

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4453-01  
Bill No.: HB 2068  
Subject: Tax Credits; Education, Elementary and Secondary; Department of Revenue;  
 State Treasurer  
Type: Original  
Date: February 17, 2020

Bill Summary: This proposal establishes the “Show Me a Brighter Future Scholarship Act.”

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
General Revenue	(\$301,767)	(\$4,490,836) to (\$13,418,301) to \$25,322,209)	(\$4,910,787) to (\$14,730,998) to (\$27,825,297)	(\$4,913,911) to (\$14,734,122) to (\$27,828,421)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$301,767)</b>	<b>(\$4,490,836) to (\$13,418,301) to (\$25,322,209)</b>	<b>(\$4,910,787) to (\$14,730,998) to (\$27,825,297)</b>	<b>(\$4,913,911) to (\$14,734,122) to (\$27,828,421)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
State School Moneys*	\$0	\$0	\$0	\$0
Show Me a Future Scholarship	\$0	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Cost avoidance and loss of \$0 to approximately \$23 million annually and net to \$0.  
 Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 13 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
General Revenue	4 FTE	4 FTE	4 FTE	4 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>4 FTE</b>	<b>4 FTE</b>	<b>4 FTE</b>	<b>4 FTE</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
<b>Local School Districts</b>	<b>\$0</b>	<b>Could be less than (\$20,831,373)</b>	<b>Could be less than (\$22,914,510)</b>	<b>Could be less than (\$22,914,510)</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 135.730 - 135.738 - Show Me A Brighter Future Scholarship Act

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state this proposed legislation creates the Show Me a Brighter Future Scholarship Fund, which grants scholarships to qualifying students for qualifying schools. A qualifying student is a member of a household whose total annual income in the year prior does not exceed an amount equal to two times the income standard used to qualify for free and reduced lunch; and attended a public school in the preceding semester or is starting school in the state for the first time; or is starting school in Missouri for the first time and is a sibling of a student already enrolled in the program. A qualifying school is any private school in the state that provides education to elementary or secondary students and has notified the state treasurer of its intention to participate.

Beginning with Tax Year 2021, a taxpayer may claim a tax credit for contributions to the Show Me a Brighter Future Scholarship Fund in an amount equal to one hundred percent (100%) of the amount the taxpayer contributed during the tax year for which the credit is claimed, not to exceed 50 percent of the taxpayer's state tax liability. This credit may be carried forward for three subsequent tax years.

The cumulative amount of tax credits is capped at \$25 million per calendar year, unless the amount of tax credits claimed in the first tax year exceeds ninety percent of the tax credits available, then the amount of the tax credits available shall increase by ten percent in the subsequent year. This proposal may reduce General Revenue (GR) and Total State Revenues (TSR) up to a (\$25 million) starting on or after July 1, 2021 and up to (\$27.5 million) annually starting on or after July 1, 2022.

This proposal may impact the calculation under Article X, Section 18(e).

**Oversight** notes this proposed legislation would allow a taxpayer to claim a tax credit for donations made to the Show Me a Brighter Future Scholarship Fund equal to one hundred percent (100%) of the donation made. The tax credit claimed may not exceed fifty percent (50%) of the taxpayer's state tax liability but may be carried forward to three subsequent tax years. Oversight notes taxpayer's may first begin claiming the tax credits created on their 2021 tax returns which are filed after January 1, 2022 (Fiscal Year 2022).

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation, for all fiscal years beginning on or after July 1, 2021, would allow for any taxpayer who makes a qualifying contribution to the Show Me a Brighter Future Scholarship Fund set forth in Section 135.736 to claim a tax credit against the tax otherwise due under chapter 143, other than taxes withheld under sections 143.191 to 143.265, and chapter 153, in an amount equal to one hundred

ASSUMPTION (continued)

percent (100%) of the amount the taxpayer contributed during the tax year for which the credit is claimed. This proposed legislation states the cumulative amount of tax credits that may be allocated to all taxpayers contributing to the scholarship fund in the first year of the program shall not exceed twenty-five million dollars (\$25 million). If the amount of tax credits claimed in the first tax year exceeds ninety percent (90%) of the tax credits available, the amount of tax credits available shall increase by ten percent (10%) in the subsequent year.

DOR assumes this would impact GR by (\$25 million) in Year 1 (Fiscal Year 2022) and up to (\$27,500,000) in the second year and each year thereafter.

DOR assumes this legislation will result in an unknown increase in tax credits redeemed and errors/correspondences generated. If the increase is significant, DOR will request FTE through the appropriations process based on the following:

One (1) Revenue Processing Technician for every 6,000 tax credits redeemed (Individual Income Tax), one (1) Revenue Processing Technician for every 4,000 tax credits redeemed (Corporate Income Tax), one (1) Revenue Processing Technician for every 7,600 errors/correspondence generated, and funds for forms and programming changes.

**Oversight** notes DOR assumes they can absorb the responsibilities of the new tax credit program created by this proposed legislation with existing resources. However, if the number of redemptions and errors/correspondence is significant, DOR may seek additional FTE through the appropriations process.

Officials from the **Missouri State Treasurer's Office (STO)** state this proposed legislation requires STO to operate a tax credit program related to donations to the Show Me a Brighter Future Scholarship Fund.

STO does not operate tax credit programs and does not currently have the resources to absorb these duties. STO anticipates a minimum of four (4) FTEs being required to perform the functions noted in the bill; one (1) Director (\$84,925 annually), two (2) analysts (\$39,708 annually), one (1) clerk (\$24,744 annually).

STO has assigned these costs to the GR Fund as these duties are beyond the scope of permitted expenditures from the State Treasurer's General Operations Fund pursuant to Section 30.605, RSMo, which authorizes the STO to retain interest to fund office functions pertaining to the management of state funds. The basis point cap included within this section cannot absorb additional functions without being raised above 15 basis points.

ASSUMPTION (continued)

**Oversight** will show the need for the STO's FTE(s) in this fiscal note. Oversight notes the Missouri State Treasurer's Office is usually funded by the State Treasurer's General Operating Fund (0164); however, as mentioned by STO, the State Treasurer's General Operating Fund can not absorb the costs reported. Oversight will show the costs being paid out of GR.

Officials from the **Missouri Department of Elementary and Secondary Education (DESE)** assume GR and TSR may be reduced by a range from (\$4,168,003) to (\$10,714,286) once fully implemented.

Basic data

\$25,000,000 Tax Credit Cap

÷ \$6,375 state adequacy target at full funding for non-special education students

= 3,921 maximum number of available scholarships for non-special education students

÷ \$11,156 (\$6,375 x 1.75) state adequacy target at full funding for special education students

= 2,241 maximum number of available scholarships for special education students

2018-2019 State Funding	\$4,347,446,561
2018-2019 Regular Term ADA* <sup>1</sup>	818,473
Total State Revenue per pupil by regular term ADA	\$5,312

\* ADA - Average Daily Attendance

1. Average daily attendance (ADA) is attendance hours reported per student ÷ hours eligible per student. Enrollment is the number of students formally enrolled in a district who could be in attendance on any given day. ADA is typically slightly lower than the enrollment number. Since state aid is paid based on ADA, the revenue per pupil is calculated by ADA.

If scholarship recipients are all non-special education public school students (or are incoming kindergartners who would be going to non-public schools) who use the scholarship at a non-public school the cost to the state would be (\$4,168,023).

3,921	scholarships
× \$1,063	(\$6,375 scholarship amount - \$5,312 average funding level/pupil )
<u>\$4,168,003</u>	Cost to state

ASSUMPTION (continued)

If scholarship recipients are all special education public school students (or incoming kindergartners who would be going to non-public schools) who use the scholarship at a non-public school the cost to the state would be (\$11,903,908).

2,241	scholarships
<u>× \$5,844</u>	(\$11,156 scholarship amount - \$5,312 average state funding level/pupil)
\$13,096,404	Cost to state

**Oversight** notes DESE assumes GR and TSR would be reduced by a range of (\$4,168,003) to (\$13,096,404) annually (assuming the tax credit program cap remains at \$25,000,000 for all years).

**Oversight** notes DESE used the potential revenues available for scholarships (\$25,000,000) and divided the maximum amount of funding by the state adequacy target for both non-special education students as well as for special education students then multiplied the number of potential students by the cost per pupil to provide the range.

**Oversight** notes this proposed legislation creates a tax credit program specific to donations made to the Show Me a Brighter Future Scholarship Trust Fund (Fund). The tax credit program created would authorize a tax credit to be awarded to a taxpayer who makes a donation to the Fund equal to one hundred percent (100%) of the donation, to be used to offset tax(es) under Chapter 143, excluding Withholding Tax, and Chapter 153. The taxpayer may claim the tax credit received up to fifty percent (50%) of the taxpayer's state tax liability. If the tax credit awarded is in excess of fifty percent (50%) of the taxpayer's state tax liability, the tax credit may be carried forward to three subsequent tax years.

**Oversight** notes this tax credit program has an established cap of \$25 million per fiscal year. This cap is subject to increase of ten percent (10%) if, in the first year of the tax credit program, the total amount of tax credits claimed exceed ninety percent (90%) of the amount available. Oversight assumes if the total amount of tax credits claimed exceed \$22.5 million (\$25 million \* 90%), the cap, beginning Fiscal Year 2023, would become \$27.5 million (\$25 million + (\$25 million \* 10%) where it would remain each year thereafter.

**Oversight** assumes the established cap of \$25 million will be claimed annually. Oversight estimates the tax credit would reduce GR and TSR by (\$25 million) in Fiscal Year 2022 and \$27.5 million each year thereafter.

ASSUMPTION (continued)

**Oversight** notes DESE estimates approximately 3,921 ( $\$25,000,000 / \$6,375$ ) non-special education students could receive scholarships equal to the state adequacy target of \$6,375. DESE has indicated that total state funds applied per student by regular term ADA is \$5,312.

**Oversight** assumes, if the state funding for 3,921 students is no longer required, as these students would be required to enroll/attend a private school that has elected to participate in this program, the state would recognize a savings of \$20,831,373 ( $(\$25,000,000 / \$6,375) * \$5,312$ ). The savings recognized from the state funding of the students in conjunction with the revenue reduction specific to the tax credit program (\$25 million) would result in a net reduction to GR and TSR equal to (\$4,168,627) [ $\$25,000,000 - \$20,831,373$ ] provided all students are non-special education students.

**Oversight** notes DESE estimates approximately 2,241 ( $\$25,000,000 / \$11,156$ ) special education students could receive scholarships equal to the state adequacy target of \$11,156 (state adequacy target for these students is the state adequacy target \* 1.75%). DESE has indicated that the total state funds applied per student by regular term ADA is \$5,312.

**Oversight** assumes, if the state funding for 2,241 students is no longer required, as these students would be required to enroll/attend a private school that has elected to participate in this program, the state would recognize a savings of \$11,903,908 ( $(\$25,000,000 / \$11,156) * 5,312$ ). The savings recognized from the state funding of the students in conjunction with the revenue reduction specific to the tax credit program (\$25 million) would result in a net reduction of GR and TSR equal to (\$13,096,092) [ $\$25,000,000 - \$11,903,908$ ] provided all students are special education students.

**Oversight** notes the savings to the state for not funding the foundation formula for special education students could be more than \$5,312 per student, depending upon various circumstances. For fiscal note purposes, Oversight will use the \$5,312 WADA.

**Oversight** notes, if the tax credit program is utilized in excess of ninety percent (90%) of the amount available, the tax credit program cap will increase by ten percent (10%). If this occurs, Oversight assumes net GR and TSR reductions to range from (\$4,585,490 - all students are non-special education students) to (\$14,405,701 - all students are special education students).

**Oversight** also notes the funds to the Show Me a Brighter Future Scholarship Fund would begin January 1, 2021 (Fiscal Year 2021). Oversight notes that Tax Year 2021 tax returns claiming the credit created under this proposed legislation would not be filed until after January 1, 2022 (Fiscal Year 2022). Oversight assumes that a tax credit equal to one hundred percent of a donation provides enough incentive to donors that the maximum cap of \$25 million will be reached in the first year and \$27.5 million each year thereafter. This also provides the notion that \$25 million will be available for scholarships the first year and \$27.5 million each year thereafter.

ASSUMPTION (continued)

**Oversight** notes the revenues in the Show Me a Brighter Future Scholarship Fund are to be used to provide scholarship grants to qualified students. The grants are to be deposited into an eligible students or a special education eligible student's 529 savings account or ABLE savings account.

**Oversight** notes this proposed legislation would allow taxpayers to begin making contributions to the Fund beginning January 1, 2021 (Fiscal Year 2021). For purposes of this fiscal note, though, Oversight will report a \$0 fiscal impact to the fund during Fiscal Year 2021. Rather, Oversight will show the full amount of the tax credit cap equal to \$25,000,000 being deposited into the Fund in Fiscal Year 2022; six months into Tax Year 2021 (July 1, 2021), as a result of donations made to the Fund beginning January 1, 2021.

**Oversight** further notes this proposed legislation states, in Section 135.734, STO shall not discriminate on the basis of race, color, creed or national origin in making scholarship grants and shall not make multiyear scholarship grants. Oversight assumes this language suggests STO is responsible for distributing the scholarship amounts to eligible students. Oversight assumes the scholarship grants are to be made from the Fund. However, Section 135.736 states the moneys in the Fund shall be used solely by DOR for the purposes of this program. Oversight notes it is unclear as to whether STO or DOR is required to distribute scholarship grants.

Officials from the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

**Oversight** assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Officials from the **Office of the Secretary of State (SOS)** state 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 SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.



**FISCAL IMPACT -**  
**State Government**

FY 2021  
(10 Mo.)

FY 2022

FY 2023

Fully  
Implemented  
(FY 2024)

**GENERAL  
REVENUE FUND**

Revenue Reduction -  
 (Section 135.732) -  
 Tax credit for  
 donations made to  
 Show Me a Brighter  
 Future Scholar Ship  
 Fund

\$0 (\$25,000,000) (\$27,500,000) (\$27,500,000)

Savings/Cost  
Avoidance - (Section  
 135.734) - State  
 Schools Money  
 Fund transfers  
 decreased due  
 transfer of qualified  
 students to private  
 schools

\$0 to \$0 to \$0 to  
 \$11,903,908 or \$13,094,299 or \$13,094,299 or  
 \$0 to \$0 to \$0 to  
 \$0 \$20,831,373 \$22,914,510 \$22,914,510

Costs - STO -  
 (Section 135.732)

Personal Service	(\$157,571)	(\$190,976)	(\$192,886)	(\$194,813)
Fringe Benefits	(\$90,729)	(\$109,503)	(\$110,137)	(\$110,777)
Equipment and Expense	<u>(\$53,467)</u>	<u>(\$21,730)</u>	<u>(\$22,274)</u>	<u>(\$22,831)</u>
<u>Total Cost -</u>	<u>(\$301,767)</u>	<u>(\$322,209)</u>	<u>(\$325,297)</u>	<u>(\$328,421)</u>
FTE Change	4 FTE	4 FTE	4 FTE	4 FTE

**ESTIMATED NET  
EFFECT ON  
GENERAL  
REVENUE FUND**

(\$301,767) (\$4,490,836) to (\$25,322,209) (\$4,910,787) to (\$14,730,998) (\$4,913,911) to (\$14,734,122) (\$27,825,297) (\$27,828,421)

Estimated Net FTE  
Change on General  
Revenue

4 FTE 4 FTE 4 FTE 4 FTE

**FISCAL IMPACT -**  
**State Government**  
 (continued)  
**STATE SCHOOL**  
**MONEYS FUND**

	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2024)
--	---------------------	---------	---------	-----------------------------------

Cost Avoidance -  
 (Section 135.734) -  
 General Revenue  
 decreased ADA for  
 transfer of qualified  
 students

		\$0 to	\$0 to	\$0 to
		\$11,903,908 or	\$13,094,299 or	\$13,094,299 or
		\$0 to	\$0 to	\$0 to
	\$0	\$20,831,373	\$22,914,510	\$22,914,510

Loss - (Section  
 135.734) - Schools  
 decreased ADA for  
 transfer of qualified  
 students

		\$0 to	\$0 to	\$0 to
		(\$11,903,908) or	(\$13,094,299) or	(\$13,094,299) or
		\$0 to	\$0 to	\$0 to
	\$0	(\$20,831,373)	(\$22,914,510)	(\$22,914,510)

**ESTIMATED NET  
 EFFECT ON  
 STATE SCHOOLS  
 MONEY FUND**

	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
--	------------	------------	------------	------------

**SHOW ME A  
 BRIGHTER  
 FUTURE  
 SCHOLARSHIP**

Income - donations  
 from taxpayers

	\$0	\$25,000,000	\$27,500,000	\$27,500,000
--	-----	--------------	--------------	--------------

Costs - Scholarships

	\$0	(\$25,000,000)	(\$27,500,000)	(\$27,500,000)
--	-----	----------------	----------------	----------------

**ESTIMATED NET  
 EFFECT TO THE  
 SHOW ME A  
 BRIGHTER  
 FUTURE  
 SCHOLARSHIP**

	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
--	-------------------	-------------------	-------------------	-------------------

<u>FISCAL IMPACT -</u> <u>Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2024)
<b>LOCAL PUBLIC SCHOOL DISTRICTS</b>				
<u>Savings</u> - School Districts - Transfer of qualified students out of the school district (Section 135.734)	\$0	Unknown	Unknown	Unknown
<u>Loss</u> - of state funding Schools decreased ADA for transferred students	\$0	\$0 to (\$11,903,908) or \$0 to (\$20,831,373)	\$0 to (\$13,094,299) or \$0 to (\$22,914,510)	\$0 to (\$13,094,299) or \$0 to (\$22,914,510)
<b>ESTIMATED NET EFFECT ON LOCAL PUBLIC SCHOOL DISTRICT FUNDS</b>	<b><u>\$0</u></b>	<b><u>Less than (\$20,831,373)</u></b>	<b><u>Less than (\$22,914,510)</u></b>	<b><u>Less than (\$22,914,510)</u></b>

FISCAL IMPACT - Small Business

This proposed legislation could impact any small business that makes a donation to the Show Me a Brighter Future Scholarship Fund as they could receive a tax credit to reduce the state income tax (Section 135.732).

FISCAL DESCRIPTION

For all fiscal years beginning on July 1, 2021, any taxpayer who makes a qualifying contribution to the "Show Me a Brighter Future Scholarship Fund" created in the bill may claim a tax credit equal to 100% of the total contribution. The amount of the tax credit claimed by an individual taxpayer or a married couple filing jointly shall not exceed 50% of the taxpayer's state tax liability for the year in which the credit is claimed, nor shall a corporate taxpayer claim a tax credit in excess of 50% of such taxpayer's state tax liability for the year. The State Treasurer shall certify the tax credit amount to the taxpayer. Such credit may be carried forward to any of the taxpayer's three subsequent tax years. No tax credits authorized under the program shall be transferred, sold, or assigned, and are not refundable. (Section 135.730)

FISCAL DESCRIPTION (continued)

The cumulative amount of tax credits that may be allocated to all taxpayers contributing to the scholarship fund in the first year of the program shall not exceed \$25 million. If the amount of the tax credits claimed in the first tax year exceeds 90% of the tax credits available, the amount of tax credits available shall increase by 10% in the subsequent year. Tax credits shall be allocated by the State Treasurer on a first come, first served basis. (Section 135.730)

A taxpayer who makes a contribution to the scholarship fund shall not designate the student who will receive a scholarship grant. The State Treasurer shall adopt rules and procedures necessary to implement the provisions of this bill, including rules setting forth the order of preference for scholarship awards, reporting requirements, responsibilities of a parent of an eligible student, and responsibilities of an eligible student's district of residence. (Section 135.734)

Scholarship grants shall be provided to eligible students with a qualified tuition savings account or an Achieving a Better Life Experience (ABLE) account. (Section 135.734)

This bill specifies that, an eligible student is any student who is a member of a household whose total annual income does not exceed an amount equal to two times the income standard used to qualify for free and reduced price lunch, who has attended a public school in the preceding semester or is starting school in the state for the first time, or who is starting school in Missouri for the first time and is a sibling of a student already enrolled in the program. The amount of scholarship grants awarded to eligible students shall be equal to the state adequacy target, and the amount of scholarship grants awarded to a special education eligible student shall be in an amount equal to the state adequacy target multiplied by 1.75. (Section 135.730)

Scholarship funds in a qualified tuition savings account shall only be used for payment of tuition at a qualifying school. Scholarship funds in an ABLE account shall only be used for tuition at a qualifying school, special education services, therapies, and transportation. The State Treasurer may bar a parent from future participation in the program if the State Treasurer establishes that the parent has intentionally spent scholarship grant funds for a purpose other than that allowed under the bill or by rule. (Section 135.734)


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

Missouri Office of Administration - Budget & Planning Division  
Missouri Department of Revenue  
Missouri State Treasurer's Office  
Missouri Department of Elementary and Secondary Education  
Joint Committee on Administrative Rules  
Missouri Secretary of State's Office



Julie Morff  
Director  
February 17, 2020



Ross Strobe  
Assistant Director  
February 17, 2020