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FISCAL IMPACT STATEMENT

LS 6508

BILL NUMBER: SB 185

NOTE PREPARED: Jan 28, 2013

BILL AMENDED: Jan 24, 2013

SUBJECT: Individual Development Accounts.

FIRST AUTHOR: Sen. Kruse

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

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 a postsecondary 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. The IHCDA conducts all IDA withdrawal transactions in a manner that could be classified as a third-party gift to the account holder. As long as the transactions continue to meet the qualifications of a gift and given the IHCDA's strict policy of not providing matched IDA funds for unauthorized purposes, this provision will likely have no fiscal impact.

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 minimum deposit of \$400 is required each year, and up to \$800 is matched each year. The match period lasts 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 Under the current statute, money withdrawn from an IDA for the following purposes is exempt from state and local income taxation: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:

State Agencies Affected: IHCDA.

Local Agencies Affected: Nonprofit community development organizations who administer IDAs.

Information Sources: LSA Income Tax Database; IHCDA, Agency Overview FY 2014-2015 Biennial Budget Submission; Jeff Hasser, IHCDA, 317-234-7145; U.S. Master Tax Guide 2013.

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