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FISCAL IMPACT STATEMENT

LS 7488 **NOTE PREPARED:** Feb 23, 2009
BILL NUMBER: SB 470 **BILL AMENDED:** Feb 23, 2009

SUBJECT: Automatic Taxpayer Refund.

FIRST AUTHOR: Sen. Hershman **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides for the return of a part of the state's year-end General Fund surplus to Indiana residents in the form of a refundable Adjusted Gross Income Tax credit based on income taxes paid for the previous taxable year. It establishes the Income Tax Reduction Reserve and procedures to implement the credit program. It provides that the Governor may issue an executive order to specify that the tax credit should not be granted. It also makes an appropriation.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Funding for Tax Credit to Refund Surplus Revenue:* The bill establishes the Income Tax Reduction Reserve Fund to pay for tax credits given to resident taxpayers in a fiscal year that the state General Fund surplus exceeds limits specified by the bill. The Fund is nonreverting and is administered by the State Budget Agency. The bill requires the Auditor of State to make a transfer to the Fund, if the state General Fund balance at the end of the preceding fiscal year is greater than 10% of the state General Fund budgeted appropriations for the current fiscal year. The transfer must be made by July 31st of the fiscal year unless the Governor issues an executive order specifying that the tax credits should not be granted.

If the bill was already in effect, no transfer would have been required in FY 2008 or FY 2009. The state General Fund ending balance in FY 2007 was about 6% of the state General Fund budgeted appropriations in FY 2008, and the FY 2008 ending balance was about 6.4% of the budgeted appropriations in FY 2009. The 10% threshold in the bill was last exceeded in FY 2001, when the ending balance from FY 2000 was approximately 11% of the budgeted appropriations in FY 2001.

Administration of the Refund Tax Credit: The bill requires the State Budget Agency (SBA) to annually estimate the tax credit percentage for purposes of the tax credit to refund state General Fund surplus. After the transfer amount to the Income Tax Reduction Reserve Fund is determined, the SBA must compute the tax credit percentage for the tax year ending during that fiscal year. The tax credit percentage is the ratio of the transfer amount to the total Individual Adjusted Gross Income (AGI) Tax paid by Indiana residents during the previous tax year. The SBA's current level of resources should be sufficient to implement this task.

The Department of State Revenue (DOR) will have to revise tax forms, instructions, and computer programs to implement the new tax credit in the years when it is applicable. The DOR estimates that these costs could potentially range from $50,000 to $100,000. There could be additional costs of sending refund checks to taxpayers who would otherwise not receive a tax refund in the absence of this tax credit. These costs are indeterminable, but could be mitigated to the extent that refunds to these taxpayers are provided by direct deposit.

Definitions: "State General Fund" is the state General Fund, excluding any dedicated account and excluding the medicaid contingency and reserve account.

"State General Fund Appropriations" is the sum of the specific amounts appropriated by a biennial budget bill from the state General Fund for expenditure in a particular state fiscal year, excluding transfers to the Income Tax Reduction Reserve Fund.

Explanation of State Revenues: *Tax Credit to Refund Surplus Revenue:* The bill provides a refundable Individual AGI Tax credit to resident taxpayers when the state General Fund balance at the end of a fiscal year is greater than 10% of the budgeted appropriations from the state General Fund for the current fiscal year. The tax credit is to be given to resident taxpayers in the tax year ending during the fiscal year in which the 10% threshold is exceeded. The tax credit is equal to the tax credit percentage computed by the SBA multiplied by the AGI Tax paid by the taxpayer, in the case of a single filer, or paid by the taxpayer and taxpayer's spouse, in the case of a joint filer, during the previous tax year. While the tax credit is effective beginning in tax year 2009, the magnitude of the credit in any tax year depends on the taxes paid by a taxpayer in the previous year as well as the magnitude of state General Fund balances and appropriations.

An individual taxpayer residing in Indiana on January 1st of the tax year is entitled to the tax credit, if credits are given in that tax year. The bill provides that the tax credit is refundable and prohibits the tax credit from being carried back or carried forward by a taxpayer.

If the bill had been in effect in tax year 2007 or 2008, no tax credits would have been awarded.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Budget Agency; Auditor of State; Department of State Revenue.

Local Agencies Affected:

Information Sources: State Budget Agency, *Fiscal Year 2007-2008 Close-Out Statement* (July 18, 2008). Chris Atkins, Office of Management and Budget, (317) 234-2115; Tom Conley, DOR, (317) 232-2107.

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