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FISCAL IMPACT STATEMENT

LS 6795
BILL NUMBER: HB 1497

NOTE PREPARED: Dec 30, 2002
BILL AMENDED:

SUBJECT: Tax Exemption for Scholarship Income.

FIRST AUTHOR: Rep. Avery
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill allows an individual taxpayer, in calculating the individual's Indiana Adjusted Gross Income (AGI), to subtract the part of the individual's federal gross income that is received as a scholarship and designated to pay for room and board at a qualified educational organization located in Indiana.

Effective Date: July 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 exemption. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who receive scholarship money, or who have a dependent who receives scholarship money, which covers room and board expenses at an Indiana educational organization. The annual revenue loss due to this bill is indeterminable. However, since most scholarship awards are aimed at defraying tuition expenses, with relatively few calculated to include living expenses, the revenue loss is expected to be minimal. This revenue loss is expected to begin in FY 2005.

Background: The bill provides an AGI Tax exemption for individual taxpayers who receive scholarship money, or who have a dependent who receives scholarship money, which covers room and board expenses at an Indiana educational organization. Currently, scholarship funds used for room and board expenses are included as income in determining a taxpayer's federal adjusted gross income (the starting point for the AGI

Tax). Only scholarship money used to pay for tuition, books, and fees are excluded from federal adjusted gross income. According to the Indiana Commission for Higher Education (ICHE), the current average room and board expense at higher education institutions in Indiana is about \$5,900. Based on the average, the exemption could total as much as \$201 for each Indiana resident student attending an Indiana educational institution and receiving scholarship funds covering all or part of room and board expenses. The value of each exemption is ultimately dependent on the amount of the student's scholarship that is designated for room and board expenses. The ICHE does not have information on the number of Indiana students who have received scholarships at Indiana universities which cover room and board expenses. However, they indicate that most scholarship awards are aimed at defraying tuition expenses, with relatively few calculated to include living expenses. If 500 Indiana resident students receive \$5,900 in scholarship funds designated for room and board expenses, there would be an annual state revenue loss of \$100,000 in Individual AGI Tax revenue. It is important to note that any revenue loss which might result from this exemption may be mitigated if some college students are not currently filing federal or state income tax returns.

Since the exemption is effective beginning in tax year 2004, the fiscal impact would begin in FY 2005. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed exemption would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable, but minimal, decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Jeff Weber, Indiana Commission for Higher Education, (317) 464-4400; Mike Baumgartner, Indiana Commission for Higher Education, (317) 464-4400. *IPEDS Institutional Characteristics Survey(s)*, National Center for Education Statistics.

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