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FISCAL IMPACT STATEMENT

LS 7552

BILL NUMBER: HB 1003

NOTE PREPARED: Jan 21, 2011

BILL AMENDED:

SUBJECT: School Scholarships.

FIRST AUTHOR: Rep. Behning

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *School Scholarship Tax Credit:* The bill increases the school scholarship tax credit that may be awarded for donations to a scholarship granting organization. It allows scholarship granting organizations to grant scholarships to families with income that is not more than 250% of the amount required for the individual to qualify for the federal free or reduced price lunch program.

School Scholarship Program: The bill provides scholarships to low-income students to pay the costs of tuition and fees at a public or private elementary school or high school that charges tuition.

Effective Date: July 1, 2011.

Explanation of State Expenditures: *School Scholarship Program: Summary* - The state scholarship program could potentially reduce state tuition support expenditures for students who switch from the public school where they have legal settlement to a nonpublic school or to an alternative public school where the student does not have legal settlement. The estimated scholarship cost, tuition support savings, and net savings per 1,000 students participating in the scholarship program are outlined in the table below.

Estimated Net Impact of Scholarship Program for 1,000 Students	
Total Scholarship Cost	\$3.7 M
Tuition Support Reduction	\$5.5 M
Net Savings	\$1.8 M

The tuition support and net savings actually derived in any year due to the scholarship program would depend

on the school formula. The current school formula expires December 30, 2011. Potential tuition support savings would be reduced if future school formulas include minimum guarantee or de-ghoster provisions.

Background Information - The bill establishes a program to provide scholarships to eligible students in the 1st through 12th grades to pay tuition at a nonpublic school or transfer tuition at an alternative public school that is not a charter school or a school in the school corporation where the student has legal settlement. Among other eligibility requirements, the student must have been enrolled in a school corporation that did not charge the student transfer tuition for at least two semesters immediately preceding the first semester for which the student receives a scholarship.

A scholarship under the program is paid from state tuition support money that would otherwise go to the school corporation where the student attended before attending a nonpublic or alternative public school under the program. The maximum scholarship that an eligible student could receive is the lesser of: (1) the sum of the tuition, transfer tuition, and fees required for the student to attend the nonpublic school or alternative public school; or (2) an amount equal to one of the following:

(A) 90% of the state tuition support amount per student of the school corporation where the student has legal settlement, if the student is a member of a household with an annual income not exceeding the amount required to qualify for the federal free or reduced price lunch program;

(B) 50% of the state tuition support amount per student of the school corporation where the student has legal settlement, if the student is a member of a household with an annual income not exceeding 200% of the amount required to qualify for the federal free or reduced price lunch program; or

(C) 25% of the state tuition support amount per student of the school corporation where the student has legal settlement, if the student is a member of a household with an annual income not exceeding 250% of the amount required to qualify for the federal free or reduced price lunch program.

The potential number of students who might switch from their current public school to a nonpublic school, or to public school where the student does not have legal settlement, because of the scholarship program is indeterminable. Consequently, the impact on state tuition support expenses due to the scholarship program is indeterminable. The scenario below shows the scholarship funding and reduction in tuition support for 1,000 eligible students based on the CY 2011 average tuition support per student for regular programs (calculated at \$5,515). The scenario assumes that the tuition required at the nonpublic school or transfer tuition required by the alternative public school selected by the student exceeds the percentage of state tuition support that the bill allows. The distribution of students on the income parameters described above in (A)-(C) is based on the income distribution of state income taxpayers (single and joint filers) claiming the dependent child exemption for 1 to 10 children.

Scholarship Levels	Scholarship Amount*	Qualifying Students by Scholarship Level	Total Scholarship Funding	Reduction in Tuition Support	Net Savings
90% of tuition support	\$4,964	505	\$2,506,568	\$2,785,075	\$278,508
50% of tuition support	\$2,758	377	\$1,039,578	\$2,079,155	\$1,039,578
25% of tuition support	\$1,379	118	\$162,693	\$650,770	\$488,078
Total		1,000	\$3,708,838	\$5,515,000	\$1,806,163
*Assumes the CY 2011 average state tuition support per student for regular programs (=\$5,515).					

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes proposed in this bill concerning the School Scholarship Tax Credit. The DOR's current level of resources should be sufficient to implement these changes.

Department of Education: The school scholarship program established under the bill will result in additional administrative responsibilities for the Department of Education. The fiscal impact that might arise from these new responsibilities is indeterminable and would depend on the scope of the scholarship program and the manner in which scholarships are distributed.

Explanation of State Revenues: *School Scholarship Tax Credit: Summary* - The bill makes the following changes relative to the school scholarship tax credit for contributions to a certified scholarship granting organization (SGO).

(1) The bill increases the credit percentage from 50% to 60% of contributions to a certified SGO in 2012; to 70% of contributions in 2013; and to 80% of contributions beginning in 2014.

(2) The bill establishes a formula for increasing the cap on credits awarded in a year by \$10 M if the total credits awarded in the prior year totaled at least 90% of the prior year cap. The current annual credit cap is \$2.5 M, so under the bill, if awarded credits in a year totaled at least \$2.25 M, the credit cap would increase to \$12.5 M beginning in the following year.

Both changes will lead to a material increase in the revenue loss from this credit in future years. The magnitude and timing of the revenue loss is uncertain because of the low level of response to the credit in its initial 1.5 years. Currently, only four SGOs have been certified by the Department of Education. The total amount of tax credits the Department of State Revenue (DOR) awarded in FY 2010 (the first year tax credits could be awarded) was \$43,200. As of January 13, 2011, FY 2011 credits awarded by DOR total \$215,750. Annualizing this year-to-date total suggests that credits awarded in FY 2011 could come in at about \$430,000. This would leave about \$2 M in un-awarded credits for the fiscal year under the fiscal aggregate credit cap of \$2.5 M. This level of response and growth is well below that experienced in Arizona and Iowa where somewhat similar credits have been available, but initially only to individual taxpayers. The Indiana credit is available to both individual and corporate taxpayers.

Background Information -Under current statute, the School Scholarship Tax Credit is equal to 50% of the contributions made by an individual or corporate taxpayer to nonprofit K-12 school scholarship-generating

organizations. The tax credit was first effective for tax year 2010. The tax credit is nonrefundable and unused credits may not be carried forward or carried back. Total credits allowed may not exceed \$2.5 M for all taxpayers per fiscal year. The tax credit may be applied to individual or corporate AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities. Revenue from these taxes is distributed to the state General Fund.

Arizona Tax Credit: Arizona offers a tax credit to individual and corporate taxpayers for contributions to school tuition organizations. Individuals may receive tax credits of up to \$500 for single filers and \$1,000 for joint filers, and corporations may receive tax credits equal to the amount of their contributions. There is no aggregate cap on tax credits for individuals, but tax credits for corporations are capped at \$14.4 M annually. In 1999, the second year of the credit for individual taxpayers, there were 33 school tuition organizations in Arizona and creditable donations totaled \$13.8 M, even though the joint return credit maximum was \$500 (the same as the single return maximum). In 2009, there were 53 school tuition organizations in Arizona and creditable donations by individual taxpayers totaled \$50.9 M. In FY 2009, corporate credits totaled \$10.5 M. This was the third year of the corporate credit.

Iowa Tax Credit: Iowa offers a tax credit to individual and corporate taxpayers for contributions to school tuition organizations. The credit for individual and corporate taxpayers is equal to 65% of the contribution to a school tuition organization. The individual credit started in 2006, and the corporate credit began in 2009. The credit is subject to an aggregate cap of \$7.5 M annually; however, the credit cap was \$2.5 M in 2006, \$5 M in 2007, and increased to the current \$7.5 M beginning in 2008. In 2006, \$2.4 M in credits were awarded, and \$4.7 M in credits were awarded in 2007. As of 2009, there were 11 school tuition organizations in Iowa.

Explanation of Local Expenditures:

Explanation of Local Revenues: *School Scholarship Program:* Schools could potentially experience a loss in state tuition support due to the reduction in the number of students attending school and being counted in their ADM for future school formula calculations. The loss in revenue could be offset by reductions in expenditures depending on the number of students that participate in the scholarship program. Depending on the school formula and future levels of state appropriations, the reduction in tuition support per 1,000 students participating in the scholarship program could total \$5.5 M per year. This total assumes the CY 2011 average state tuition support per student for regular programs equal to \$5,515. (See *Explanation of State Expenditures* for discussion of the reduction range and average reduction.)

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

Local Agencies Affected: School corporations.

Information Sources: Arizona Department of Revenue, *Individual Income Tax Credit for Donations to Private School Tuition Organizations: Report for 2009 - Executive Summary*; *Corporate Income and Insurance Premium Tax Credits for Contributions to School Tuition Organizations: Reporting for 2009*, www.azdor.gov. Iowa Department of Revenue, *Iowa's 2006 Tax Credit Claims - Tax Credits Program Report*, February 2009; *Iowa's 2007 Tax Credit Claims - Tax Credits Program Report*, April 2010, <http://www.iowa.gov/tax/taxlaw/>. The Foundation for Educational Choice, *Iowa - Tax Credits for School Tuition Organizations*, <http://www.edchoice.org>. OFMA Income Tax databases, 2008.

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