

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

LS 7056

BILL NUMBER: HB 1331

NOTE PREPARED: Jan 2, 2026

BILL AMENDED:

SUBJECT: School Scholarship Tax Credits.

FIRST AUTHOR: Rep. Wesco

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill increases the percentage of the contribution allowed to be claimed for the school scholarship tax credit (tax credit) from 50% to 75%. It allows taxpayers that commit to making a contribution of at least the same amount for at least two consecutive years to claim the tax credit in an amount equal to 90% of the amount of the contribution.

The bill also increases the total amount of tax credits that may be awarded for a state fiscal year from \$18.5 M to \$80 M. It provides a calculation for an annual increase of the total amount of tax credits for future state fiscal years based on the tax credit's usage.

This bill expands the definition of "participating school" for purposes of the certification of scholarship granting organizations (SGOs) by removing language providing for accreditation and administration of tests under the statewide assessment program or other norm-referenced assessment of the school's students. It requires the receipt prescribed by the Department of State Revenue (DOR) for use in an agreement to be an SGO to include whether a taxpayer commits to making contributions of at least the same amount for at least two consecutive years.

Effective Date: July 1, 2026.

Explanation of State Expenditures: *State Tuition Support:* If all of the following occur, state tuition support expenditures could decrease beginning in FY 2028.

1. Donations to SGOs increase,
2. SGOs provide more scholarships to nonpublic schools,
3. The net cost of some nonpublic schools decreases, and
4. Students currently attending a public school switch to a nonpublic school.

Any impact is dependent upon actions taken by taxpayers, SGOs, and students' families.

Department of State Revenue (DOR): The DOR will experience additional workload and expenses to put the bill's changes in place. The DOR should be able to make these changes within current resource levels.

Additional Information - State Tuition Support: In FY 2025, public schools received an average of about \$8,500 in tuition support revenue per ADM. The average Choice Scholarship was \$6,497. Students attending a nonpublic school without a Choice Scholarship or who are homeschooled do not receive any tuition support.

Explanation of State Revenues: The changes will reduce state General Fund revenue by \$12.5 M to \$61.5 M beginning in FY 2028. The reduction in revenue could total around \$81.5 M by FY 2031. The proposal will increase claims for the school scholarship tax credit beginning in tax year 2027.

Under current law the tax credit equals 50% of contributions to SGOs. Under the proposal, the credit equals 75% of contributions or 90% of contributions if the taxpayer makes a two-year commitment to contribute.

If credit awards are at or near the annual award limit, the bill allows total credit awards to increase to \$100 M by FY 2031. The total amount of credits that may be awarded by fiscal year equal the following:

- Up to \$18.5 M in credits through FY 2027 (same as in current law).
- Up to \$80 M in credits in FY 2028.
- In FY 2029 and after:
 - If credits awarded in the previous year were equal to or greater than 90% of the allowed awards in the prior year, the credit award limit will increase by 10%;
 - If credit awards were less than 90% of what was allowed in the prior year, the credit amount will remain the same as in the prior year;
 - In future years, credit awards may not exceed \$100 M.

Additional Information - The low estimate is based on actual FY 2024 contributions to Indiana SGOs of \$31.2 M. If there were no increase in contributions, but taxpayers agreed to make a two-year commitment to contribute, the proposal would increase credit awards by \$12.5 M.

The high-end estimate assumes that the proposal will result in increased contributions to SGOs similar to Pennsylvania's experience with a similar credit. Pennsylvania offers the Educational Improvement Tax Credit for contributions to scholarship organizations or educational improvement organizations. The credit may be claimed by businesses and pass-through entities. The credit is equal to 75% of contributions, or 90% if a business makes a two-year commitment to contribute. The maximum annual credit is \$750,000 per firm. In FY 2020, Pennsylvania awarded credits of \$174.9 M, and 99.5% of filers made a two-year commitment to contribute.

The Indiana school scholarship tax credit may be claimed against liability for the following taxes:

- Individual income tax
- Corporate income tax
- Financial institutions tax
- Insurance premium tax
- Nonprofit agricultural organization health coverage tax

The credit is nonrefundable and may not be carried back. It may be carried forward for nine years.

Explanation of Local Expenditures:

Explanation of Local Revenues: *State Tuition Support:* State tuition support revenue to public schools could decrease if students who would have attended a public school switch to a nonpublic school. See

Explanation of State Expenditures.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Public schools.

Information Sources: Commonwealth of Pennsylvania Independent Fiscal Office. January 2022. Pennsylvania Educational Tax Credits: An Evaluation of Program Performance.

https://www.ifo.state.pa.us/getfile.cfm?file=Resources/Documents/TC_2022_Educational_Tax_Credits.pdf&view=true; Indiana Department of Education. 2024. School Scholarship Tax Credit Program: Annual Scholarship Granting Organization Program Report.

<https://www.in.gov/doe/files/SGO-Annual-Report-2024-updated.pdf>

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