through referendums, taxpayers are empowered to approve or disapprove of certain property tax increases. However, low voter turnout, misleading ballot language, and unchecked referendum tax bill growth have led many Hoosiers to feel burdened by runaway referendums.
- *Update the Agricultural Base Rate:* Currently, the farmland base rate formula is a lagging indicator of the true farm economy, meaning that farmers' tax bills start to rise a couple of years after their revenue. In fact, in recent years, the farmland base rate and global corn prices have been countercyclical.

<u>Individual Tax Relief:</u> In addition to skyrocketing property taxes, the tax burden on individual Hoosiers has also grown as a result of inflation. The State should support Hoosiers by fighting unlegislated tax increases and extending targeted relief to retirees and families.

- *Fight Unlegislated Tax Increases:* Even as paychecks struggle to keep pace with the increased cost of living, some Hoosiers have slipped into a higher tax bracket without being any better off. The State should protect all Hoosiers from unlegislated tax increases.
    - <u>Bidenflation Relief Tax Credit:</u> The State should provide a two-year State income tax credit for Hoosiers who are bumped to a higher federal income tax bracket due to inflation to offset the added cost of inflation.
    - <u>Inflation Adjusted Deductions:</u> The State should adjust the value of its income tax deductions for inflation.
- *Stop Taxing Retirement Income:* Hoosier retirees have saved and invested for decades in order to provide for a comfortable retirement. With no end in sight, inflation risks compromising this careful work. The State should eliminate taxes on retirement income (e.g., pensions, 401(k) distributions, 457 distributions, and IRA distributions) to improve the quality of life for retirees and make Indiana a more attractive state for retirement.

    - Currently, more than a dozen states, including Florida, Illinois, Tennessee, and Texas, do not tax retirement income.

- *No State Tax on Tips:* For Hoosiers who work in the service industry, tips are a recognition of hard work done well. As it stands, income earned through "cash" tips (which includes cash, credit and debit charges, and checks) is taxed at the same rate as income from hourly or salaried work. In order to provide tipped workers with more security during high inflation, the State should bolster take-home pay by providing a complete state income tax deduction for income from "cash" tips.
- *Sales Tax Holiday:* More than anywhere, Hoosiers feel the added cost of inflation at the cash register. The State should institute annual sales tax holidays to provide temporary, but significant, relief for Hoosiers and visitors purchasing essential goods. For example, the State should institute tax holidays for:
    - Back-to-School: Support families with tax holidays in January and August for school supplies, learning aids, clothing, and computers under a certain value.
    - Outdoor Recreation: Boost tourism and recreation with a tax holiday in the spring for biking, hiking, and hunting supplies under a certain value.
    - Youth Sports: Support families and promote physical activity for young Hoosiers with tax holidays in the spring and fall for sports equipment under a certain value.

Business Personal Property Tax Relief: Businesses and organizations not only pay property taxes on real estate (see "Property Tax Relief" above), but also on the value of their other property (e.g., equipment, furniture, etc). The State should provide relief to Main Street businesses through business personal property tax reform.

- *Raise the Exemption Threshold:* Keep more money on Main Street by raising the exemption threshold for business personal property taxes, which is currently $80,000. In addition to reducing Main Street's tax burden, raising the exemption threshold would also reduce the administrative burden for small businesses.
- *Decrease the Depreciation Floor:* Bring the tax treatment of business personal property closer in line with its market value by decreasing the depreciation floor (which is currently 30 percent) for business personal property.

Good-Paying Jobs

In addition to historic tax relief, the State should help Hoosiers keep up with the rising cost of living by supporting the creation of good-paying jobs. Specifically, by rewarding employers who invest in their employees, the State can combat wage stagnation and grow a stronger, more productive economy.

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<u>Reward Investments in Employees:</u> As the State takes steps to foster a resilient and diversified economy, and position itself at the forefront of next-generation industries, support for a robust workforce will be critical. The State should promote wage growth and upskilling by rewarding employers who invest in their workers.

- *Hoosier Workforce Investment Tax Credit:* While the State offers tax credits to finance job creation, it could do more to incentivize businesses to invest in higher wages or upskilling for their employees. The Indiana Economic Development Corporation (IEDC) should support businesses that invest in their employees.
    - By incentivizing businesses to upskill their incumbent workforce, the State can promote higher wages for Hoosiers and stronger economic growth for communities of all sizes.

Affordable and Reliable Energy

Over the last decade, Hoosiers' electricity bills have increased dramatically, outpacing the national average. At the same time, Indiana's power grid operators have warned ratepayers about the threat of rolling brownouts during extreme heat and cold. It is time for the State to talk honestly about the challenges and opportunities in the energy sector, and ensure that Hoosiers always have access to affordable and reliable electricity and heat.

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<u>All-of-the-Above Energy Strategy:</u> As Hoosiers confront high utility costs and the threat of rolling brownouts, the State should explore all new generation opportunities—including fossil fuels, renewable energy, and nuclear—where they make sense.

- *Protect Baseload Investments:* Support opportunities for electric public utilities to make a good faith effort to sell coal- and natural gas-fired baseload generation facilities before retiring such facilities.
- *Smart Renewable Development:* Prioritize no-regrets renewable development opportunities through expedited permitting for agrivoltaics and developments on marginal land, former mine land, and brownfields.

- *Cut Regional Red Tape:* When utilities face red tape, the cost is passed on to ratepayers. In the energy sector, regional transmission organizations (RTOs) act like quasi-governmental regulators, subject to federal oversight and the interest of member states.
  - The State should direct the Indiana Utility Regulatory Commission to work with like-minded states within the Organization of Midcontinent Independent System Operator (MISO) States to ensure expedited connections for affordable and reliable baseload energy.

Streamlined Regulations and Government Services

Small businesses are the backbone of our economy, but they often face unnecessary regulatory hurdles that stifle growth and innovation. In order to create a more favorable environment for small businesses to thrive, the State should conduct a comprehensive review of regulations, empower agencies to expire outdated regulations, and put government on a regulatory budget.

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Comprehensive Regulatory Review: Across every level of government, regulations create compliance costs that hinder economic growth. In order to provide systemic relief to Hoosiers and support small businesses, the State should conduct a comprehensive review of the requirements imposed by regulations on Hoosier businesses, in consultation with the Office of Management and Budget and impacted stakeholders.

- *Comprehensive Regulatory Streamlining:* The State should eliminate any regulation found to be outdated, redundant, or overly burdensome.
- *Comprehensive Regulatory Modernization:* The State should develop recommendations to modernize regulations that are not eliminated under the review. This may include, for example, moving government processes from paper to the Internet.

Ongoing Regulatory Expiration: In addition to conducting a comprehensive review of its regulations, the State should also regularly monitor whether its regulations are serving Hoosiers. Today, agencies are required to review administrative rules for expiration every five years. However, agencies can readopt rules unchanged and without scrutiny, meaning that the "sunset" provision has not had its intended impact of spurring modernization and deregulation.

- *Empower Agencies to Modernize and Deregulate:* To ensure that the regulatory expiration process has its intended impact—government efficiency—the State should require agencies to consult with the Office of Management and Budget during their review processes and give the Governor explicit authority to reject proposed readoptions.

Safeguards to Preserve Deregulation: While regulatory streamlining and expiration will help to unburden the Hoosier economy, the State should also consider developing safeguards to ensure that its deregulatory efforts are not reversed over time. To do so, the State should impose a "regulatory budget" on its agencies.

- *Regulatory Budget:* In order to create reliable governance for Main Street, the State should require each agency to offset the net compliance cost of new regulations by eliminating other regulations that, in sum, impose at least as large a compliance cost.

Leaner, Efficient State Government

Smaller, more efficient government is better for taxpayers and the economy. Unlike the private sector, where real economics incentivize efficiency and lower overhead, government at every level has grown unchecked. In order to reduce waste and improve the delivery of essential services, the State should develop strict performance metrics for its agencies, and eliminate unnecessary or underperforming positions and programs.

Taxpayer Return on Investment: When it comes to state government, taxpayers have skin in the game. Similar to a business and its shareholders, the State has a responsibility to deliver a return on Hoosiers' tax dollars through the delivery of quality essential services. The State should implement cutting-edge methods to assess and improve its "taxpayer return on investment."

- *Outcomes-Based Performance Metrics:* Direct the Office of Management and Budget and the Management Performance Hub to develop strict, outcomes-based performance metrics for each state agency in order to ensure that Hoosier tax dollars are being used effectively and that each agency is providing reliable, quality services.
- *Agency Performance Reviews:* The Governor should regularly conduct performance reviews for each state agency, benchmarking the agency's work against outcomes-based performance metrics and discussing opportunities and challenges facing the agency.
- *Eliminate Unnecessary Positions and Programs:* Should the State implement outcomes-based performance metrics and agency performance reviews, as recommended by this section, it should also leverage these tools to eliminate unnecessary or underperforming positions and programs.