LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6726 | **NOTE PREPARED:** Dec 30, 2021
BILL NUMBER: SB 338 | **BILL AMENDED:**

SUBJECT: Graduate Retention Incentives.

FIRST AUTHOR: Sen. Rogers | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **X** **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill provides for an exemption from the adjusted gross income tax for up to five years for an individual who graduates from a public or private four year college or university if the individual accepts a full-time position of employment in Indiana after graduation. It provides that if an individual leaves a full-time position in Indiana and subsequently accepts another full-time position in Indiana, the exemption carries over for the balance of the five-year period. The bill provides that the Department of State Revenue (DOR) shall prescribe a form requiring the Indiana employer to notify the DOR if the individual leaves employment with the Indiana employer before the end of the five year exemption.

Effective Date: January 1, 2023.

Explanation of State Expenditures: *Department of State Revenue (DOR)*: The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the income tax deduction established by the bill. The DOR's current level of resources should be sufficient to implement these changes.

All State Agencies: To the extent that state agencies are employers of taxpayers claiming this exemption, there could be additional administrative workload in notifying the DOR if that individual leaves employment within the five-year exemption period.

Explanation of State Revenues: The bill establishes an Adjusted Gross Income (AGI) Tax exemption for taxpayers who graduate from a public or private four year college or university and begin full-time employment in Indiana upon graduation. It exempts the entirety of the eligible taxpayer's income for the first five taxable years that the graduate is consecutively employed full-time in Indiana. [The bill stipulates that a taxpayer remains eligible if they move to another full-time Indiana job within the five-year period as long as the taxpayer reapplies for the exemption with the DOR.] The exemption is effective beginning tax year 2023, so the bill will decrease General Fund revenue by an indeterminable but significant amount beginning in FY 2024.

To provide context for the potential magnitude of the bill's fiscal impact, an estimate was constructed using only graduates from Indiana colleges and universities who graduate with a Bachelor degree. Based on Indiana Commission for Higher Education data, about 70% of those graduates stay in the state. The estimated revenue loss from the bill for this population is $43.8 M to $64.2 M annually, but will grow as more individuals graduate. The overall fiscal impact of the bill will likely be larger since the exemption applies to a larger number of taxpayers than this estimate accounts for. The ultimate impact of the bill will depend on trends in college enrollment and graduation rates, the number of taxpayers who may move to Indiana for a job upon graduation to take advantage of the exemption, the varying wages earned by eligible taxpayers, and the percent of new college graduates in Indiana who become employed full-time.

Explanation of Local Expenditures: To the extent that local government units are employers of taxpayers claiming this exemptions, there could be additional administrative workload in notifying the DOR if that individual leaves employment within the five-year exemption period.

Explanation of Local Revenues: Because the new AGI tax deduction will decrease taxable income, counties imposing a Local Income Tax (LIT) would experience a decrease in LIT revenue. The impact on local revenues is indeterminable but potentially significant, and will depend on the number of taxpayers eligible for the exemption and the amount of income associated with those taxpayers.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Local units.

Information Sources:

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