

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

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6770

BILL NUMBER: SB 278

NOTE PREPARED: Dec 27, 2005

BILL AMENDED:

SUBJECT: Tax Credit for College Tuition and Fees.

FIRST AUTHOR: Sen. Rogers

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: The bill grants a refundable Income Tax credit to a taxpayer who graduates from an institution of higher education in Indiana and then resides in and is employed in Indiana. It provides that the credit equals 5% of the taxpayer's higher education tuition and fees. It also provides that the credit may be claimed for not more than 20 years.

Effective Date: January 1, 2007.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit for college tuition and fees. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary:* The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities for tuition and fee costs incurred by qualified graduates of public and private higher education institutions in Indiana. The revenue loss due to this bill could potentially total as much as \$77.0 M to \$78.5 M in FY 2008 and \$119.5 M to \$122.3 M in FY 2009. Annual growth in the credit is estimated to decline from roughly 55% in FY 2009 to about 17% in 2015.

Background: The bill establishes a refundable tax credit for taxpayers who: (1) graduate after December 31, 2005, from a public or private institution of higher education located in Indiana; (2) reside in Indiana; and (3) are employed in Indiana. The taxpayer is entitled to an annual credit for a maximum of 20 years. The annual credit is equal to 5% of the amount of tuition and fees paid by the taxpayer, or by the taxpayer's parent or guardian, to the Indiana public or private higher education institution from which the taxpayer graduated.

Since the tax credit is effective beginning in tax year 2007, the fiscal impact would begin in FY 2008. Revenue from the AGI Tax on individuals is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

The estimates assume that 60% of graduates from Indiana's public and private colleges and universities remain in Indiana. This is based on the Indiana Fiscal Policy Institute's (IFPI) study on graduate migration which indicated that within three to six years of graduation from Indiana colleges and universities, approximately 60% of graduates remain in Indiana. Three different graduation cohorts included in the study exhibited retention rates ranging from 59.8% to 67.1%. The number of potential credit claimers from each graduation year is derived based on the observed 60% retention rate, and assuming that roughly 65% of that population will be employed. This latter statistic is based on employment estimates from Census 2000.

Degree conferral totals at Indiana higher education institutions are estimated for 2006 to 2014 based on national projections by the U.S. Department of Education. Tuition and fee costs are estimated for 2003 to 2014 based on long-run growth rates in average tuition and fee totals reported for Indiana by the U.S. Department of Education. Creditable tuition and fee totals for each graduation cohort is the cumulative total from the graduation year and three prior years. The table below shows the estimated population of graduates potentially claiming the credit and the average credit through 2014.

Potential Number of Taxpayers Claiming Tax Credit by Year		
Tax Year	Potential Credit Claimers	Average Credit
2007	50,000 - 51,000	\$1,540
2008	75,000 - 77,000	\$1,587
2009	101,000 - 104,000	\$1,633
2010	127,000 - 130,000	\$1,682
2011	153,000 - 158,000	\$1,732
2012	179,000 - 185,000	\$1,784
2013	206,000 - 213,000	\$1,837
2014	233,000 - 242,000	\$1,894

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Indiana Fiscal Policy Institute, *Graduate Migration from Indiana's Postsecondary Institutions*, March 1999. U.S. Department of Education, National Center for Education Statistics: Survey on

"Degrees and Other Formal Awards Conferred." Integrated Postsecondary Education System (IPEDS), Survey on "Completions." Earned Degrees Conferred Model (IPEDS). U.S. Department of Education, National Center for Education Statistics: 1987-88 through 2003-04 Integrated Postsecondary Education Data System, "Fall Enrollment Survey" (IPEDS-EF:87-99) and "Institutional Characteristics Survey" (IPEDS-IC:87-99) and Spring 2001 through Spring 2003. U.S. Census Bureau, Census 2000, *Profile of Selected Economic Characteristics: 2000*; Annual Demographic Survey, Educational Attainment/Earnings Data; <http://factfinder.census.gov>.

Fiscal Analyst: Jim Landers, 317-232-9869.