AMERICANS for TAX REFORM

722 12th Street N.W.
Fourth Floor
Washington, D.C.
20005
T: (202)785-0266
F:(202)785-0261
www.atr.org

January 18, 2017

To: Members of the Indiana Legislature
From: Americans for Tax Reform
Re: 2017 Legislative Session

Dear Members of the Indiana Legislature,

The coming year looks to be one of historic policy change, not just in Washington, but also state capitals across the country. On behalf of Americans for Tax Reform and our supporters across Indiana, I write today to urge you to keep taxpayers in mind as you take up many important issues during the 2017 legislative session. **Any and all tax hikes will be scored as violations of the Taxpayer Protection Pledge, a personal written commitment many state lawmakers have made to their constituents to oppose net increases in taxes.**

Your constituents have been hit with over 20 federal tax increases over the last eight years. The last thing individuals, families, and employers across Indiana need is to have lawmakers in the Indianapolis pile on with further tax hikes at the state level.

There is ample evidence that higher taxes make states less competitive, and harm economic growth. John Hood, chairman of the John Locke Foundation, a non-partisan think tank, analyzed 681 peer-reviewed academic journal articles dating back to 1990. Most of the studies found that lower levels of taxes and spending correlate with stronger economic performance. When Tax Foundation chief economist William McBride reviewed academic literature going back three decades, he found "the results consistently point to significant negative effects of taxes on economic growth, even after controlling for various other factors such as government spending, business cycle conditions and monetary policy"

Unfortunately, potential tax hikes are already looming in the state and your colleagues are openly endorsing them. Earlier this month, not only did Speaker Bosma publicly tout a $0.10 gas tax hike, he's supporting a gas tax increase for a second year in a row. The plan, like last year's bill, only focuses on raising taxes, not reforming government or reallocating currently collected resources. As such, I urge you to reject this misguided approach to budgeting.

If transportation funding were truly a priority, lawmakers would immediately use gas tax revenue for its intended purpose: roads—rather than wait until 2019, as the plan proposes. By claiming a tax hike is needed for transportation, lawmakers are admitting that transportation needs are actually their lowest priority; otherwise they would not have funded everything else first. **As such, legislators should immediately and permanently codify the earmarking of gas tax revenue to new and existing transportation projects.**

Accountability is also an integral part of the legislative process and voters demand it. Yet, as the plan stands, it violates voter wishes by allowing the gas tax rate to increase automatically every year. When lawmakers place tax hikes on autopilot, they strip from the budget process the responsibility and accountability that come with annual decisions about tax rates. **A 2015 national public poll found that 79 percent of Americans oppose an increase in the gasoline tax to keep up with inflation and 68 percent oppose any increase in the gas tax to spend more for infrastructure.**

Contrary to popular belief, the gas tax is not a user fee. Consumers must be presented with a choice of either purchasing the service from the government (by paying the fee) or purchasing the services from a private business to qualify as a true user fee. Because anyone who purchases gasoline in Indiana is forced to pay the tax, they are not considered user fees. Gas tax increases are tax increases in the same way that income and sales tax increases are. **Road tolls, however, are an example of user fees. Tolls are user fees because commuters have the option of using the roads they are imposed upon or not.**

An additional object of consideration is an increase in the state cigarette tax. Increasing the Hoosier State's dependence on tobacco taxes by increasing them will not guarantee more revenue in the long run. As demonstrated by many states and cities across the nation, targeted excise taxes have proven to be unstable sources of revenue, and ultimately result in a decrease in tax receipts. For example, neighboring Illinois nearly doubled its cigarette tax in 2012 by raising the tax $1-per-pack; it generated $138 million less than projected. In fact, **only three out of the 32 state tobacco tax increases, enacted between 2009 and 2013, have met or exceeded tax revenue projects.**

Currently, Indiana has a regionally competitive cigarette tax rate of $.995-per pack. It is higher than Kentucky's $.60-per pack tax but makes Indiana a net exporter of cigarettes to states like Illinois, which boasts the city with the highest state-local tax rate of $6.16-per pack in Chicago.

If enacted, this tax would likely further incentivize cigarette smuggling and cross-border sales into states like Kentucky. According to the Tax Foundation, when Illinois almost doubled the cigarette tax rate, cigarette smuggling rate dramatically increased from 1.1 percent to 20.9 percent in the first year. Consequently, small businesses in this state lost tens of thousands of dollars as patrons pursued cigarettes in less expensive markets across state lines, including in Indiana.

Targeted and regressive tax hikes on low-income consumers like smokers are unwise and will prove to be an unstable source of revenue long term.

If you need another reason to not raise taxes, which is what lawmakers do instead of reforming government, there is a good chance that federal tax reform will finally happen this year, and that it will include either a significant scaling back or outright elimination of the state & local tax deduction. The federal government has been subsidizing state tax hikes and high tax states for far too long, but the 115th Congress is looking to put an end to that.

Now that hardworking Hoosier families can finally afford to fuel their cars and heat their homes, legislators should not strip them of economic opportunity by making gas increasingly unaffordable and burdening the middle class and low-income families with more tax hikes. ATR will be educating your constituents and all Indiana taxpayers as to how lawmakers in state capitals vote on important fiscal and economic matters throughout the legislative session.

Please look to ATR to be a resource on tax, budget, and other policy matters pending before you. If you have any questions, please contact Miriam Roff, State Affairs Coordinator, at (202) 785-0266 or mroff@atr.org.

Sincerely,

Grover Norquist
President, Americans for Tax Reform