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POLICY SPOTLIGHT

Prosperity amid Population Growth in Indiana

Tax, housing, and labor reforms to support a stronger economy

JACK SALMON | JULY 2026

Americans made nearly 34 million interstate moves between 2018 and 2023, redistributing population, income, and economic activity among the states. Indiana ranked 24th in net interstate migration, gaining 35,000 residents but losing $1.6 billion in income—suggesting the state is attracting lower-income movers while losing higher-earning residents.[1] Research shows that taxes, economic freedom, and housing supply are the key drivers of migration. Indiana's tax competitiveness, above-average housing supply, and labor market freedom provide a solid foundation, but targeted reforms to local income taxes and housing supply rules could further strengthen the state's position.

Tax Policy Reforms

The competitive landscape

Indiana ranks 10th on the Tax Foundation's State Tax Competitiveness Index. The state income tax is 2.95% and falling, with revenue-triggered reductions of 0.05 percentage points every two years possible after 2030. Indiana allows counties to impose nonuniform local income taxes, however, which can push the combined state and local burden as high as 5.95%. Indiana's corporate income tax rate is low by Midwest standards, but the state does not yet allow permanent full expensing, which would further enhance its attractiveness for business investment.

Illinois	Flat income tax of 4.95%; corporate rate of 9.5% (including personal property replacement tax). Heavy local tax burden. Ranks 36th on State Tax Competitiveness Index.
Ohio	Top individual income tax rate of 3.5%; municipal income taxes can add up to 3%. Corporate rate of 0% (gross-receipts tax instead). Ranks 37th on State Tax Competitiveness Index.
Indiana	Flat state income tax of 2.95% (falling to 2.9% in 2027); county income taxes add 0.5–3%. Corporate rate of 4.9%.

[1] See Jack Salmon, "Interstate Migration Trends in the United States, 2018–2023: Where Are Americans Moving, and Why?" (Mercatus Policy Brief, Mercatus Center at George Mason University, July 2026). For the full analysis including sources, scan the QR code on the next page.

Recommended reforms

- **Accelerate the state income tax reduction schedule:** Move the revenue-triggered reduction date to 2027, keeping Indiana competitive with states that are continuing to cut rates.
- **Cap combined state and local income tax rates.**
- **Enact permanent full expensing for businesses:** This would allow businesses to immediately deduct the cost of equipment and machinery, encouraging investment in Indiana.

Housing Policy Reforms

The supply gap

Indiana issues approximately 3.9 housing permits per 1,000 residents annually—roughly double the rate of neighboring Michigan at 2.1. The state has also made significant recent progress through H.B. 1001 (Public Law 73, 2026), which includes by-right approval for projects complying with applicable restrictions, limits on fees, and fee forfeiture and refund consequences. Further targeted reforms can help Indiana build on this momentum.

Recommended reforms

- **Permit housing by right in commercial zones:** This reform would expand housing supply, reduce commuting costs, and support local businesses.
- **Reduce minimum lot size requirements:** State ceilings on local requirements in sewer-served areas would lower land costs per home and make smaller homes more feasible.
- **Eliminate or reduce residential parking minimums.**
- **Allow HUD Code manufactured homes:** Manufactured housing is a major source of unsubsidized affordable homeownership. Indiana should preempt local requirements that go beyond HUD standards. It can look to Kentucky, which passed similar legislation in 2025.

Labor Market Freedom

A competitive strength to preserve

Indiana is a top 10 state for labor market freedom. It has right-to-work protections, and the Archbridge Institute ranks it 4th in the nation for low occupational licensing barriers and worker requirements. Indiana has universal license recognition with no "substantially similar" restriction or residency requirement.

Portable benefits for independent workers

Over 486,000 Indiana residents work independently, but they often lack access to benefits because companies risk legal liability when providing benefits to nonemployees. Indiana can enact legislation that allows workers to create portable benefits accounts and enables companies to contribute to those accounts without triggering reclassification rules. Importantly, survey evidence shows that 80.3% of self-employed workers in the United States want to remain independent while 80.1% want access to portable benefits.

Recommended reforms

- **Preserve labor market reforms** and resist any efforts to expand occupational licensing requirements.
- **Enact portable benefits legislation.**

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