

Tax Competitiveness and Simplification Conference
Governor Pence Remarks
As Prepared for Delivery
June 24, 2014

To my fellow Hoosiers and guests from around the country, thank you for joining us today. We are honored to host so many distinguished leaders in tax policy. For a decade or more, Indiana has been a leading state in tax, and all the rankings affirm the progress we have made on making Indiana's tax structure more competitive. Our goal today is to harness the best ideas from the best minds in Indiana, and across the country, to fuel the next decade of tax simplification to continue to improve the lives of Hoosiers.

You see, the issue of taxes goes to the heart of our economic life. In today's competitive national and global economy, we need to ensure that our state's tax policy is conducive to economic growth here in the Hoosier State. With economic growth comes rising per capita GDP and rising personal income. We need both in Indiana.

Taxes affect every business, every community, and most importantly, every family in our state. A well-designed tax structure should be simple, stable, transparent, and fair. It should reward hard work. It must encourage investment and job growth. It needs to provide stable revenues to all levels of government but allow families to keep as much of their income as possible.

With these principles in mind, my question to you is simple: How can Indiana create the simplest, fairest, and most competitive tax structure in the country?

Indiana has been working hard to improve its tax climate. With our colleagues in the legislature, we have provided more than \$600 million in annual tax relief. To help our families, we eliminated the death tax and lowered individual income taxes by 5 percent. To help our businesses, we reduced the corporate tax rate and the financial institutions tax rate, which will result in one of the lowest corporate tax rates in the country. And to help our cities and towns, we gave local communities more options to lower business personal property taxes. With these improvements, Indiana will become the lowest tax state in the Midwest. Because of our efforts, both during my administration and that of my predecessor, Indiana's tax system now ranks as the tenth best in the nation, according to the nonpartisan Tax Foundation.

We have taken many good steps together. Now we must make a giant leap – to simplify and streamline Indiana's tax code so that it becomes the best in the country.

Albert Einstein once said that, "The hardest thing to understand in the world is the income tax." I want to assure the scientific community that Indiana has done its part to verify the accuracy of Dr. Einstein's statement.

According to the Progressive Policy Institute, Indiana has one of the most complex tax codes in the nation. Since 1993, Indiana's individual tax return form has quintupled in size, from two pages to ten. The tax instruction booklets have more than doubled in size, from 28 pages to 60 pages.

Tax complexity imposes real costs on families. Based on data from the IRS, the average individual Hoosier taxpayer spends about twelve hours and \$210 dollars to prepare their federal tax forms. Nationally, Americans spend roughly 6.1 billion hours of time, and another \$31.7 billion dollars on tax software and other out-of-pocket costs, to comply with the federal tax code. Everyone needs a great education, but millions of Americans should not need JDs, PhDs, or CPAs to do their own taxes.

How much better off would we be if we could spend that time and money helping our communities, or simply taking our families to the park? By simplifying our tax system, we can cut the tax burden on every Hoosier taxpayer.

Since the earliest days of our Republic, our leaders have recognized the value of simplicity in the tax system. In 1784, Thomas Jefferson wrote to James Madison and asked, "Would it not be better to simplify the system of taxation rather than to spread it over such a variety of subjects and pass the money through so many new hands?" We all know that the Founding Fathers hated the concept of taxation without representation. I'm not sure that they would love how we've handled taxation with representation.

Indiana today imposes more than three dozen separate and distinct tax types, each with its own rate and regulatory regime. We tax personal income and corporate income. We tax real property and business personal property. We tax the fuel used in motor vehicles. We tax hotel stays and tickets to sporting events. We tax the sale and use of products and utilities. And that's just a start.

While many of these taxes are necessary and dedicated to specific programs, each one adds another layer of complexity to our system. I was pleased to work with the General Assembly in 2013 to completely eliminate the inheritance tax, and we will always look for opportunities to eliminate and simplify the taxes that remain on our books.

Our tax system is also marked by a number of inconsistencies. Sometimes, we tax products in one place but not another. If you go to a movie at a theater, you don't pay sales taxes, but if you buy a DVD of that same movie at a store, you do. If you buy a pizza at a restaurant, you pay sales taxes, but if you buy a frozen pizza from the grocery store, you don't. If you buy a lawnmower, you pay sales tax, but if you hire a company to mow your lawn, you don't.

Other times, we tax the same product more than once. Motor vehicles are subject to sales taxes and annual excise taxes. A trip to a restaurant can result in sales taxes and food and beverage taxes. Contrast our tax code with the views of Thomas Jefferson, who wrote that, "Taxes on consumption like those on capital or income, to be just, must be uniform."

Indiana's tax code not only conflicts with the vision of simplicity set out by the Founding Fathers, it has not kept pace with the realities of commerce in the twenty-first century. The foundation of Indiana's tax laws dates from the 1950s, more than a half-century ago. In today's economy, these laws lead to confusion and uncertainty.

For example, Indiana is the only state in the nation that still uses an outdated test, which dates from the 1930s, to determine when farmers and manufacturers have to pay sales taxes on certain purchases. On a weekly basis, this test confuses and infuriates taxpayers. This type of complexity forces companies to devote time and money into compliance and litigation, rather than serving their customers or innovating for the future.

Some of our tax laws actively discourage companies from bringing jobs to Indiana. Indiana taxes certain income based on where the company incurs its costs, rather than on where the company earns its income. As a result, our tax law creates an incentive for companies to locate facilities and jobs in other states, while selling their goods and services to Hoosiers—without paying income taxes here. This law not only costs Hoosiers jobs, it effectively punishes Indiana-based companies that choose to locate their operations here in our state.

That brings me to another fundamental value: fairness. In 1985, President Ronald Reagan delivered a speech to the nation calling for sweeping legislative changes to the federal tax code. He noted that the tax system had become, and I quote, "complicated, unfair, cluttered with gobbledygook and loopholes." Over time, Indiana's tax laws have become more complex and less transparent. Too often, tax carve-outs distort the flow of capital and labor and put government in the improper position of picking winners and losers in the marketplace.

In the long run, these types of policies also harm the businesses themselves – and sow the seeds of economic stagnation. As Mancur Olson explained in *The Rise and Decline of Nations*, and as experience around the globe has confirmed, subsidies and preferences corrode the foundation of our economy.

Perhaps most importantly, tax carve-outs diminish the confidence of the average American in the fundamental fairness of the tax system. When respect for the law fades, voluntary compliance with the law deteriorates. In Washington, the federal government is seeking to hire thousands of new tax collectors to enforce complex laws that no one could fully understand. I truly believe that, by simplifying our tax system, Indiana will increase voluntary compliance and also reduce the costs that taxpayers incur as they try to navigate the current system.

Today, I repeat the calls of Presidents Jefferson and Reagan for a tax system that treats all taxpayers fairly. By simplifying our tax system, we can create a more level playing field for all businesses and all taxpayers.

As we discuss sound tax policy, we must keep in mind the underlying importance of taxes to our communities. As Oliver Wendell Holmes said, "Taxes are what we pay for [a] civilized society." Of course, if Holmes is right, Illinois must have the most civilized society in the world!

Any tax system must ensure stable, sustainable funding for all levels of government. Any tax system must also preserve the incentives for businesses to invest in plants and jobs in local communities. We must keep in mind that any tax on business is, ultimately, passed along to the consumer as part of the price structure for that product. However you slice it, people pay taxes, whether directly to the government or through higher prices for goods and services. Our job is to design a tax system that satisfies the legitimate needs of government as efficiently as possible, while preserving every incentive for the private sector to invest in the future and create jobs for Hoosiers.

As I close, let me remind all of us that embarking on tax simplification requires courage. As we all know, many interests are embedded in the code's structure, and changing the code for the better is fraught with politics. But I know all of you believe, as do I, that we need to keep the taxpayer – who is usually a mom or a dad, a grandmother or grandfather, as well as an entrepreneur or business owner or employee – front and center in our minds. Our tax code should encourage them as they save and invest and plan for the future. The code should keep cynicism at bay and make fairness a hallmark of how we do business in Indiana.

With these goals in mind, I am delighted that we are joined here today by many officials from towns and counties across the state, as well as by tax scholars from around the state and country. Working together, we can develop the best ideas to meet all of our goals, and build upon what we accomplished last year.

Finally, let me stress that, as Hoosiers, we have a duty to build upon these accomplishments. If we stand still, we will fall behind. Indiana is part of a competitive national and global economy. Many of our neighbors are working to improve their business climates, both here in the Midwest and around the country. As an American, I applaud their efforts, but as a Hoosier, I know that we have more work to do.

Later this summer, the Commission on Business Personal Property and Business Taxation also will consider ways to improve Indiana's tax system. It will consider specific legislative proposals for the next session. I challenge the members of that Commission to carefully review and consider the proposals and ideas discussed at today's conference. Working together, we must design a tax system for 2015 and beyond, not 1950 and before. We must create a tax structure

for the modern economy of today and tomorrow, not the economy of yesteryear. By modernizing our tax system, we can move Indiana from good to great.

In his speech to the nation, President Reagan set out his vision for an effective tax system. Permit me to quote him again: “The tax system is crucial, not just to our personal, material well-being and our nation’s economic well-being; it must also reflect and support our deeper values and highest aspirations. It must promote opportunity, lift up the weak, strengthen the family, and perhaps most importantly, it must be rooted in that unique American quality, our special commitment to fairness.”

With your help, we can design the best tax system in the nation. We can set an example for the world. I thank you for your expertise and your commitment to Indiana. I look forward to reviewing your ideas.