

# 2022 LEGISLATIVE REVIEW

## A Missed Opportunity to Lower Business Equipment Taxes

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The core mission of the Indiana Manufacturers Association is to advocate for policies that make Indiana a better place to grow manufacturing businesses. IMA members' investments support a thoughtful and in-depth level of advocacy that considers the long-term effects of policy changes on the state's economy. Combining

decades of experience around policy issues important to manufacturers with insights provided by an engaged membership, the IMA can focus on not only the hot button issues but also those topics that impact membership over the long term. The IMA looks at both the headlines and the trendlines.

In a complex policy area like tax, there are numerous issues that do not generate a lot of public interest and may not make a major difference in tax liability for any individual taxpayer or even a cumulative difference in tax revenue for government. But by continually advocating for small improvements to the tax code, the overall impact is to have one of the most business-friendly tax environments in the country.

For several years, Indiana manufacturers have indicated the growing need to increase capital expenditures for both expansion and equipment upgrades. This has been backed up by academic studies, most recently by the Brookings Institute in 2021, and by the IMA's manufacturing surveys. The growing gap between the productivity of Indiana manufacturing operations and the national

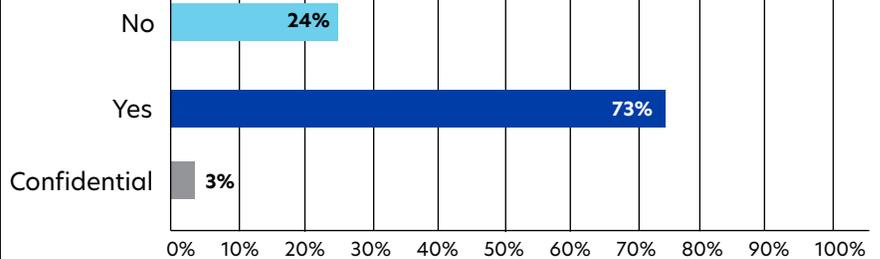
average can only be addressed with these investments.

The 2022 Indiana Manufacturing Survey (<https://www.ksmcpa.com/insights/2022-indiana-manufacturing-survey-back-to-work>), which is a partnership of Katz, Sapper & Miller CPAs and Advisors, Indiana University's Kelley School of Business at IUPUI and the IMA hit the question directly.

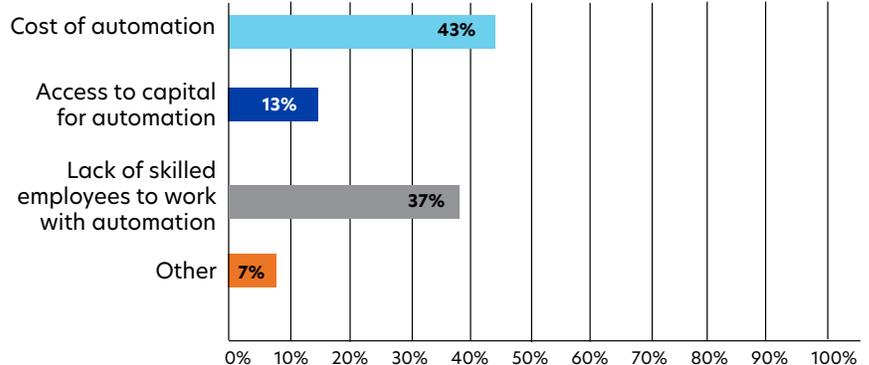
The overwhelming majority of respondents indicated that the workforce gap was accelerating automation and that cost was the biggest challenge.

Unfortunately for manufacturers, the cost of capital investment is one of the few areas where Indiana's tax code still

### Is the Need to Automate Being Accelerated by Lack of Workers?



### Challenges to Automation



# Missed Opportunity ... continued

stands out in a negative way. Indiana taxes business personal property (BPP) and has the highest floor on depreciation (30% of acquisition cost) in the country.

Thankfully, Governor Eric Holcomb and many legislators, including Indiana House Speaker Todd Huston, recognized this problem and sought to provide tax relief to businesses that want to upgrade with new equipment and reduce the cost of existing equipment. The 2022 legislative session started with a lot of momentum in this area. The Governor included the elimination of the 30% floor on BPP depreciation for all new equipment purchases in his legislative agenda. The House moved comprehensive reform that provided a refundable state income tax credit for the value of the 30% floor on existing equipment and eliminated the 30% floor for new purchases.

The initial momentum was halted when Senate fiscal leaders, Senators Travis Holdman and Ryan Mishler, expressed opposition to any measure that cut local government funding. This position was a surprise to many since proponents of BPP reform, including the IMA, had been working with Senators for months on options to reduce these taxes. The House proposal had shielded local units from most revenue losses (through a state tax credit) and spread the remaining impact over a 10-year or longer period. The Senate, including the larger membership of the Senate Republican Caucus who backed the position of their fiscal leaders, did not break from their

opposition despite intense efforts from the Governor, House Republicans and business leaders. Senate opposition killed the BPP tax cut.

The Senate Republican's opposition to this proposal has potentially set a pair of concerning precedents. The first concern is the deference to government spending. Not only did Senate Republicans refuse to back any "cut" to local revenues, but parroted the talking points of local officials that ignored the steps taken in the House bill to keep local funding stable.

The second concern is that tax changes would be viewed by Senate fiscal leadership as a zero-sum game, where any gain in one area is a loss in another. Nearly all successful tax

legislation relies on the economic growth potential that smart reforms can generate. Indiana has been at the forefront in passing tax cuts while experiencing a growing economy and enhanced tax revenues. Hopefully that is still possible.

It's a rare circumstance where taxpayers, the administration and the General Assembly can come together on a tax package that has a minimal impact on government services while addressing a taxpayer need, particularly one that would have a real impact on the economy. The 2022 session of the Indiana General Assembly came very close to addressing one of the areas in tax policy that hits manufacturers most. Unfortunately, the opportunity to reduce business personal property taxes was missed.

