

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

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6488

BILL NUMBER: HB 1706

NOTE PREPARED: Jan 27, 2003

BILL AMENDED:

SUBJECT: Education Income Tax Credits.

FIRST AUTHOR: Rep. Kruse

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State and Local

Summary of Legislation: The bill provides income tax credits related to elementary and secondary education for the following expenditures: (1) Charitable contributions to foundations that provide tuition scholarships for nonpublic schools and home school students. (2) Donations to public schools for certain academic purposes. (3) Expenditures for dependents who attend nonpublic schools. (4) Expenditures for the home schooling of dependents. (5) Expenditures for out of school education of dependents who attend public schools. The bill phases in the amount of each type of credit over a three year period.

Effective Date: January 1, 2003 (retroactive).

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 these tax credits. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: This bill creates five Adjusted Gross Income (AGI) Tax credits for: (1) contributions to organizations to pay for certain educational expenses; and (2) educational expenses incurred by taxpayers. The bill provides that if one of these credits is held to be invalid, the other credits would also be void. These credits are phased in over a three-year time period beginning January 1, 2003 with the permanent levels becoming effective for tax years beginning January 1, 2005. The tax credits will affect revenue collections beginning in FY 2004 and years after. The tax credits may not exceed the taxpayer's tax liability. A summary of the five credits, the eligible contributions and amount of the credits over the phase in period are outlined below.

Tax Credit	Tax Year	Max Single Taxpayer	Max Joint Tax Return	Max Corp Taxpayer
Sect. 5.2 Contributions to school scholarship organization - made to an organization to provide scholarships for nonpublic school and home school expenses; no direct benefit to taxpayer's dependent.	2003	\$200	\$400	\$200
	2004	300	600	300
	2005	500	1,000	500
Sect. 5.3 Contributions to public schools (K-12) - made to a school for a qualified school expense; can not be designated for direct benefit of taxpayer's dependent.	2003	50	100	50
	2004	75	150	75
	2005	100	200	100
Sect. 5.4 Non public school expenses - expenses for tuition, academic instruction in core curriculum areas, and transportation.	2003	\$400 per dependent		NA
	2004	\$700 per dependent		NA
	2005	\$1,000 per dependent		NA
Sect. 5.5 Home school expenses - expenses for academic instruction and instructional materials in core curriculum areas.	2003	\$400 per dependent		NA
	2004	\$700 per dependent		NA
	2005	\$1,000 per dependent		NA
Sect. 5.6 Public school academic instruction - expenses for instruction/instructional materials in core curriculum areas outside a regular school year or school day.	2003	\$150 per dependent		NA
	2004	\$350 per dependent		NA
	2005	\$500 per dependent		NA

It is estimated that these tax credits could reduce AGI Tax revenue from individuals and corporations by the amounts reported in the table below. However the cumulative impact of these tax credits is difficult to estimate since a taxpayer may take more than one of these tax credits but these credits can not exceed a taxpayer's tax liability.

Revenue from the AGI Tax on corporations is deposited in the state General Fund. 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.

Revenue Loss from each Tax Credit (millions)	FY 2000	FY 2001	FY 2002
Sect. 5.2 Contributions to scholarship foundations	1.0	2.2	4.0
Sect. 5.3 Contributions to public schools	6.0	6.5	7.0
Sect. 5.4 Nonpublic school expenses	54.7	83.8	106.7
Sect. 5.5 Home school expenses	7.6	16.1	27.7
Sect. 5.6 Public academic instructional expenses	43.5	50.3	52.0

Explanation of Local Expenditures:

Explanation of Local Revenues: If the tax credit for donations to public schools for certain academic purposes encourages more contributions to public schools, local school corporation revenues may increase.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: School corporations.

Information Sources: Department of Education.

Fiscal Analyst: Jim Landers, 317-232-9869