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**FISCAL IMPACT STATEMENT**

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

**NOTE PREPARED: Jan 27, 2006**  
**BILL AMENDED: Jan 26, 2006**

**SUBJECT:** Kindergarten Tax Credit.

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

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

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

**IMPACT:** State

**Summary of Legislation:** (Amended) 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 also 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:** (Revised) It is unknown how many families may take advantage of this tax credit program. The table below reports the net fiscal impact for FY 2007 through FY 2011 from the Kindergarten Tax Credit **for every:** (1) 1,000 taxpayers who claim tuition tax credits for children that would otherwise attend a nonpublic school full-day kindergarten program; and (2) 1,000 taxpayers who would claim tuition tax credits for children who would otherwise attend public school but switch to a nonpublic school full-day kindergarten program because of the tax credit. The two taxpayer groups generating this fiscal impact are described below the table in points (1) and (2). The table illustrates the fiscal impact for every 2,000 students that may utilize this credit.

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Tax Credits	(3.0 M)	(3.1 M)	(3.2 M)	(3.3 M)	(3.4 M)
Tuition Support Savings	0.2 M	0.7 M	1.2 M	1.8 M	2.3 M
<b>Net Impact</b>	<b>(2.8 M)</b>	<b>(2.4 M)</b>	<b>(2.0 M)</b>	<b>(1.5 M)</b>	<b>(1.1 M)</b>

(1) Taxpayers whose children would have attended a nonpublic school full-day kindergarten program in the absence of the tax credit. The fiscal impact of this taxpayer group is attributable **only** to tuition tax credit amounts claimed by these taxpayers. About 10,300 children attend a nonpublic school kindergarten program each year. It is estimated that just over 20% of these children (approximately 2,100) come from households with income not exceeding 200% of the federal poverty level. The number of children from this subgroup attending full-day kindergarten is unknown. However, 1,000 such children would represent about 48% of the subgroup meeting the poverty requirement.

(2) Taxpayers whose children would otherwise attend a public school kindergarten program, but instead attend a nonpublic school kindergarten program because of the tax credit. The fiscal impact of this taxpayer group is attributable **both** to tuition tax credit amounts claimed by these taxpayers and tuition support savings to the state due to the children of these taxpayers not attending a public school kindergarten program. About 73,100 children attend a public school kindergarten program each year. It is estimated that just over 46% of these children (approximately 34,000) come from households with income not exceeding 200% of the federal poverty level. The number of children from this subgroup that might attend a nonpublic school kindergarten program because of the tax credit is unknown. However, 1,000 such children would represent about 3% of the subgroup meeting the poverty requirement.

**Explanation of State Expenditures:** (Revised) *Public School Funding:* The bill establishes the Kindergarten Tax Credit for individuals making full-day kindergarten tuition payments beginning with the 2006-2007 school year (tuition payments made after June 30, 2006). The movement of children who would otherwise attend public school kindergarten programs to nonpublic school full-day kindergarten programs due to the tax credit could result in a tuition support saving to the state which would partially offset the cost of the tax credit.

**For every:** (1) 1,000 children per year who enroll in a nonpublic school full-day kindergarten program instead of a public school kindergarten program due to the tuition tax credit, and (2) these children return to public school beginning in the 1<sup>st</sup> grade since the tuition tax credit would no longer be available to their parents, the tax credit would result in a permanent reduction in public school kindergarten enrollment of 1,000 students. Under the current school funding scheme, this enrollment reduction would result in tuition support savings to the state equal to: (1) 20% of the per pupil amount for 1,000 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 1,000 students beginning in 2011. It is important to note that movement of kindergarten children from one public school to another public school would not generate tuition support savings for the state and would not offset revenue loss from the credit. The table below presents the annual tuition support savings for FY 2007 through FY 2011 due to a permanent reduction in public school kindergarten enrollment of 1,000 students. Tuition support is assumed to grow at an annual rate of 3%.

<b>Fiscal Year</b>	<b>Tuition Support Savings</b>
<b>2007</b>	\$ 0.2 M
<b>2008</b>	\$ 0.7 M
<b>2009</b>	\$ 1.2 M
<b>2010</b>	\$ 1.8 M
<b>2011</b>	\$ 2.3 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:** (Revised) *Summary:* It is unknown how many families may take advantage of this tax credit program. The table below reports the tax credits that could be claimed for FY 2007 through FY 2011 **for every:** (1) 1,000 taxpayers who might claim tuition tax credits for children that would otherwise attend a nonpublic school full-day kindergarten program; and (2) 1,000 taxpayers who might claim tuition tax credits for children who would otherwise attend public school but switch to a nonpublic school full-day kindergarten program because of the tax credit. The two taxpayer groups generating the tax credits are described below the table in points (1) and (2).

<b>Fiscal Year</b>	<b>Total</b>
<b>2007</b>	\$ 3.0 M
<b>2008</b>	\$ 3.1 M
<b>2009</b>	\$ 3.2 M
<b>2010</b>	\$ 3.3 M
<b>2011</b>	\$ 3.4 M

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attending full-day kindergarten is unknown. However, 1,000 such children would represent about 48% of the subgroup meeting the poverty requirement.

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*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 kindergarten program in a public or nonpublic "school of choice." The tax credit is equal to the lesser of: (1) the individual's tuition expense; or (2) the maximum permissible credit amount for a particular year. The maximum permissible credit amount is the state tuition support for regular programs per ADM of the child's school of legal settlement multiplied by 50%. In the event the child attends the kindergarten program for less than an entire school year, a lesser percentage as determined by rule of the DOE is to be used in determining the maximum permissible credit amount.

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 (see above explanation of the

- maximum permissible credit amount).
- (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.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

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

**Local Agencies Affected:**

**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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