LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6361 | **DATE PREPARED:** Feb 11, 2001
BILL NUMBER: HB 1552 | **BILL AMENDED:**

SUBJECT: Income Tax Deduction for Retirement Income.

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FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill provides an Adjusted Gross Income (AGI) tax deduction for pension and annuity income and IRA distributions to the extent these amounts are included in federal AGI. It provides that the maximum deduction is $5,000 for taxable years beginning in 2001 and 2002, and $10,000 for taxable years beginning in 2003 and thereafter.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *The reduction in state revenue associated with this bill is estimated to $84.8 M in FY 2002 and $88.7 M in FY 2003. In FY 2004 when the maximum deduction is increased to $10,000, the impact is projected to be $166.8 M.*

This bill allows a payer of the Individual AGI Tax to deduct income from pensions, annuities, and taxable IRA distributions. In 2001 and 2002, an individual may deduct the lesser of: (1) pension and annuity income or IRA distributions (for those at least 59 and one-half years old) that were included in the taxpayer's federal AGI; or (2) $5,000. In 2003, the maximum deduction would be increased from $5,000 to $10,000. As this deduction would be effective for tax years beginning January 1, 2001, the annual fiscal impact will begin in FY 2002.

According to the DOR's 1997 federal income tax data, 459,873 Indiana residents reported taxable pension or annuity income, and 75,965 of these individuals also reported taxable IRA distributions. In addition, 56,704 others also reported taxable IRA income in 1997. First, the number of taxpayers that would have all or part of this income now deemed deductible was determined. Historic growth rates were then used to project fiscal impacts for FY 2002 through FY 2004.

In FY 2002 and FY 2003, the state revenue loss each year is estimated to be $84.8 M and $88.7 M, respectively. The increase of the maximum deduction from $5,000 to $10,000 would impact collections in FY 2004, and the impact is projected to be $166.8 M. Individual AGI Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties imposing local option income taxes will experience an indeterminable reduction in their revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Department of State Revenue's federal income tax data; Internal Revenue Service, Statistics of Income Bulletin, Spring 2000 (Vol. 19, no. 4).