

**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 6158

BILL NUMBER: HB 1748

NOTE PREPARED: Nov 7, 2006

BILL AMENDED:

SUBJECT: College Contribution Tax Credit.

FIRST AUTHOR: Rep. Turner

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: The bill increases the maximum Adjusted Gross Income Tax credit for charitable donations to institutions of higher education located in Indiana for taxable years beginning after December 31, 2006. The bill also indexes the credit in future years to the change in the Consumer Price Index.

Effective Date: January 1, 2007 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the changes to this credit. In addition, the DOR is required to annually compute the inflation-adjusted credit limits. The expenses related to these responsibilities presumably could be covered given the DOR's existing level of budget and resources.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individuals and corporations making charitable contributions to Indiana institutions of higher education in excess of the current limits for the college contribution tax credit. The revenue loss could potentially increase over a period of years as the maximum credit levels are increased due to the required inflation adjustment. Potential revenue loss totals are presented in the table below depending upon the number of taxpayers claiming credits above the current maximum credit levels. The estimates assume varying response rates to the maximum credit levels (i.e., 5% of those currently claiming the maximum credit level claim the new maximum credit level). In addition, the lower value in each range assumes no year-to-year change in the number of taxpayers claiming the maximum credit. The high values in each range assume that the recent annual change in the number of filers claiming the maximum credit level will continue in the future.

Revenue Loss if . . .	FY 2008	FY 2009
5% of taxpayers currently claiming the maximum credit claim the new maximum credit.	\$0.41 M - \$0.45 M	\$0.41 M - \$0.46 M
10% of taxpayers currently claiming the maximum credit claim the new maximum credit.	0.82 M - 0.89 M	0.82 M - 0.91 M
25% of taxpayers currently claiming the maximum credit claim the new maximum credit.	2.0 M - 2.2 M	2.0 M - 2.3 M
50% of taxpayers currently claiming the maximum credit claim the new maximum credit.	4.1 M - 4.5 M	4.1 M - 4.6 M
75% of taxpayers currently claiming the maximum credit claim the new maximum credit.	6.1 M - 6.7 M	6.1 M - 6.9 M
100% of taxpayers currently claiming the maximum credit claim the new maximum credit.	8.2 M - 8.9 M	8.2 M - 9.2 M

Impact on Higher Education Institutions: This bill may result in an increase in charitable contributions to institutions of higher education. The portion of any increase which will be realized by state institutions is not known.

Background: Under current law, individuals may claim an AGI Tax credit that is limited to 50% of charitable contributions to Indiana higher education institutions up to a maximum of \$100 for a single taxpayer or \$200 for taxpayers filing a joint return. Current law also permits a corporation to claim a credit for such contributions equal to 10% of its total Corporate AGI Tax liability up to \$1,000. Beginning in 2007, the bill increases the maximum credit levels. As a result, the bill would reduce AGI tax liabilities for individuals and corporations making charitable contributions to Indiana's higher education institutions in excess of the current credit limits. In 2007, maximum credit levels for individuals increase to \$250 for single filers and \$500 for joint filers; and for corporations increase to \$2,350. Thereafter, the credit levels are adjusted annually to account for price inflation, with the result rounded to the next lowest multiple of \$50. Assuming the average annual rate of inflation since 1990 (equal to 2.71%), the table below reports the estimated credit limits for future years.

Year	Individual Single/Separate Filers	Individual Joint Filers	Corporate Filers
2007	\$250	\$500	\$2,350
2008	250	500	2,400
2009	250	500	2,450
2010	250	500	2,500
2011	250	550	2,600
2012	250	550	2,650

According to individual income tax return data for tax year 2004, 94,043 individual taxpayers claimed approximately \$8.8 M in credits for contributions to Indiana higher education institutions. Of the total, 321 separate return filers and 9,671 single return filers claimed the maximum \$100 credit, and 22,102 joint filers claimed the \$200 maximum credit. In addition, 197 corporate taxpayers claimed \$99,137 in college contribution credits in tax year 2003. Sixty-six of the corporate taxpayers claimed the maximum credit of \$1,000. It is assumed that taxpayers currently claiming less than the maximum credit would not increase their higher education contributions solely due to an increase in the credit limit. Thus, the revenue loss is assumed to be generated by taxpayers currently claiming maximum credits, and year-to-year growth in this number. From 1998 to 2004, the number of individual taxpayers claiming maximum credit amounts has risen by an average of 4.8% annually. Meanwhile, from 1998 to 2003, corporate taxpayers claiming the maximum credit levels declined by about 11.7 % per year.

Since the increase in the credit limits 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 the revenue is deposited in the Property Tax Replacement Fund. All revenue from the Corporate AGI Tax is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; State universities.

Local Agencies Affected:

Information Sources: OFMA individual income tax databases, 1998-2004; OFMA corporate income tax databases, 1998-2003; Bureau of Labor Statistics, Annual CPI for Urban Consumers, All Items, 1990-2005.

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