

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7199

BILL NUMBER: HB 1389

DATE PREPARED: Jan 11, 2002

BILL AMENDED:

SUBJECT: Education Improvement Tax Credit.

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**FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL**

IMPACT: State

Summary of Legislation: The bill provides an Educational Improvement Tax Credit to taxpayers who make contributions to public school support organizations or scholarship organizations.

Effective Date: January 1, 2003.

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

Explanation of State Revenues: The bill establishes the Educational Improvement Tax Credit for contributions to school support and scholarship organizations. The bill could potentially reduce revenue from various state taxes by a maximum of \$30 M beginning in FY 2004.

However, the precise impact would depend upon the number of organizations in existence to which creditable contributions can be made, their student support and scholarship efforts, and the willingness of taxpayers to make contributions to these organizations. In comparison, the annual revenue loss from the existing college contribution tax credit could potentially range from \$8.6 M to \$8.7 M, and this credit has less extensive credit limits and involves potentially fewer organizations to which creditable contributions can be made than is the case under this bill.

Under the bill, a taxpayer (an individual, corporation, limited liability company, partnership, or other entity with a state tax liability including a pass through entity) is entitled to a tax credit for contributions to a public school support organization or to a scholarship organization. The maximum credit for individual taxpayers is equal to the lesser of \$1,000 or 75% of the taxpayer's state tax liability. For individuals filing a joint return, the maximum credit is equal to the lesser of \$2,000 or 75% of the combined state tax liability for the

husband and wife. The maximum credit for all other taxpayers is equal to the lesser of \$100,000 or 75% of the taxpayer's state tax liability. Total aggregate credits allowed by the bill cannot exceed \$30 M for all taxpayers in a taxable year (\$20 M for scholarship organization contributions and \$10 M for public school support organization contributions). However, the bill does not specify a process for disallowing credits or prorating credits in the event aggregate credits exceed these monetary limits.

The credit is allowed against a taxpayer's Corporate Gross Income Tax, Adjusted Gross Income (AGI) Tax, Supplemental Corporate Net Income Tax, Bank Tax, Savings and Loan Association Tax, Financial Institutions Tax, or Insurance Premiums Tax liability. If a pass through entity does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity. Also, a taxpayer who is a shareholder, partner, or member of a pass through entity may utilize Educational Improvement Tax Credits of the pass through entity in addition to the taxpayer's own Educational Improvement Tax Credits, provided they are not for the same contribution to a school support or scholarship organization.

Revenue from Individual and Corporate Income taxes, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. A percentage of revenue from the Corporate AGI Tax is also distributed to the Property Tax Replacement Fund. Since the tax credit is effective beginning in tax year 2003, the fiscal impact would begin in FY 2004.

Support and Scholarship Organizations: Under the bill, a public school support organization or a scholarship organization to which creditable contributions can be made must be a nonprofit. A support organization must (1) contribute 80% of its annual receipts to a public school and (2) provide financial aid not exceeding \$500 per student to low income students for books, tutors, computers, educational software, or participation in school enrichment programs. A scholarship organization must (1) contribute 80% of its annual receipts to a scholarship program and (2) provide scholarships not exceeding \$3,300 per student to low income students to attend either a public school outside the student's legal settlement or a private school.

College Contribution Tax Credit: Currently, individual and corporate taxpayers are entitled to a tax credit for contributions to Indiana colleges and universities equal to 50% of the aggregate contributions by the taxpayer year up to a maximum of: (1) \$100 for individual single filers or \$200 for individual joint filers; or (2) the lesser of 10% of a corporation's total adjusted gross income or \$1,000. Rules of the Department of State Revenue list 44 Indiana colleges and universities to which creditable contributions can be made. In 1999, 83,774 individuals claimed college contribution credits totaling approximately \$8.1 M, with the average credit equal to about \$96. In the same year, 379 corporate filers claimed \$157,466 in credits, with the average credit equal to about \$415. Also, credits increased by about 2.4% from 1998 to 1999.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: School Corporations.

Information Sources: DOR Income Tax data.