Ketzenberger: Tax figures paint less rosy picture

By John Ketzenberger
July 6, 2014

We’ll know soon how Indiana’s economy performed, thanks to a most reliable indicator — state tax revenue figures.

Indiana’s fiscal year ended June 30, and staff at the Office of Management and Budget spent much of last week tallying the revenue and reconciling the expenses. The results are expected July 11 and they’ll likely confirm fiscal 2014 was a so-so year, extending a downward trend over the past three years.

The state’s five “major taxes” account for nearly 95 percent of its revenue, the economic sectors if you will. They are, in order of taxes collected, sales, individual adjusted gross income, corporate, riverboat wagering and racino wagering.

We’ll start with the good news. Corporate tax payments are 11 percent ahead of last year through May and 15.6 percent better than revenue forecasters predicted in December. It’s encouraging that this important overall economic sector is vibrant enough to exceed expectations, but it’s also a very distant third in its contribution to Indiana’s tax revenue, at 7 percent.

Sales tax collections are about where forecasters expected and 1.7 percent ahead of fiscal 2013. This sector, which can be interpreted as a sign of consumer confidence, makes up 47 percent of the state’s tax revenue. It means the state has collected $104 million more in sales tax than last year.

Then there’s the bad news. Individual adjusted gross income tax revenue is down on a year-over-year basis and down even more compared with what forecasters anticipated. In other words, the gain in sales tax was wiped out and then some by the $106 million decline in personal income taxes compared with last year.

A third of the state’s tax revenue is derived from individual income taxes. So the decline hurts the bottom line, but it’s also a sign of overall economic weakness. Taxes withheld from paychecks make up the majority of this category, which means Hoosiers have less buying power than they did just last year.

Gambling taxes have tumbled for years, yet collections are still less than forecasters expected. Through May, taxes on riverboat wagering are down 19 percent compared with last year, and 6 percent less than forecast. Consumers aren’t betting like they used to, and many that still do are visiting new casinos in Ohio and Michigan.

Another measure of consumers’ discretionary funds, gambling contributed as much to the state’s revenue stream as the corporate income tax did 10 years ago. Indiana was an early adopter among states that saw gambling as a way to bolster tax revenue; I don’t expect it will join Colorado and Washington in the current trend toward legalizing marijuana for the same purpose.

When Indiana’s books are closed, tax collections likely will be level with last year’s and just a little less than expected. With reserves, the state’s finances remain strong, but the downward trend in revenue growth is a sign of economic weakness even when you factor the tax cuts that will chop revenue by more than $700 million a year when fully implemented.
Post-recession tax revenue jumped nearly 9 percent in fiscal 2011, but it’s been all downhill since. Relatively robust 6.4 percent growth in 2012 dropped to 2.4 percent last year. Indiana’s not alone, according to a recent report by the Nelson A. Rockefeller Institute of Government that showed individual income tax collections fell 7.1 percent nationally, much more than expected.

In light of Gov. Mike Pence’s intention to introduce tax restructuring in the 2015 General Assembly, coupled with the fact it’s a budget-writing year, these trends make this session the most important for fiscal matters in at least a generation.

After two reductions in corporate taxes, a reduction of the personal income tax, elimination of the inheritance tax and others, it’s a good time to pause and weigh whether there will be enough money to pay for the services Hoosiers expect. This is especially true in light of the slow economic growth that has led to even slower increases in state tax revenue.

The question of balance was not among the many subjects this summer’s blue ribbon tax panel was asked to consider, but it ought to be. Government exists, after all, to find that balance and create an atmosphere for economic prosperity for its citizens — and the state.

John Ketzenberger is president of the Indiana Fiscal Policy Institute, a nonpartisan and nonprofit organization to research state budget and tax issues. Email him at jketzenberger@indianafiscal.org. Follow him on Twitter: @JohnKetz.