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

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## FISCAL IMPACT STATEMENT

**LS 6031**
**BILL NUMBER:** HB 1440

**NOTE PREPARED:** Oct 20, 2008
**BILL AMENDED:**

**SUBJECT:** Deduction for Postsecondary Tuition.

**FIRST AUTHOR:** Rep. Riecken
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

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

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides a deduction to an individual in each taxable year for qualified tuition and related expenses paid by the individual during the taxable year. It limits the amount of the deduction to $4,000 per taxable year for an individual filing a single return and $8,000 per taxable year for a married couple filing a joint return. It also provides for a lifetime limit of $20,000 of deductions for qualified tuition and related expenses per individual for all taxable years.

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

**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 deduction for higher education tuition and expenses. The DOR's current level of resources should be sufficient to implement the new deduction.

**Explanation of State Revenues:** *Summary* - The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who pay qualified higher education tuition and expenses beginning in tax year 2010. It is estimated that the revenue loss from the deduction could range from $31 M to $32 M annually beginning in FY 2011 for tuition and expenses paid for *undergraduate* students between the ages of 18 and 22 who are enrolled in 4-year institutions, 2-year institutions, or vocational/technical schools. It is important to note that the revenue loss could be significantly higher to the extent that the deduction is claimed by students for their own tuition and expenses for undergraduate, graduate, or professional education after the student's parents have claimed the deduction for the student's tuition and expenses in prior years. While the bill provides for a lifetime deduction limit per taxpayer, the impact of this limit on the persistence or future growth in the annual revenue loss is indeterminable.

*Background Information* - The bill establishes an AGI deduction for “qualified tuition and related expenses” required for enrollment and attendance of the taxpayer, taxpayer’s spouse, or any dependent of the taxpayer at an eligible institution of higher education. The deduction in a taxable year applies to the tuition and expenses paid by the taxpayer during the taxable year. The maximum deduction a taxpayer may claim during a taxable year is $4,000 for single filers and $8,000 for joint filers. The bill provides for a lifetime maximum of $20,000 in tuition and expenses that taxpayer may claim.

The revenue estimate is based on: (1) state Department of Education annual reports of public high school graduate totals, nonpublic and home school enrollment totals, and the percentage of public high school graduates enrolling in higher education institutions; (2) U.S. Department of Education higher education tuition and fee data; and (3) U.S. Census Bureau estimates of the number of children per family.

“Qualified tuition and expenses” under Section 25A(f)(2) of the Internal Revenue Code is defined as tuition and fees required for the enrollment or attendance of the taxpayer, taxpayer’s spouse, or taxpayer’s dependent at an “eligible educational institution.” (Note: To be considered a “dependent” under this provision, a child must not have attained the age of 19 by the end of the calendar year or must be a student that has not attained the age of 24 by the end of the calendar year.) An “eligible educational institution” is defined as an institution: (1) that is described in 20 U.S.C. 1088 of the Higher Education Act of 1965 (Education Act) as in effect on the date of enactment of section 25A (August 5, 1997); and (2) that is eligible to participate in federal financial aid programs described in Title IV of the Education Act. As of August 5, 1997, 20 U.S.C. 1088(a)(1) generally defined an “institution of higher education” as: (1) an accredited postsecondary educational institution (as defined in 20 U.S.C. 1141(a) (a public or nonprofit institution of higher education)); (2) a proprietary institution of higher education; and (3) a postsecondary vocational institution.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the new deduction for qualified higher education tuition and expenses would serve to significantly decrease taxable income, counties imposing local option income taxes could potentially experience a substantial decrease in revenue from these taxes. Based on the current average LOIT rate of about 1.3%, the statewide LOIT revenue loss due to this deduction could range from $11 M to $12 M annually relating to tuition and expenses paid for undergraduates between the ages of 18 and 22. The statewide LOIT revenue loss could be significantly higher due to other deductible undergraduate, graduate, and professional school tuition and expenses.

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

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:** OFMA Income Tax databases, 2000-2006. Indiana Department of Education, Graduate and Post Graduate Data, and Enrollment Data, http://mustang.doe.state.in.us/SAS/sas1.cfm. Tuition and Fee Costs from: U.S. Department of Education, National Center for Education Statistics, 1987-88 through 2003-04 Integrated Postsecondary Education Data System, "Fall Enrollment Survey" (IPEDS-EF:87-99) and "Institutional Characteristics Survey" (IPEDS-IC:87-99) and Spring 2001 through Spring 2003. S1101. U.S. Census Bureau, Households and Families Data Set: 2006 American Community

Survey, http://www.census.gov/.

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