LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6574 | **NOTE PREPARED:** Jan 20, 2012
BILL NUMBER: HB 1316 | **BILL AMENDED:**

SUBJECT: Income Tax Credit for Education Expenses.

FIRST AUTHOR: Rep. Truitt | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: The bill provides that the adjusted gross income tax deduction for unreimbursed expenditures made in connection with a dependent child's enrollment in a nonpublic school or accredited nonpublic school applies only to a taxable year beginning in 2011. The bill, for taxable years beginning after 2011, provides a refundable income tax credit for an unreimbursed education expenditure made by a taxpayer for an eligible dependent enrolled in a public school or an accredited nonpublic school if the taxpayer's household income is not more than 350% of the federal poverty level. Provides that the maximum credit amount is $1,000.

Effective Date: January 1, 2012 (retroactive).

Explanation of State Expenditures: *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 repeal of the education expense deduction and the establishment of the education expense credit. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary* - The bill: (1) repeals the individual adjusted gross income (AGI) tax deduction for unreimbursed expenditures for enrollment of a dependent child in a private school or to home school a dependent child; and (2) establishes an individual AGI tax credit for unreimbursed education expenditures made by a taxpayer for an eligible dependent enrolled in a public school or an accredited nonpublic school if the taxpayer's household income is not more than 350% of the federal poverty level. The deduction is repealed after tax year 2011 and the credit is effective beginning in tax year 2012, so the net revenue impact of these two changes would begin in FY 2013. The estimated annual net revenue impact of the bill is reported in the table below.

Provision	Revenue Gain (Loss) (in millions of dollars)
Elimination of school expense income deduction	\$3.3 - \$3.7
Authorization of school expense tax credit	(\$222.5)
Total	(\$218.8 - \$219.2)

<u>Background Information</u> - *Tax Credit for Qualified Public/Private Education Expenditures:* The bill establishes a refundable individual AGI tax credit for taxpayers who make unreimbursed qualified education expenditures during the taxable year if their household income is less than or equal to 350% of the federal poverty level. Qualified education expenditures are any expenditures made in connection with enrollment, attendance, or participation of the qualifying taxpayer's eligible dependent in a public school or an accredited nonpublic school. An eligible dependent is a dependent of the taxpayer who is enorlled in any grade from kindergarten through grade 12 in a public school or an accredited nonpublic school. Qualified education expenditures includes tuition, fees, computer software, textbooks, workbooks, curricula, school supplies (other than personal computers, and other written materials used primarily for academic instruction or for academic tutoring, or both. The credit is determined by the household income of the taxpayer as summarized in the table below.

Household Income	Credit equal the lesser of	
Less than or equal to 250% of federal poverty level	\$1,000	100% of qualified expenditures
250% to 270% of federal poverty level	\$1,000	80% of qualified expenditures
270% to 290% of federal poverty level	\$1,000	60% of qualified expenditures
290% to 210% of federal poverty level	\$1,000	40% of qualified expenditures
310% to 350% of federal poverty level	\$1,000	20% of qualified expenditures

It is estimated that eligible taxpayers could potentially make qualified education expenditures for approximately 637,000 eligible public school children and 76,500 eligible accredited nonpublic school children. The estimated total credits that may be claimed assumes a per child qualified expenditure of: (1) \$200 for public school students from families having household income of up to 185% of federal poverty level; (2) \$400 for public students from families having household income above 185% up to 350% of federal poverty level; (3) \$3,000 for accredited nonpublic students in kindergarten through 8th grade; and (4) \$8,000 for accredited nonpublic students in 9th grade through 12th grade.

Tax Deduction for Qualified Private School/Home School Expenses: Current statute provides for an individual AGI tax deduction for taxpayers who make unreimbursed expenditures for enrollment of a dependent child in a private school or to home school a dependent child. The deduction is equal to $1,000 per dependent child for whom such unreimbursed education expenditures are made. The deduction was effective beginning in tax year 2011, and the bill would repeal the deduction after tax year 2011. It is estimated that the revenue loss from this deduction could potentially range from $3.3 M to $3.7 M annually for taxpayers who enroll a dependent child in an accredited nonpublic school or who home schools a dependent child. The revenue loss could be higher to the extent taxpayers claim the deduction for dependent children in nonaccredited nonpublic schools. The number of children enrolled in such schools is unknown.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Tax Deduction for Qualified Private School/Home School Expenses*: Because the elimination of the deduction for qualified private school/home school expenses will increase taxable income, counties imposing local option income taxes could potentially experience an increase in revenue from these taxes. Based on the current average LOIT rate of about 1.4%, LOIT collections on a statewide basis could potentially increase due to the deduction elimination by about $1.4 M to $1.5 M annually beginning in FY 2013.

State Agencies Affected: DOR.

Local Agencies Affected:

Information Sources: OFMA Income Tax Databases, 2008-2009. Intercensal Estimates of the Resident Population by Sex and Age for Indiana: April 1, 2000 to July 1, 2010 (release date September 2011), U.S. Census Bureau. Digest of Education Statistics, U.S. National Center for Education Statistics. The 2011 HHS Poverty Guidelines, U. S. Department of Health and Human Services, ASPE.hhs.gov.

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