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**FISCAL IMPACT STATEMENT**

**LS 7133**  
**BILL NUMBER: HB 1381**

**NOTE PREPARED: Jan 16, 2006**  
**BILL AMENDED:**

**SUBJECT:** Kindergarten Tax Credit.

**FIRST AUTHOR:** Rep. Behning  
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED: X GENERAL**  
**X DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** The bill provides a refundable income tax credit for education expenditures for qualified dependents enrolled in kindergarten at a school of choice (a nonpublic school that is voluntarily accredited or a public school where the child is required to pay transfer tuition). It permits a taxpayer to assign the income tax credit to a school of choice in satisfaction of the taxpayer's educational expenditure obligation.

**Effective Date:** January 1, 2006 (retroactive).

**Summary of Net State Impact:** The net fiscal impact for FY 2007 through FY 2011 from the Kindergarten Tax Credit is reported in the table below. The top portion of the table shows estimates assuming that all tuition credits are for half-day kindergarten enrollment; and the bottom portion of the table shows estimates assuming that all tuition credits are for full-day kindergarten enrollment. (See *Explanation of State Expenditures* and *Explanation of State Revenues* for discussion of estimation methods.)

<b>All tuition for half-day kindergarten</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Tax Credits	(17.5 M)	(17.9 M)	(18.3 M)	(18.7 M)	(19.1 M)
Tuition Support Savings	1.4 M	4.2 M	8.5 M	14.5 M	20.7 M
<b>Net Impact</b>	<b>(16.1 M)</b>	<b>(13.7 M)</b>	<b>(9.8 M)</b>	<b>(4.2 M)</b>	<b>1.6 M</b>
<b>All tuition for full-day kindergarten</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Tax Credits	(35.0 M)	(35.8 M)	(36.6 M)	(37.4 M)	(38.3 M)
Tuition Support Savings	1.4 M	4.2 M	8.5 M	14.5 M	20.7 M
<b>Net Impact</b>	<b>(33.6 M)</b>	<b>(31.6 M)</b>	<b>(28.1 M)</b>	<b>(22.9 M)</b>	<b>(17.6 M)</b>

**Explanation of State Expenditures: Public School Funding:** The bill establishes the Kindergarten Tax Credit for individuals making kindergarten tuition payments beginning with the 2006-2007 school year (tuition payments made after June 30, 2006). The movement of kindergarten students from public schools to nonpublic schools due to the Kindergarten Tax Credit could result in a saving to the state which would partially offset the cost of the tax credit. Assuming that 10% of the historic annual public kindergarten enrollment would switch to nonpublic kindergarten programs due to the tax credit, a total of about 7,300 kindergarten pupils who would otherwise attend public school would shift to nonpublic schools each year. Assuming these students would return to public school beginning in 1<sup>st</sup> grade since the tuition tax credit would no longer be available to their parents, the credit would result in a permanent reduction in public kindergarten enrollment of about 7,300 students. Under the current school funding scheme, tuition support savings to the state would be: (1) 20% of the per pupil amount for 7,300 students in 2007; (2) 40% of the per pupil amount in 2008; (3) 60% of the per pupil amount in 2009; (4) 80% of the per pupil amount in 2010; and (5) 100% of the per pupil amount for 7,300 students beginning in 2011. Movement of students from one public school to another public school would not generate state savings and would not offset revenue loss from the credit. The tuition support savings under this scenario are summarized in the table below.

<b>Fiscal Year</b>	<b>Tuition Support Savings</b>
<b>2007</b>	1.4 M
<b>2008</b>	4.2 M
<b>2009</b>	8.5 M
<b>2010</b>	14.5 M
<b>2011</b>	20.7 M

*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 the tax credit. The DOR also would have to annually report to the Department of Education (DOE) on the number of kindergarten students for

whom tax credits were granted during the prior year; and the number of nonpublic schools and school corporations providing kindergarten to these students during the prior year. The DOR's current level of resources should be sufficient to implement these tasks.

*Department of Education (DOE):* The bill requires the DOE to annually post the maximum permissible credit amounts that may be claimed by a taxpayer, and certify these amounts to the DOR. The DOE's current level of resources should be sufficient to implement the administrative task.

**Explanation of State Revenues: Summary:** The tax credit would reduce tax liabilities of qualified individual taxpayers who incur tuition expenses relating to the enrollment of a dependent child in a half-day or full-day kindergarten program at a public or nonpublic school. The estimated amount of tax credits that could potentially be claimed each year is summarized in the table below.

<b>Fiscal Year</b>	<b>All Credits for Half-Day Kindergarten Tuition</b>	<b>All Credits for Full-Day Kindergarten Tuition</b>
<b>2007</b>	17.5 M	35.0 M
<b>2008</b>	17.9 M	35.8 M
<b>2009</b>	18.3 M	36.6 M
<b>2010</b>	18.7 M	37.4 M
<b>2011</b>	19.1 M	38.3 M

*Background:* The bill establishes a refundable tax credit against the Adjusted Gross Income Tax for individual taxpayers who incur tuition expenses to enroll a qualified child in full-day or half-day kindergarten in a public or nonpublic "school of choice." To qualify for the credit the individual must have a household income of no more than 200% of the federal poverty level. In addition, the tuition expenses must be for enrollment of the taxpayer's dependent having legal settlement in a school corporation in Indiana and being eligible for enrollment in kindergarten the year the expenses are incurred. The bill defines a "school of choice" as: (1) a nonpublic school located in Indiana and either voluntarily accredited by the state or by a national or regional accreditation agency; or (2) a public school in which the eligible student is not entitled to enroll without payment of tuition or transfer tuition. The tax credit is refundable, but the bill also allows credit in excess of a taxpayer's tax liability to be carried over to subsequent tax years at the taxpayer's discretion. The credit may not be carried back. Since the credit is effective beginning with tuition expenses incurred after June 30, 2006, the revenue loss from the credit would begin in FY 2007. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

For the 2005-2006 school year, the federal poverty income threshold for: (1) a two-member household is \$12,830; (2) a three-member household is \$16,090; and (3) a four-member household is \$19,350. Thresholds equal to 200% of these amounts, respectively, are: (1) \$25,660; (2) \$32,180; and (3) \$38,700.

The bill provides for individual taxpayers to assign credit amounts to "schools of choice" in lieu of paying tuition. The assigned credits would be refundable, but could be carried over at the discretion of the school of choice. The assigned credits may not be carried back.

The amount of assigned credit that the school of choice is entitled to is the lesser of the following:

- (1) The normal tuition rate charged by the school of choice for kindergarten.
- (2) The actual amount of the obligation to the school of choice that the taxpayer would have otherwise had to pay.
- (3) The maximum permissible credit amount calculated as required under the bill.
- (4) If the school of choice is the school corporation of legal settlement for the child, the amount of excess cost incurred to educate the child outside his or her attendance area.

*Methodology:* The estimated credit amounts are based on historic kindergarten enrollment totals for nonpublic and public schools. The estimates also assume that credits would be claimed by two taxpayer groups:

(1) Taxpayers whose dependents attend kindergarten at a nonpublic school and would have done so in the absence of the tax credit. The total number of children in this group is estimated at almost 2,100 who would meet the household income requirement of not more than 200% of the federal poverty. This is based on U.S. Census Bureau survey research suggesting that just over 20% of private school kindergarten students come from households with annual income less than \$35,000.

(2) Taxpayers whose dependents attend a nonpublic kindergarten program in lieu of kindergarten at a public school. It is assumed that these students would return to public school beginning in 1<sup>st</sup> grade as the tuition tax credit would no longer be available to their parents. For estimation purposes it is assumed that 10% of the historic public kindergarten enrollment would switch to nonpublic kindergarten programs due to the tax credit. This total is estimated at about 7,300 kindergarten pupils.

The credit amounts also assume that the maximum credit amount (pursuant to the calculation specified in the bill) is paid by each taxpayer. The credit amounts estimated for each year range from a low where all creditable tuition expenses are for half-day kindergarten enrollment to a high where all creditable tuition expenses are for full-day kindergarten enrollment.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue; Department of Education.

**Local Agencies Affected:** School corporations.

**Information Sources:** *2000 Federal Poverty Guidelines*, U.S. Department of Health and Human Services, *Federal Register*, Vol. 70, No. 33, February 18, 2005, pp. 8373-8375; *Enrollment Status of Primary Family Members 3 to 17 Years Old, by Family Income, Level of Enrollment, Control of School, Sex, Race, and Hispanic Origin: October 2002*, U.S. Census Bureau (internet release January 9, 2004).

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