

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1897-01  
Bill No.: HB 736  
Subject: Tax Credits; Education, Elementary and Secondary  
Type: Original  
Date: April 16, 2013

Bill Summary: This proposal would authorize an income tax deduction for tuition, attendance fees, and school supplies purchased for educating a dependent enrolled in a Missouri elementary or secondary school.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$0	\$0	(More than \$1,128,014)
<b>Total Estimated Net Effect on General Revenue Fund *</b>	<b>\$0</b>	<b>\$0</b>	<b>(More than \$1,128,014)</b>

\* Could exceed \$44,000,000 per year.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
General Revenue	4	4	4
<b>Total Estimated Net Effect on FTE</b>	<b>4</b>	<b>4</b>	<b>4</b>

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## **FISCAL ANALYSIS**

### ASSUMPTION

#### Section 143.148, RSMo. - Income tax deduction for school costs:

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Elementary and Secondary Education (DESE)** did not provide an estimate of cost or revenue reduction for this proposal but noted that tax subsidies reduce state revenue and the amount of funding available for public education. In response to another proposal in this session, DESE officials stated that Missouri public and charter school enrollment for 2012 was 887,554 students.

**Oversight** notes the DESE enrollment count would not include private, parochial, and home school students.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted this proposal would provide a deduction for all amounts paid for tuition, attendance fees, and school supplies for such taxpayer's dependents. The United States Bureau of Economic Analysis reports that nationally \$41.4 billion was spent on nursery, elementary and secondary school services in 2011. If 1.8% of that figure was spent in Missouri, this suggests \$745.2 million was spent on these types of services in the state. If that full amount was deducted, at the highest marginal 6% tax rate, this proposal would reduce General and Total State Revenues by \$44.7 million per year. BAP does not have an additional estimate of the amount spent on school supplies each year. Therefore, forgone revenues could exceed the estimate above.

**Oversight** found the United States Census Bureau estimate of Missouri population for 2012 was 6,021,988 persons. The Census Bureau website also indicated 23.5% of Missouri residents were under 18 in 2011, and 6.4% were under 5. Oversight assumes the Missouri population composition by age group would be relatively stable over time, and the school age population could be estimated as  $((23.5\% - 6.4\%) = 17.1\% \times 6,021,988) = 1,029,760$ . Accordingly, the maximum amount of revenue reduction for this proposal would be  $(1,029,760 \times \$2,500) = \$2,574,400,000 \times 6\% = \$154,464,000$ .

Oversight also notes most public, charter, and home school students would not have the maximum amount in eligible costs for tuition, fees, and supplies. Further, some families would not be subject to the maximum personal income tax rate of 6%.

For fiscal note purposes, Oversight will use the BAP estimate of reduced revenue and indicate a revenue reduction greater than \$1,000,000, expected to exceed \$44 million per year.

Oversight notes this proposal would authorize an additional deduction from personal income tax for the cost of tuition, fees, and school supplies for the taxpayer's dependents. The deduction would be available for years beginning on or after January 1, 2015, and Oversight assumes the impact of this proposal would begin in January, 2016, when 2015 personal income returns are filed. Oversight also assumes any potential impact from taxpayers adjusting their withholding or estimated payment amounts in FY 2015 would be minimal.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** noted this proposal would, beginning January 1, 2015, allow a taxpayer to deduct amounts paid for tuition, attendance fees, and school supplies for the taxpayer's dependents. The deduction would equal the full amount spent for school supplies in the year the deduction is claimed, not to exceed \$2,500 for each dependent.

DOR would create procedures to claim the deduction provided in this section, and could create rules to implement the program. The program would sunset December thirty-first, six years after the effective date of the provisions unless reauthorized by the General Assembly.

Fiscal impact

DOR officials assume the proposal would reduce state revenues but did not provide an estimate of the revenue reduction.

Administrative impact

DOR officials assume the Department would need to make form changes, and the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems. DOR officials assume Personal Tax would require two additional Temporary Tax Employees for key entry, one additional Revenue Processing Technician I (Range 10, Step L) per 19,000 errors, and one additional Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. In addition, Collections & Tax Assistance (CATA) would require one additional Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually on the non-delinquent tax line, with CARES equipment, and one additional Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually in the field, with CARES equipment.

The DOR estimate of cost to implement the proposal included two additional temporary employees and four additional employees, and the total cost for the employees and related equipment and expense was \$175,600 for FY 2014, \$186,887 for FY 2015, and \$188,840 for FY 2016.

**Oversight** assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

ASSUMPTION (continued)

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Oversight notes this new deduction would be available for years beginning on or after January 1, 2015, and the impact of this proposal would begin in January, 2016, when 2015 personal income returns are filed. Oversight will include DOR costs beginning January 1, 2016 (six months of FY 2016).

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$13,633 based on 504 hours of programming to make changes to DOR systems.

**Oversight** assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight also assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>GENERAL REVENUE FUND</b>			
<u>Cost - DOR</u>			
Education cost deduction			
Section 143.148			
Salaries	\$0	\$0	(\$46,735)
Temporary employees	\$0	\$0	(\$15,914)
Benefits	\$0	\$0	(\$31,791)
Expense and equipment	<u>\$0</u>	<u>\$0</u>	<u>(\$33,574)</u>
Total cost - DOR	\$0	\$0	(\$128,014)
FTE change - DOR	\$0	\$0	4 FTE
<u>Revenue reduction - DOR</u>			
Education cost deduction			
Section 143.148 *			
	<u>\$0</u>	<u>\$0</u>	<u>(More than \$1,000,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(More than \$1,128,014)</u></b>
* Could exceed \$44,000,000 per year.			
Estimated Net FTE Effect on General Revenue Fund			
	0	0	4 FTE
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

### FISCAL DESCRIPTION

Beginning January 1, 2015, this proposal would authorize an income tax deduction of up to \$2,500 for tuition, attendance fees, and school supplies to resident taxpayers who have a dependent enrolled in any grade from kindergarten to 12 in any elementary or secondary school in the state. The Department of Revenue would create the procedure by which the deduction could be claimed. The program would expire December 31, six years after the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Office of the Secretary of State  
Joint Committee on Administrative Rules  
Office of Administration - Division of Budget and Planning  
Department of Elementary and Secondary Education  
Department of Revenue



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Acting Director  
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