LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 7184
BILL NUMBER: SB 248

DATE PREPARED: Dec 28, 1998
BILL AMENDED:

SUBJECT: Income tax deductions.

FISCAL ANALYST: Diane Powers
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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		**(167,400,000)**	**(169,500,000)**
State Expenditures			
Net Increase (Decrease)		**(167,400,000)**	**(169,500,000)**

Summary of Legislation: This bill increases the personal deduction and the deduction for dependents from adjusted gross income for dependents from $1,000 to $2,000. The bill eliminates the additional $500 deduction from adjusted gross income for dependent children.

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, and dependents which are currently set at $1,000 per exemption to $2,000. The bill also eliminates the additional $500 per child temporary income tax deduction to taxpayers for dependent children for tax years 1999 and 2000.

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. The tax impact of these current exemptions at $1,000 was approximately $187 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.

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 $196.4 M in FY 2000 and $198.7 M in FY 2001. However the temporary dependent children exemption is approximately $28.9 M of this revenue impact in FY 2000 and $29.3 M in FY 2001. Therefore the *net new* revenue loss to the state in **FY 2000** would be **$167.4 M** and **$169.5 M** in **FY 2001**. In FY 2002 when the temporary dependent child exemption would have expired under the current statute, the estimated revenue loss would be $201 M. 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.