



INDIANA
COMMUNITY ACTION
POVERTY INSTITUTE
Research and Public Policy

Testimony before the House Ways and Means Committee

In Opposition to SB 243

February 4, 2026

Hello Chairman Thompson, Chairman Holdman, and members of the committee.

My name is Olivia Smith and I am a policy analyst with the Indiana Community Action Poverty Institute. We envision an Indiana where financial security allows Hoosiers to better contribute to their families, communities, and the world. I am here today to speak specifically to the federal tax conformity provisions in SB243 and express our opposition to their adoption during this non-budget session.

Both this year and in previous years when the federal tax code has changed, the Indiana General Assembly reviews those new federal definitions and carefully considers which of those new provisions provide meaningful benefit to Hoosiers when also implemented at the state level. As Senator Holdman explained before to this committee, that process of reviewing and choosing provisions to conform with resulted in a decision to decouple from certain corporate tax provisions because the benefit to Hoosier taxpayers was not worth the hefty price tag. However, in SB 243, this committee is being asked to approve conformity with some costly individual income tax provisions of the OBBBA- specifically, implementing no tax on tips at the state level.

Agreeing to this conformity would be authorizing a new tax expenditure with newly allocated money that exists outside of our enacted budget, with the reduction in our General Fund to be covered by our state reserves- steps that we see as inherently being a budget decision— Thus, implementing SB243's provisions that conform the OBBBA's no tax on tips language would constitute opening the current biennial budget.

Consistent with the General Assembly's long-held standard of not opening the budget in non-budget years, we respectfully request that the committee does not advance the language in the Department of Revenue agency bill that would reopen the budget.

While opening the budget may be reasonable to do under certain circumstances, we also have concerns about unanticipated fiscal consequences for Indiana. The IRS issued formal

guidance in November 2025 that allows additional sectors to be eligible for no tax on tips than were included in the plain text of the bill, including consulting, health, athletics, and the performing arts. This expanded eligibility will remain in effect until final rules are adopted at the federal level, which has no deadline.

In light of this, we believe most fiscal impact estimates done in the wake of the OBBBA's passage are underestimates, as an unknown number of additional workers may be eligible to claim the credit for an indeterminate amount of time moving forward.

While the federal government is allowed to run budget deficits, Indiana is not- and implementing a new tax expenditure whose final eligibility criteria are currently in flux and are likely to change further is not a fiscally responsible choice. In addition to the hit to our state general fund, this tax deduction would also cost our local units an estimated \$62-\$86 M in local income tax revenue statewide.

From previous committee discussion, I realize that we may ultimately not reach agreement on what constitutes opening the state budget. However, if members of the committee agree that implementing a tax expenditure is not, in fact, a budget question, then we would take that opportunity to offer alternative, more broadly impactful tax expenditure policy decisions that could be chosen by the committee this session instead. We would argue that two other proposals offered this session, exempting health insurance premiums from state income tax and phasing out state sales tax on utilities for consumers would both have a larger and more fairly spread out tax benefit for Hoosier taxpayers, while remaining in alignment with the committee's definition of not opening the budget. Ultimately, budgets are choices, and we encourage the committee to weigh this choice to conform with evolving federal code carefully.