LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7660 | **NOTE PREPARED:** Jan 24, 2005
BILL NUMBER: HB 1732 | **BILL AMENDED:**

SUBJECT: School Option Income Tax.

FIRST AUTHOR: Rep. Espich | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: The bill permits a school corporation to impose a school option income tax of up to 0.5% on the adjusted gross income of resident taxpayers. The bill provides that the school option income tax may be imposed or increased only after approval by a local public question. The bill provides for the distribution of school option income tax (SOIT) revenue.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Summary:* Under the bill, the Department of State Revenue (DOR) would be charged with the certification of school option income tax distributions, based on the recommendation of the State Budget Agency. The DOR certifies county local option income taxes currently. It is likely that the DOR and Budget Agency would require additional administrative time to implement the provisions of the bill.

Certified Distribution: The DOR would have to certify distributions of SOIT by August 2, in a given year. Special accounts within the state General Fund would be created for those school corporations with a SOIT for the deposit of revenue generated from the tax. Revenue remaining in a special account at the end of the state fiscal year would not revert back to the state General Fund. The DOR would be able to correct for past overpayments of SOIT certified distributions by the reduction of their future certified distributions. Before October 2 of each year, the DOR would be required to submit a report to each school corporation with the balance in the school corporation's special account.

Background: As of December 6, 2004, the DOR had 972 employees. Of this total, 929 were full-time, 4 were intermittent, 37 were on leave, and 2 were part-time. DOR reverted $3.02 M back to the state General Fund in FY 2004.

Explanation of State Revenues:

Explanation of Local Expenditures: *Procedure to Implement SOIT:* The bill gives a school corporation the option to impose a school option income tax. A school corporation would first have to receive approval via a public question on whether to impose SOIT. The public question would be placed on the general election ballot. The proposed rate would also have to be approved by the voters on the public question. Following approval of a public question by the majority of voters participating in the election, the governing body of the school corporation would be required to adopt a resolution before December 1, in the year the public question was approved to establish the tax.

Effective Date: The tax would have an effective date of January 1, following the year of the election, during which the public question was approved.

Rate: The maximum rate that the tax may be imposed is 0.5%. The tax rate could be reduced or rescinded by the school corporation governing body without the approval of the voters residing within the school corporation borders.

Expense of Public Question: The impact to local expenditure with respect to placement of a public question on the general election ballot would be minimal.

Explanation of Local Revenues: *Revenue Estimate at 0.5%*: The impact to local revenue would depend upon the local action of school corporation governing bodies. This analysis assumes that **all** 293 school corporations would adopt a SOIT under the bill and that all appropriate ordinances would be adopted. The following numbers estimate a **total statewide impact** as a result of the bill and are based on the average growth rates of the countywide income tax base from 1996-2002.

The analysis also assumes that all school corporations would adopt a SOIT as soon as possible under the language of the bill. (Adoption by December, 2006, with the tax becoming effective on the date of January 1, 2007, with the first distribution to school corporations in CY 2007.)

A 0.5% SOIT would raise approximately $270.5 M in the second half of the 2006-2007 school year (January 2007 to June 2007). The first full school year of collection (September 2007 to June 2008) would raise approximately $548.7 M.

Certified Distribution: School corporations adopting SOIT would receive a certified distribution equal to the revenue received from the school corporation for a taxable year ending in a calendar year preceding the calendar year in which the determination is made (based on amended or audited tax returns processed by the Department in a state fiscal year ending before July 1, of the calendar year in which the determination is made.)

In other words, the school certified distribution would equal collections received in the year before the DOR certification and distributed in the year following certification taking into account amended and audited returns.

Adopting schools would receive their distribution semiannually. The first half of the distribution would be received on May 1, and the second half on November 1.

Placement of Revenue: The school corporation with an established SOIT would be required to adopt a further resolution to determine the placement of the revenue in either the school corporation's debt service fund or the school corporation's capital projects fund or a combination allocation in both funds. The school corporation treasurer would be required to make deposits of certified distributions into either the school funds listed above.

Deductions/Credits Against SOIT: Taxpayers would be eligible for deductions and exemptions against the SOIT as they would for the Indiana Individual Adjusted Gross Income Tax. Taxpayers that were liable for a SOIT imposed by a school corporation outside of Indiana would be allowed a credit against their Indiana SOIT liability under the provisions of the bill.

(Revised) *Background- School Corporation Capital Projects Fund and Debt Service Fund*: In CY 2004, school corporation debt service gross levies totaled to $858.6 M. School corporation capital projects gross levies totaled $634.6 M in CY 2004.

State Agencies Affected: Department of State Revenue; State Budget Agency.

Local Agencies Affected: School corporations.

Information Sources: *State of Indiana HRM Detail Staffing Report, December, 2004*; State Budget Agency: *FY2004 General and Rainy Day Fund Summaries*; State Budget Agency: local option income tax data; LOGODABA.

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