

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

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6474**  
**BILL NUMBER: SB 297**

**DATE PREPARED:** Feb 23, 1999  
**BILL AMENDED:** Feb 23, 1999

**SUBJECT:** Income tax deductions for dependents.

**FISCAL ANALYST:** Diane Powers  
**PHONE NUMBER:** 232-9853

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

**IMPACT:** State & Local

<b>STATE IMPACT</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>
State Revenues		(57,900,000)	(58,600,000)
State Expenditures			
Net Increase (Decrease)		(57,900,000)	(58,600,000)

**Summary of Legislation:** (Amended) This bill increases the additional deduction from adjusted gross income for children from \$500 to \$1,500 and makes the deduction permanent.

**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:** (Revised) This bill increases the additional deduction for children which is currently set at \$500 to \$1,500. The bill also makes this deduction permanent. Under the current statute, the \$500 deduction was set to expire December 31, 2000.

Based on the Federal Internal Revenue Service and Indiana Department of Revenue Individual Income Tax statistics, it is estimated that there were 1.6 M dependent exemptions (children under 18) claimed in 1995. The tax impact of these exemptions at \$1,000 in FY 96 was approximately \$55.2 M. The statistics also show that the amount of exemptions claimed over the last six years has been increasing at a rate of 1.2% annually.

Increasing the dependent exemption from \$500 to \$1,500 for tax years beginning January 1, 1999 would reduce individual income tax revenue by an estimated **\$57.9 M** in **FY 2000** and **\$58.6 M** in **FY 2001**. With the elimination of the expiration date of this exemption, the revenue loss to the state in FY 2002 would be \$88.9 M and \$90 M in FY 2003 due to the increase from \$0 to \$1,500. 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.