

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7435

BILL NUMBER: SB 436

NOTE PREPARED: Feb 1, 2007

BILL AMENDED:

SUBJECT: Income Tax Credit for Tuition Costs.

FIRST AUTHOR: Sen. Delph

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides an individual who is an eligible graduate of an Indiana institution of higher learning with a tax credit against the individual's Adjusted Gross Income Tax liability in the amount of 5% of the individual's qualified educational investment. The bill defines "qualified educational investment" as: (1) the sum of expenditures made by an eligible graduate for tuition and required instructional materials in the course of obtaining a degree from an institution of higher learning; multiplied by (2) a percentage, the magnitude of which varies with the academic accomplishments of the eligible graduate and different types of career service.

Effective Date: January 1, 2008.

Explanation of State Expenditures: This bill will cause an indeterminable increase in administrative costs for the Department of State Revenue (DOR). The DOR will be required to amend individual Adjusted Gross Income (AGI) Tax forms, update computer software, and amend procedures and rules to administer the tax credit provided in this bill. It is estimated the DOR can implement the provisions of this bill through the use of existing staff and resources.

Explanation of State Revenues: It is estimated that this bill will cause a decrease in individual AGI Tax collections of ranging from \$5.7 M to \$12.8 M beginning in FY 2009 and \$11.7 M to \$26.3 M in FY 2010. The fiscal impact will grow each year until the number of eligible graduates reaches a level where new graduates added each year are replaced by older graduates running out of qualified investment to obtain a credit. The table below illustrates the increase in the fiscal impact as the total number of graduates escalates over a 20 year period.

YEAR	FY 2009	FY 2010	FY 2015	FY 2020	FY 2029
Low (in millions)	\$5.7	\$11.7	\$40.3	\$83.2	\$182.1
High (in millions)	\$12.8	\$26.3	\$90.4	\$186.8	\$408.7

The bill provides an individual AGI Tax credit for a certain percentage of educational costs incurred by certain eligible college graduates as defined in the bill. This estimate is based on degrees obtained by Indiana graduates with a GPA greater than 3.0 as provided by the Commission for Higher Education adjusted by an estimate of those who remain in the state after graduation. The number of taxpayers making up certain classes of the eligible graduates as defined in the bill was indeterminable. Therefore it is estimated that this range is lower than the actual decrease AGI Tax collections that will result from the credit provide in the bill.

Background: The bill defines eligible graduates as an individual who has obtained an associate's, bachelor's, master's, or doctoral degree. These eligible graduates are then entitled to claim a tax credit for a certain percentage of the individual's educational costs. The bill allows an eligible graduate to claim 5% of the graduate's "qualified educational investment". The bill contains a formula for determining an eligible graduates qualified educational investment. The end result of the formula allows the following percentage of educational costs to be considered qualified educational investment:

Degree	% of Education Costs that are considered Qualified Educational Investment
Associates	0% to 20%
Bachelor's, Master's, Doctoral	0% to 35%

The bill allows an individual to take 5% of their qualified educational investment as a tax credit each year. The amount of the qualified investment is adjusted each year by the amount of the credit claimed in preceding year, and therefore most of these credits will have a twenty-year life span (5% x 20 years = 100%). The range of an eligible graduate's qualified educational investment is determined by summing certain percentages which the eligible graduate qualifies for in the bill. Therefore, if you are an eligible graduate, and you have accomplished one of the following items, you would use the listed percentage in your calculating your qualified educational investment:

Qualification	% Increase in Qualified Investment Calculation
High school degree from Indiana high school in a CORE 40 curriculum and a GPA of 3.0 or higher	10%
Associates Degree and GPA of 3.0 or higher	20% (10% plus the 10% if you met the CORE 40 qualification listed above)
Bachelor's Degree and GPA of 3.0 or higher	35% (25% plus the 10% if you met the CORE 40 qualification listed above)
Served in Indiana National Guard or Reserves for at least 8 years	35% (25% plus the 10% if you met the CORE 40 qualification listed above)
Physician or nurse who has served in a medically underserved area of Indiana for at least 10 years	35% (25% plus the 10% if you met the CORE 40 qualification listed above)
Teacher of math or science in Indiana for at least 10 years	35% (25% plus the 10% if you met the CORE 40 qualification listed above)

The estimate for the overall decrease in AGI Tax collections ranging from \$5.7 M to \$12.8 M per year of graduating cohorts does not include an estimate concerning the number of individuals who would qualify for a credit for serving in the Indiana National Guard or reserves. The estimate also does not include any assumption on the number of physicians, nurses, or teachers that might qualify for the increase percentage of the credit after the ten-year of service requirement is met. The number of taxpayers that might qualify under these provisions is indeterminable. Therefore, the estimate is based on degrees obtained by Indiana graduates with a GPA equal to 3.0 or higher as provided by the Commission for Higher Education.

The following table represents a hypothetical calculation of the credit provided in the bill.

TOTAL EDUCATIONAL COSTS	\$20,000
<i>Associates Degree obtained with CORE 40 and 3.0 GPA</i>	
20% = qualified investment	\$4,000
Credit amount = 5% of qual. inv. Per year (for 20 years)	\$200
<i>Bachelor's Degree obtained with CORE 40 and 3.0 GPA</i>	
35% = qualified investment	\$7,000
Credit amount = 5% of qual. inv. Per year (for 20 years)	\$350

Eighty-six percent of the revenue from the Individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Jeff Stanley, Indiana Commission for Higher Education.

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