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FISCAL IMPACT STATEMENT

LS 7257

BILL NUMBER: HB 1532

NOTE PREPARED: Jan 15, 2007

BILL AMENDED:

SUBJECT: Tax Credit for School Fine Arts Programs.

FIRST AUTHOR: Rep. Koch

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill allows an Adjusted Gross Income Tax credit for fees paid and contributions made by a taxpayer to a public school or charter school for fine arts education. The bill provides that the credit is the amount of the fees or contributions paid by the taxpayer. The bill also provides that the credit may not exceed \$200 for a single return or \$400 for a joint return. This bill allows a taxpayer to carry forward any unused credit for four years.

Effective Date: January 1, 2008.

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 for fees paid and contributions made to a school for fine arts education. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: The bill could potentially reduce state Adjusted Gross Income (AGI) tax liabilities of individual taxpayers who: (1) pay fees for a student enrolled in a public school or a charter school for fine arts education; or (2) make contributions to a public school or a charter school for fine arts education. The revenue loss from credits for fees paid (assuming fees of \$50 to \$100 per student) could potentially total \$7.5 M and \$15 M per year beginning in FY 2009. The impact of credits for contributions by taxpayers to fine arts programs is indeterminable but also could be substantial.

Background: The bill establishes a nonrefundable AGI Tax credit for fees or contributions paid by a taxpayer to a public school or a charter school for "fine arts education." The maximum allowable credit is \$200 for a single filer and \$400 for a joint filer. The bill defines "fine arts education" as instruction in art, music, and

other arts areas that encompass visual, aural, performing, and creative modes of student learning. The tax credit is nonrefundable, but excess credits may be carried forward for four years. The tax credit may not be carried back.

According the Department of Education (DOE) there are currently about 150,000 high school students enrolled in music, theatre and drama, dance, drawing, sculpture, ceramics, and other art courses that would fall within the definition of fine arts education under the bill. Assuming that fees paid for these students in connection with these fine arts courses average about \$50 to \$100 per year, the tax credits would range from \$7.5 M to \$15 M annually. Based on the average net tax liability of individual filers, it is likely that the carry forward of credits of this scale would be relatively small. The estimate does not account for the impact of cash contributions to arts education by taxpayers. (Note: Cash contributions to Indiana institutions of higher education under the college credit generated about \$8.8 M in tax credits for almost 94,000 taxpayers. The college credit is equal to 50% of contributions up to \$100 for a single filer and \$200 for a joint filer.)

Since the bill is effective beginning in tax year 2008, the fiscal impact could potentially begin in FY 2009. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). All corporate AGI tax collections are deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Indiana Department of Education pupil counts for 2006.

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