CENTER ON BUDGET AND POLICY PRIORITIES

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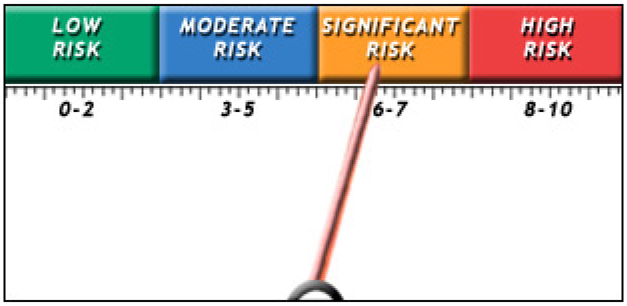
INDIANA



Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Indiana is rated as having a significant risk of a structural deficit based on its score of seven on the risk scale for structural deficits.

- In Indiana, the percent of sales subject to sales tax declined by 9.7 percentage points from 1990-2003, exceeding the US median decline of 8.0 percentage points. Moreover, Indiana's sales tax covers less household services than the average state.

- Indiana has significant loopholes in its corporate income tax.

- Indiana's income tax preferences for seniors exceed the US average.

- Indiana's income tax has a flat rate making it a less progressive tax. An individual earning $30,000 in Indiana pays income tax at the same rate as someone earning $300,000.

- During 1994-2000, Indiana reduced its personal income tax. Then during 2001-2004, it increased the sales tax, the cigarette tax and the motor fuel tax, but cut its personal income tax and its corporate income tax. This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.

- Indiana has a statutory spending limit that restricts expenditure growth to personal income growth and a limit on local property tax revenues.

- Two other national studies (Hovey 1998 and Boyd 2002) found that Indiana has a structural gap.

- Lastly, although this paper did not categorize Indiana as having unusually high spending needs, it does face some spending pressures from: the number of students with special needs and the number of high school graduates potentially entering college.