



January 25, 2005

The Honorable Mitch Daniels  
Governor of Indiana  
206 State House  
Indianapolis, IN 46204

Dear Governor Daniels:

On behalf of the more than 7,400 Indiana members of National Taxpayers Union (NTU), I write to express our deep concerns over your plan to levy a “temporary” tax surcharge on Indiana taxpayers with incomes of \$100,000 or higher. Although “only” 177,800 tax filers in the state have adjustable gross incomes of more than \$100,000, your proposal is problematic both in principle and in economic terms.

Most importantly, although you may view your proposal as temporary, history is replete with examples of “temporary” tax hikes that have become permanent. The sales tax hike imposed in Ohio last year is only the latest example of a supposedly temporary tax hike that is likely to become permanent. It is equally likely that if Indiana were to pass a surcharge on the incomes of those making \$100,000 or more annually, the Legislature would find ways to squander the new revenue. Worse, when it came time for repeal, some would inevitably cry to a sympathetic media that allowing the tax hike to lapse would be a “tax cut for the wealthy.”

In addition to their political ramifications, higher taxes could have some very negative economic consequences as well. The state already has the 16<sup>th</sup> highest state and local tax burden in the nation at 10.1 percent of income. Indiana’s tax burden is heavier than the neighboring states of Illinois and Kentucky, and just barely lighter than Michigan’s. Increasing that tax burden by \$290 million – even temporarily – is not the way to spur economic growth or make the state more attractive to business.

Although taxpayers can indeed support your efforts to restrain spending by limiting budget increases to 1.5 percent or less, even Democratic Minority Leader Bauer has recently said that a tax hike is unnecessary. Given the very real risk that higher taxes will simply fuel the growth of government, thus making it more difficult to restrain spending, tax hikes are clearly not the answer.

NTU and our members hope that you will reconsider your tax increase plans. Instead, we look forward to working with you to close the state’s budget gap by increasing efficiency and restraining government’s rate of growth.

Sincerely,

Paul Gessing  
Director of Government Affairs