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**FISCAL IMPACT STATEMENT**

**LS 6042**

**BILL NUMBER:** HB 1025

**NOTE PREPARED:** Jan 22, 2009

**BILL AMENDED:**

**SUBJECT:** Child and Dependent Care Tax Credit.

**FIRST AUTHOR:** Rep. Day

**FIRST SPONSOR:**

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

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

**IMPACT:** State

**Summary of Legislation:** The bill provides a refundable income tax credit to individuals for certain household, child care, or dependent care expenses associated with an individual's gainful employment. It provides that the amount of the credit is 50% of the amount allowed for the federal child and dependent care credit. It also provides that an individual whose federal adjusted gross income exceeds \$45,000 is not eligible for the credit.

**Effective Date:** January 1, 2010.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of 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 bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who claim the federal Child and Dependent Care Credit and whose federal AGI is at or below \$45,000 beginning in 2010. The revenue loss due to this bill could potentially total between \$9 M and \$10.3 M in FY 2011.

**Background Information** -The bill creates a refundable AGI Tax credit for individual taxpayers who are eligible for and claim the federal Child and Dependent Care Credit. Under the bill, the AGI Tax credit is equal to 50% of the federal credit claimed in the taxable year, and is limited to taxpayers with federal AGI of \$45,000 or less. (Note: An explanation of the federal credit is presented below.)

In 2005, approximately 38,000 Indiana residents with federal AGI of \$45,000 or less claimed about \$18.9 M in credits for qualified child and dependent care expenses. For tax years 2003-2005, the population of those with federal AGI of \$45,000 or less claiming the tax credit declined by almost 2%, and the amount of credits claimed declined by 0.75%. Taking into account the rates of decline for the population of Indiana residents with federal AGI of \$45,000 or less and the amount and number of credits claimed from 2003-2005, revenue loss could potentially total \$9 M in FY 2011. However, the revenue loss could be higher to the extent that the declines realized through 2005 don't persist. For instance, data from the IRS *Statistics on Income* for Indiana reported a 2% increase in the number of returns for those with federal AGI of \$50,000 or less for 2005-2006. This group claimed approximately \$20.6 M in credits, which would translate to a loss in revenue for Indiana of \$10.3 M. Revenue collected from the AGI tax on individuals is deposited in the state General Fund.

*Federal Child and Dependent Care Credit:* The federal credit applies to qualifying child or dependent care expenses paid in order for the taxpayer to be gainfully employed. To be eligible for the credit, a taxpayer must incur employment-related expenses in providing care for one of the following qualified individuals:

- (1) A dependent of the taxpayer who has not attained the age of 13.
- (2) A dependent of the taxpayer who is physically or mentally incapable of caring for himself or herself and resides with the taxpayer for more than one-half of the year.
- (3) The taxpayer's spouse if the spouse is physically or mentally incapable of caring for himself or herself and resides with the taxpayer for more than one-half of the year.

Qualifying expenses include expenses paid for household services and for the care of a qualifying individual. Services outside the home qualify if they involve the care of a qualified child or a disabled spouse or dependent who regularly spends at least eight hours a day in the taxpayer's home. The maximum amount of qualified child and dependent care expenses to which the credit may be applied is \$3,000 for one qualifying individual and \$6,000 for two or more qualifying individuals.

The credit amount is equal to a percentage of the qualified child and dependent care expenses. The applicable percentage ranges from 20% to 35% depending on the taxpayer's federal AGI. If the taxpayer's federal AGI is \$15,000 or less, the applicable percentage is 35%. The credit is reduced by one percentage point per \$2,000 of AGI in excess of \$15,000. The applicable percentage is fixed at 20% for taxpayers with federal AGI exceeding \$43,000. Thus, the maximum federal credit amount is \$1,050 for expenses relating to one qualifying dependent and \$2,100 for expenses relating to two or more qualifying dependents. This means the maximum AGI Tax credit under the bill would range from \$525 to \$1,050.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

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

**Local Agencies Affected:**

**Information Sources:** OFMA Federal Tax Database, 1996-2005; Internal Revenue Service, *Statistics on Income*, Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Years

2003-2006.

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