LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7042 **DATE PREPARED:** Feb 20, 2001
BILL NUMBER: HB 2040 **BILL AMENDED:**

SUBJECT: Income Tax Credits and Deductions.

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FUNDS AFFECTED: <u>X</u> **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

<u>Summary of Legislation:</u> (A) This bill provides that a taxpayer filing a single return may not claim the additional $500 income tax deduction for the elderly if the taxpayer's adjusted gross income (AGI) is more than $20,000. (Under current law, a $40,000 income limitation applies to taxpayers filing a single return and to married taxpayers filing a joint return.)

(B) It increases the amount of the Unified Income Tax Credit for the Elderly for a claimant that resides with a spouse who is also eligible for the credit.

(C) The bill also provides that married taxpayers filing a joint return with income of less than $24,000 may claim the Earned Income Tax Credit. (Under current law, a $12,000 income limitation applies to taxpayers filing a single return and to married taxpayers filing a joint return.)

<u>Effective Date:</u> January 1, 2002.

<u>Explanation of State Expenditures:</u> *(A, B, and C):* The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate these changes. These expenses could be absorbed given the DOR's existing budget and resources.

<u>Explanation of State Revenues:</u> *(A): Analysis of this provision is not complete at this time.*

(B): Analysis of this provision is not complete at this time.

(C): Under current law, the Earned Income Tax Credit is available to individuals who have the following: (1) at least one qualifying child; (2) income from all sources of not more than $12,000; and (3) at least 80% of total income from earned income. The amount of this refundable credit is equal to $12,000 minus the taxpayer's total Indiana income with the result then multiplied by 3.4%.

Under this proposal, the credit for a qualifying taxpayer filing joint returns would be equal to $24,000 minus the taxpayer's total Indiana income with the result then multiplied by 3.4%. However, despite this change, the pool of eligible Indiana residents would not be expanded as the income requirements would still be $12,000 or less for single *and* joint taxpayers.

1998 individual income tax data from the DOR was used to estimate the fiscal impact of this proposal. The Earned Income Tax Credit did not yet exist, but a similar Earned Income Deduction was available and was claimed on almost 54,000 state tax returns. The impact of converting the deduction to a credit was calculated first. Next, the impact of modifying the credit for joint filers was determined.

However, baseline estimates for this analysis were developed using 1998 tax year data. As this credit was relatively new, the revenue loss may be greater in subsequent years as some eligible taxpayers may not have claimed the deduction in 1998. The DOR reported that for the 1999 tax year, approximately $16 M in Earned Income Credits were claimed, with $12.7 M being refundable. After adjustments were made for collections in 1999, it is estimated that the additional annual revenue loss associated with this provision would be between $6.7 M and $7.9 M, with $5.2 M to $6.1 M of this amount being refundable.

Individual Adjusted Gross Income Tax revenue is deposited in the General Fund.

NOTE: As the credit is set to expire under current law on December 31, 2001, this provision (which is effective January 1, 2002) would not have a fiscal impact unless the credit is extended.

(C) - Secondary impact: If it were extended, the amount of the Earned Income Credit refunded to taxpayers each year would increase by between $5.2 M and $6.1 M under this bill. The refundable portion would qualify as Maintenance of Effort (MOE) expenditures and would contribute toward the state's annual MOE requirement under the Temporary Assistance to Needy Families (TANF) program.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Rob Whaley, Tax Policy Analyst, Department of State Revenue, (317) 232-2104; DOR's 1998 individual income tax data.