

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

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 7794**

**BILL NUMBER: HB 1676**

**DATE PREPARED:** Jan 12, 1999

**BILL AMENDED:**

**SUBJECT:** College Savings Plan Grants.

**FISCAL ANALYST:** David Hoppmann

**PHONE NUMBER:** 232-9559

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

**IMPACT:** State

<b>STATE IMPACT</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>
<b>State Revenues</b>			
<b>State Expenditures</b>	<b>900,000</b>	<b>2,650,000</b>	<b>4,150,000</b>
<b>Net Increase (Decrease)</b>	<b>(900,000)</b>	<b>(2,650,000)</b>	<b>(4,150,000)</b>

**Summary of Legislation:** This bill would provide a college savings plan grant (grant) for deposits of money into a taxpayer's Indiana Family College Savings Trust Fund (the Fund) through an individual trust account for a dependent (it would require the Department of State Revenue (the Department) to pay the grant into the individual trust account). It would provide a penalty for withdrawals from the Fund that are not used for an allowable purpose of the Fund.

**Effective Date:** January 1, 1999 (retroactive).

**Explanation of State Expenditures:** There would be some administrative costs for the Department to implement the provisions of this bill. The Department would be directed to deposit grants into individual trust accounts of dependents in which taxpayers made a deposit of family college savings.

There would also be some indeterminable administrative costs to the Indiana Commission for Higher Education (ICHE) and to the contractor of the Fund.

This bill would provide a grant to a taxpayer who makes a deposit into the Fund's individual trust account for the taxpayer's dependent. The amount of the grant would be equal to the lesser of 50% of the deposit or \$250 per dependent (a taxpayer claiming a grant would not be entitled to a reduction of the taxpayer's

adjusted gross income tax liability). In general, this bill would provide a grant of \$250 to taxpayers who deposit \$500 into a dependent's individual trust account of the Fund each year.

Grants would be deposited into the Fund's individual trust account by the Department. If withdrawals of grant monies are made on an individual trust account, and are not used in conformity with the purposes of the Fund, the taxpayer would be subject to a penalty in the amount of the grants on the amount withdrawn, excluding any earnings on the amount deposited.

The Indiana Education Savings Authority (the Authority) would be allowed to withhold the penalty and the direct payment of the penalty to the Department of State Revenue. In addition, the Authority would be allowed to adopt rules waiving the penalty in the case of hardships or special circumstances affecting the owner of the individual trust account.

### NEW ACCOUNT PROJECTIONS

Based on an ICHE analysis of other college savings programs in the country, it is estimated that Indiana's program (with a 50%; \$250 maximum per year incentive) will take approximately four years before it reaches its maximum participation of approximately 5000 new accounts each year. To date, there has been a total of approximately 2,500 accounts established for the Fund. Of this amount, 607 were established in CY 1997, and 1,893 were established in CY 1998.

Based on the assumption that the number of new accounts would increase by 5,000 in CY 1999, 7,000 in CY 2000, by 6,000 in CY 2001, and then remain constant at approximately 5000 new accounts beginning in CY 2002 and thereafter, approximately \$900,000 could be deposited into the Fund's individual trust accounts during FY 1999 (based on a six month estimate due to the effective date of January 1, 1999), approximately \$2.65 million could be deposited into the Fund's individual trust accounts during FY 2000, and approximately \$4.15 million during FY 2001 for total accounts in the Fund. This assumes that the maximum contribution will be made to generate the maximum grant.

ICHE's analysis includes all kindergarten to 12th grade students, assumes the maximum grant, adjusts for accounts abandoned or terminated early but does not account for any recaptured credits.

### **Explanation of State Revenues:**

### **Explanation of Local Expenditures:**

### **Explanation of Local Revenues:**

**State Agencies Affected:** The Department of Revenue, Indiana Commission on Higher Education.

### **Local Agencies Affected:**

**Information Sources:** Kent Weldon, Indiana Commission on Higher Education (464-4400).