

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

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6245**

**BILL NUMBER: SB 38**

**NOTE PREPARED:** Nov 15, 2005

**BILL AMENDED:**

**SUBJECT:** Income Tax Credit for Contributions to Education Savings Plans.

**FIRST AUTHOR:** Sen. Kenley

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

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

**IMPACT:** State

**Summary of Legislation:** The bill allows an Adjusted Gross Income (AGI) Tax credit to individuals and married couples for contributions to an education savings plan. It provides that the credit is equal to 20% of the contribution and that the credit allowed for a particular contribution may not exceed \$1,000. It also provides that the aggregate amount of credits claimed by a taxpayer in a particular year may not exceed the taxpayer's Adjusted Gross Income (AGI) Tax liability for that year.

**Effective Date:** January 1, 2007.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit. The DOR's current level of resources should be sufficient to implement the new tax credit.

**Explanation of State Revenues:** *Summary:* The tax credit could potentially reduce state AGI Tax liabilities for individual taxpayers who make contributions to Section 529 college savings plans established in any state, including the Indiana College Choice 529 Investment Plan. The potential revenue loss attributable to contributions to accounts of the Indiana 529 Plan could total \$3.2 M in FY 2008, with the total potentially increasing by about 5% annually thereafter. The revenue loss also could potentially increase to the extent that the credit encourages contributions to Section 529 college savings plans that would otherwise not occur. In addition, the potential revenue loss due to creditable contributions by Indiana taxpayers to college savings plans operated by other states is indeterminable.

**Background:** The bill creates a non-refundable AGI Tax credit for taxpayers who make contributions to

Section 529 college savings plans, including the Indiana College Choice 529 Investment Plan. The credit is equal to 20% of the amount of each contribution made during the taxable year, with a maximum credit of \$1,000 per contribution. The tax credit is non-refundable, and taxpayers are not entitled to carry back or carry forward unused credits. In addition, the bill specifies that a taxpayer may not transfer credits to another taxpayer. Since the credit is effective beginning in tax year 2007, the fiscal impact would begin in FY 2008. 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.

Most Section 529 college savings plans allow parents, grandparents, other relatives, and friends to contribute to a child’s college savings account. The contributor may be able to make decisions concerning pre-paying tuition or choosing investment options, and retains ownership of the contract or account until it is used to pay the child’s college expenses. Currently, all 50 states operate Section 529 college savings plans. Information about contributions by Indiana taxpayers plans of other states is unavailable. The estimate relating to creditable contributions to accounts of the Indiana College Choice 529 Investment Plan is based on 2004 account and contribution totals for the Indiana 529 Plan. In 2004, approximately 8,944 account holders contributed about \$19.4 M to accounts of the Indiana 529 Plan. The distribution of account holders by annual contribution amount is presented in the table below.

<b>Contribution Range</b>	<b>Count</b>	<b>Total Contributions</b>	<b>Average Contribution</b>	<b>Tax Credit</b>
Less than \$1,000	5,473	\$1,307,617	\$239	\$48
\$1,000 - \$1,999	1,375	\$1,838,982	\$1,337	\$267
\$2,000 and above	2,096	\$16,235,315	\$7,746	\$1,000
Total	8,944	\$19,381,914		

Based on account totals and average contributions, creditable contributions in 2004 would have totaled about \$2.7 M. Information from prior years suggests that creditable contributions could potentially grow by about 5% annually.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

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

**Local Agencies Affected:**

**Information Sources:** College Savings Plans Network, <http://www.collegesavings.org/>. Susan Loftus, Indiana Education Savings Authority, (317) 232-5259.

**Fiscal Analyst:** Jim Landers, 317-232-9869.