

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

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6508**

**BILL NUMBER:** SB 185

**NOTE PREPARED:** Dec 17, 2012

**BILL AMENDED:**

**SUBJECT:** Individual Development Accounts.

**FIRST AUTHOR:** Sen. Kruse

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

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

**IMPACT:** State & Local

**Summary of Legislation:** This bill allows money in an Individual Development Account (IDA) to be used by an individual for the purchase of a motor vehicle if: (1) the withdrawal of the money for the purchase of the motor vehicle does not exceed \$10,000; and (2) the purchase of the motor vehicle is for the primary purpose of transporting the individual to and from work or school. The bill provides that the withdrawal of the money for the purchase of the motor vehicle is not subject to state and local income tax.

**Effective Date:** July 1, 2013.

**Explanation of State Expenditures:** *Indiana Housing & Community Development Authority (IHCDA):* The IHCDA will incur additional expenses to update literature and integrate the inclusion of motor vehicle purchases as a tax-exempt use of the funds. The IHCDA's current level of staff and resources should be sufficient to implement this bill.

**Explanation of State Revenues:** The bill excludes from state and local income tax the withdrawal of funds from an IDA to purchase a motor vehicle. If a taxpayer withdraws \$10,000 from an IDA for a nonexempt purchase, they would incur approximately \$340 in Individual Adjusted Gross Income (AGI) Tax liability. The amount of revenue that could potentially be lost from adding the purchase of a motor vehicle to the list of tax-exempt IDA withdrawals is indeterminable, but it is likely to be minimal. A total of 1,877 IDAs were created in the last six years. If 10% of those account holders withdraw \$10,000 to purchase a car every fiscal year, making that withdrawal tax-exempt would reduce Individual AGI Tax revenue by an estimated \$63,580 beginning in FY 2014. Individual AGI Tax revenue is deposited in the state General Fund.

Additional Information - An IDA is a special matched saving account established for individuals with earned income less than 175% of the federal poverty guidelines and who earn wage income. The program is administered through 32 sponsoring nonprofit community development corporations and partnerships with 42 financial institutions. The IHCDA is authorized to establish 800 accounts each fiscal year. Individuals are matched \$3 for \$1 of earned income they deposit. A maximum of \$400 is matched each year for four consecutive years. Under the current statute, money withdrawn from an IDA for the following purposes is exempt from state and local income taxation:

- Enrollment in postsecondary education or vocational training for the qualifying person or dependent.
- Attending an accredited or licensed training program that may lead to employment for the qualifying person or dependent.
- Purchase of a primary residence or reducing the principal amount owed on a primary residence.
- Purchasing, starting up, or expanding an existing business.
- Rehabilitating the home of an IDA participant for permanent, essential improvements that add value to the home and its resale price.

For accounts opened after July 1, 2011, all funds must be used within 24 months of the account's last match opportunity. After 24 months, the account would be closed, and the funds would revert to the program.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** This bill has the potential to decrease state taxable income, so counties with a local option income tax (LOIT) could experience a decrease in revenue. Using the median current LOIT rate of 1.45%, the tax liability incurred from \$10,000 in additional income would be an estimated \$145. If 10% of the IDA account holders withdraw \$10,000 to purchase a car every fiscal year, making that withdrawal tax exempt would reduce overall statewide LOIT revenue by an estimated \$27,120 beginning in FY 2014. [IDA account holders live in 76 counties across Indiana.]

**State Agencies Affected:** IHCDA.

**Local Agencies Affected:** Counties with a local option income tax; nonprofit community development organizations who administer IDA.

**Information Sources:** LSA Income Tax Database; IHCDA, Agency Overview FY 2014-2015 Biennial Budget Submission; Jeff Hasser, IHCDA, 317-234-7145.

**Fiscal Analyst:** Heath Holloway, 232-9867.