

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3579-01  
Bill No.: HB 1820  
Subject: Education, Higher; Revenue Department; Taxation and Revenue  
Type: Original  
Date: April 24, 2006

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$79,958,573)	(\$83,962,304)	(\$88,168,910)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$79,958,573)</b>	<b>(\$83,962,304)</b>	<b>(\$88,168,910)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
<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 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</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 LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

Officials from the **Department of Revenue (DOR)** state Personal Tax will require 2 additional Temporary Tax Employees to key the additional line that will need to be added to the MO-A. DOR's Taxation anticipates a high number of taxpayers taking advantage of this deduction, therefore, Personal Tax will also need 1 Tax Processing Technician I for every 19,000 errors and 1 Tax Processing Technician I for ever 2,500 additional pieces of correspondence.

DOR's Customer Services will require 1 Tax Collection Technician I for every 15,000 calls a year on the income tax hot line due to lack of documentation. 1 Tax Collection Technician I for every 24,000 calls a year to the delinquency/collections lined on billings and denied deductions due to lack of documentation. They will also need 1 Tax Processing Technician I for every additional 4,800 contacts in the field offices (DOR anticipates most customers will contact the department via phone, therefore, will only request 1 FTE for each of the larger field offices....KC, St. Louis, & Springfield).

DOR's Corporate/Franchise Tax state if "taxpayer" is intended be a corporation as well as an individual (because some corporations pay their employees' tuition for continuing education or in exchange for a contract of employment), the Corporate Tax forms would need to be modified. No additional FTE requirements would be required in this area.

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ASSUMPTION (continued)

DOR's IT state this legislation will require modifications to individual and corporate income tax systems. Taxation estimates these modifications will require a MINITS programming costs of \$46,170 (1,384 hours). COINS will also need to be modified for a programming cost of \$23,085 (692 hours). DOR proposes to cover these costs with current IT staff. Effective July 1, 2006, DOR's IT staff will be moved to OA pursuant to consolidation, but we have no reason to believe this transfer will limit our ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

**Oversight** assumes DOR will not require additional floor space for the new FTE.

Officials from the **Coordinating Board for Higher Education (CBHE)** state the fiscal impact of this proposal is unknown. In fall 2005, 217,625 students were enrolled at public higher education institutions in Missouri. Given that tuition and fees at Missouri's public institutions can exceed \$7,500 per year for a full-time student, state revenues may be significantly reduced under this proposal.

It is unknown what, if any, effect this tax deduction could have on federal financial aid for students. Also, the potential effect on 529 college savings plans is unknown.

In addition, higher education institutions may experience a negative fiscal impact associated with providing proper documentation, including proof of tuition expenses paid, to the state.

Officials from the **Office of Administration - Budget and Planning (BAP)** state there should be no added cost or savings to their office as a result of this bill.

The proposed legislation creates an income tax deduction for tuition paid to a public institution of higher education located within Missouri. The proposed legislation is in the RSMo. chapter specific to the calculation of resident taxpayer adjusted gross income, therefore BAP assumes non-resident taxpayers are ineligible.

BAP estimates this proposal will reduce general and total state revenues by \$106.2 million. The table below presents enrollment and tuition data for Missouri's public higher education institutions. BAP estimates that 85% of these students would be a resident taxpayer, or claimed on a resident taxpayer's return.

ASSUMPTION (continued)

	Est. Enrollment	Est. Tuition	Est. Total (\$M)
MO Public Community Colleges	86,000	\$5,000	\$430.0
Linn State	875	\$9,100	\$8.0
CMSU	10,355	\$11,100	\$114.9
SEMO	9,575	\$10,300	\$98.6
MSU	19,000	\$10,900	\$207.1
Lincoln	3,150	\$9,200	\$29.0
Truman State U	5,900	\$11,700	\$69.0
NMSU	6,500	\$11,100	\$72.2
MSSU	5,400	\$7,900	\$42.7
MWSU	5,000	\$10,000	\$50.0
HSSU	1,900	\$9,400	\$17.9
MU	62,500	\$15,100	\$943.8
Total	216,155		\$2,083.2

Resident Factor	85%
Total Deduction	\$1,770.7
At 6%	\$106.2M

**Oversight** will utilize a marginal tax rate of 4.5 percent. Therefore, utilizing BAP's estimate of \$1,770.7 million in tuition paid by Missouri taxpayers for students in Missouri state schools, the fiscal impact could be a \$79.7 million (\$1,770,700,000 x 4.5%) reduction in General Revenue collections.

Since the deduction is for all tax years beginning on or after January 1, 2006, Oversight will assume a full year of fiscal impact for FY 2007. Oversight will also assume a five percent inflationary increase in the cost of tuition in future years, so Oversight will assume a fiscal impact of \$83.7 million in FY 2008 and \$87.9 million in FY 2009.

**This proposal would reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<b>GENERAL REVENUE</b>			
<u>Costs - Department of Revenue</u>			
Personal Service (7 FTE)	(\$137,473)	(\$169,092)	(\$173,319)
Fringe Benefits	(\$60,571)	(\$74,502)	(\$76,364)
Expense and Equipment	(\$46,129)	(\$3,581)	(\$3,720)
Temporary Tax Employees	(\$14,400)	(\$15,129)	(\$15,507)
<u>Total Costs - DOR</u>	<u>(\$258,573)</u>	<u>(\$262,304)</u>	<u>(\$268,910)</u>
 <u>Loss - Deduction for tuition for student to attend any public institution of postsecondary education located within this state</u>	 <u>(\$79,700,000)</u>	 <u>(\$83,700,000)</u>	 <u>(\$87,900,000)</u>
 <b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	 <b><u>(\$79,958,573)</u></b>	 <b><u>(\$83,962,304)</u></b>	 <b><u>(\$88,168,910)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that help pay the tuition for an employee may receive a fiscal benefit from this proposal.

DESCRIPTION

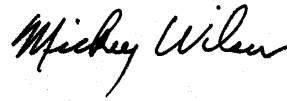
This proposal authorizes an income tax deduction for tuition paid to a Missouri public institution of higher education.

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

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SOURCES OF INFORMATION

Department of Revenue  
Office of Administration - Budget and Planning  
Coordinating Board for Higher Education

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
April 24, 2006