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FISCAL IMPACT STATEMENT

LS 6761

BILL NUMBER: HB 1759

NOTE PREPARED: Jan 13, 2003

BILL AMENDED:

SUBJECT: Indiana Education Savings Authority.

FIRST AUTHOR: Rep. Klinker

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that contributions to an Indiana Family College Savings Account up to \$2,000 may be deducted from Indiana Adjusted Gross Income. The bill reduces the number of appointed directors of the Indiana Education Savings Authority from five to three. The bill also codifies an expired noncode provision that requires the Treasurer of State and the Board for Depositories to provide clerical support, office support, and financial support to the Indiana Education Savings Authority.

Effective Date: January 1, 2004.

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

Indiana Education Savings Authority: The bill reduces the number of appointed members of the Indiana Education Savings Authority from five to three. Under current statute, appointed members are not entitled to the minimum salary per diem but are entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Thus, the reduction in membership would only affect costs relating to expense reimbursement of two members.

State Board for Depositories: The bill requires the Treasurer of State and the State Board for Depositories to cooperate and provide administrative support to the Indiana Education Savings Authority. Currently, the State Board for Depositories provides administrative support to the Authority. This support involves compensation for 1.5 employees (the State Board and the Authority share an office manager), office space

expenses, and other administrative expenses. Thus, this requirement could potentially have some impact on the Treasurer of State. However, the administrative expenses of the Authority presumably could be absorbed by the State Board for Depositories and the Treasurer of State given their existing budgets and resources. (A noncode provision that expired July 1, 2001 required the Treasurer of State, the Board for Depositories, the Indiana Commission for Higher Education, and the State Student Assistance Commission to cooperate and provide administrative support to the Authority.)

Explanation of State Revenues: The bill would reduce state AGI Tax liabilities for individual taxpayers who make contributions to Indiana Family College Savings Accounts. The revenue loss due to this bill could potentially total approximately \$315,000 to \$640,000 in FY 2005. This estimate will be updated as savings account and contribution data for 2002 is received from the Indiana Education Savings Authority.

Background: The bill creates an AGI Tax deduction for taxpayers who make contributions to a Family College Savings Account for a dependent. The deduction is equal to the lesser of either the taxpayer's contribution to the account during the taxable year or \$2,000. The bill also limits the maximum deduction for joint filers to \$2,000 annually. For a taxpayer claiming the full \$2,000 deduction, this would effectively reduce his or her annual income tax liability by \$68.

Since the deduction 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.

As of November 1, 2001, a total of 6,308 Family College Savings Accounts had been established by Indiana residents. Contributions to these accounts total approximately \$28.4 M. From January-November 2001, contributions totaling \$8.8 M have been made to 4,637 accounts owned by Indiana residents. During 2000, contributions totaling \$7.2 M were made to 3,548 accounts owned by Indiana residents. The number of Indiana resident accounts to which contributions are being made has increased annually since 1998 by an average of 26.6%. In addition, the average annual contribution to Indiana resident accounts since 1997 is \$2,113. Based on the 2001 Indiana resident account totals and the historic average contribution, the revenue loss in tax year 2004 could potentially total \$315,316. Assuming that the resident account total continues to grow at the recent trend of 26.6% annually, the number of accounts receiving contributions in 2004 could potentially total 9,414. Thus, the revenue loss in tax year 2004 could potentially total \$640,158. This total could increase annually thereafter given the underlying growth in the number of accounts receiving contributions. The revenue loss from the deduction also could increase to the extent that the deduction is sufficient enough to encourage individuals (who would otherwise not do so) to establish college savings accounts.

It is important to note that the fiscal impact assumes that each account owner (based on the historic average contribution) will be able to claim the full \$2,000 deduction. Thus, the actual impact could potentially be lower to the extent that the historic average arises from a relatively small number of account owners contributing substantially more than \$2,000 per year while others contribute less than \$2,000 per year. In addition, the impact could potentially be lower depending upon the number of accounts where the beneficiary is not a dependent of the owner. Presumably, however, most of the account beneficiaries are dependents of the account owners.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease Taxable Income,

counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Indiana Education Savings Authority. Department of State Revenue. Treasurer of State. State Board for Depositories.

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

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