

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

301 State House
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FISCAL IMPACT STATEMENT

LS 6276
BILL NUMBER: HB 1847

DATE PREPARED: Dec 28, 1998
BILL AMENDED:

SUBJECT: Income tax deductions.

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FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(218,000,000)	(220,800,000)
State Expenditures			
Net Increase (Decrease)		(218,000,000)	(220,800,000)

Summary of Legislation: This bill increases the adjusted gross income tax deduction for individuals, dependents, and aged and blind persons from \$1,000 to \$2,000.

Effective Date: January 1, 1999 (retroactive).

Explanation of State Expenditures: The Department of Revenue will have administrative expenses associated with updating tax forms, instructions and computer programs which can be done within their existing budget.

Explanation of State Revenues: This bill increases the amount of personal exemptions for a taxpayer, spouse, dependents and persons age 65 or over and/or blind which are currently set at \$1,000 per exemption to \$2,000. (Current law also provides an additional \$500 per child temporary income tax deduction to taxpayers for dependent children. The temporary deduction applies only to taxable years beginning before January 1, 2001. Therefore for tax years 1999 and 2000 the exemption for dependent children will be \$2,500.)

Based on the Internal Revenue Service and the Indiana Department of Revenue Individual Income Tax statistics, there were 5.5 M federal exemptions claimed in 1995 and 588,123 blind or elderly exemptions

claimed. The tax impact of these current exemptions at \$1,000 was approximately \$207 M in FY 96. The statistics also show that federal exemptions claimed over the last six years has been increasing at a rate of 1.2% annually. The exemption for persons age 65 or over and/or blind has been increasing at a rate of 1.95% annually.

Increasing these personal exemptions from \$1,000 to \$2,000 for tax years beginning January 1, 1999 would reduce individual income tax revenue by an estimated **\$218 M** in **FY 2000** and **\$220.8 M** in **FY 2001**. Individual income tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties with a local option income tax would experience an indeterminable decrease in revenue collections due to the increase in the personal exemptions.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Department of Revenue Individual Income Tax Statistics; Internal Revenue Service.