

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0420-01
Bill No.: HB 48
Subject: Education, Higher; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: March 28, 2007

Bill Summary: Would provide an income tax deduction for tuition paid to a Missouri public institution of higher education.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$90,246,140)	(\$92,597,058)	(\$95,745,686)
Total Estimated Net Effect on General Revenue Fund	(\$90,246,140)	(\$92,597,058)	(\$95,745,686)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

☐ 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).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Higher Education** (DHE) assume this proposal would have an unknown fiscal impact. DHE officials assume there could be a negative fiscal impact to institutions associated with providing proper documentation of tuition and fees paid.

DHE officials stated that 218,280 students were enrolled at public institutions of higher education in Missouri and that tuition and fees could exceed \$7,900 per year for a full-time student. According to the DHE, 87% of students were instate.

Oversight assumes the proposal would have no significant fiscal impact on DHE.

Officials from the **Department of Revenue** (DOR) assume this proposal would allow a taxpayer to deduct from Adjusted Gross Income the tuition paid for a student who has completed high school to attend any public institution of postsecondary education in the state.

DOR officials from the stated that Personal Tax would require 2 additional Temporary Tax Employees to key the additional line that would need to be added to Missouri form MO-A. Taxation anticipates a high number of taxpayers taking advantage of this deduction, therefore, Personal Tax would also need 1 Tax Processing Technician I for every 19,000 errors and 1 Tax Processing Technician I for every 2,500 additional pieces of correspondence.

Customer Services would require 1 Tax Collection Technician I for every 15,000 calls a year on the income tax hot line due to lack of documentation and 1 Tax Collection Technician I for every 24,000 calls a year to the delinquency/collections line, on billings and denied deductions due to lack of documentation. They would 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; and therefore, will only request 1 FTE for each of the larger field offices in Kansas City, St. Louis, and Springfield.

Corporate/Franchise Tax stated that if "taxpayer" is intended be a corporation as well as an individual because some corporations pay their employees' tuition the Corporate Tax forms would also need to be modified. No additional FTE would be required in this area.

Information Technology (ITSD/DOR) assumes they could accomplish the modifications required with existing resources. ITSD/DOR provided an estimated cost using 8.0 CIT III for two months and 3.0 CIT III an additional month for a total of \$79,534.

ASSUMPTION (continued)

In summary, DOR submitted an estimated cost including 7.0 additional FTE and related equipment and expense totaling \$281,368 for FY 2008, \$299,115 for FY 2009, and \$306,704 for FY 2010.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions 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 for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimates for equipment and expenses in accordance with OA budget guidelines. Finally, Oversight assumes that DOR would not require additional office space for the added staff.

Officials from the **University of Central Missouri**, the **University of Missouri**, **Truman State University**, and **Linn State Technical College** assume there would be no fiscal impact to their organizations from this proposal.

Officials from **St. Louis Community College** assume this proposal would not result in a negative fiscal impact to their organization.

Officials from **Missouri State University** stated that there would be a potential positive fiscal impact on all public post secondary educational institutions in the state, and there could be a decrease in state income tax receipts.

Officials from the **Metropolitan Kansas City Community Colleges** assume this proposal could result in an increase in enrollment between one-half and one percent which would have a positive impact on tuition and fees of \$200,000 to \$400,000 per year.

ASSUMPTION (continued)

Oversight assumes the estimated cost of this proposal could be calculated as follows:

Enrollment	218,280
Percentage of instate students	<u>87%</u>
Eligible students	<u>189,904</u>
x Average Tuition and Fees	<u>\$7,900</u>
Maximum eligible deductions	<u>\$1,500,241,600</u>
x Maximum tax rate	<u>6%</u>
Maximum Tax Revenue Reduction	<u><u>\$90,014,496</u></u>

Oversight assumes that not all taxpayers who could use the tax deduction would be taxed at the full 6% rate, but that the difference would be minimal. Oversight has assumed a 3% increase in tuition and fees per year.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Costs - Department of Revenue</u>			
Personal Service (7 FTE)	(\$124,740)	(\$154,179)	(\$158,804)
Fringe Benefits	(\$54,960)	(\$67,931)	(\$69,969)
Expense and Equipment	(\$38,619)	(\$3,627)	(\$3,735)
Temporary Tax Employees	<u>(\$13,325)</u>	<u>(\$16,390)</u>	<u>(\$16,799)</u>
<u>Total Costs - DOR</u>	<u>(\$231,644)</u>	<u>(\$242,127)</u>	<u>(\$249,307)</u>
<u>Revenue reduction - Deduction for tuition.</u>	<u>(\$90,014,496)</u>	<u>(\$92,714,931)</u>	<u>(\$95,496,379)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u><u>(\$90,246,140)</u></u>	<u><u>(\$92,957,058)</u></u>	<u><u>(\$95,745,686)</u></u>

FISCAL IMPACT - Local Government

FY 2008
(10 Mo.)

FY 2009

FY 2010

\$0

\$0

\$0

FISCAL IMPACT - Small Business

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

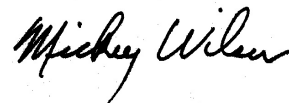
FISCAL DESCRIPTION

This proposal would provide 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.

SOURCES OF INFORMATION

Department of Higher Education
Department of Revenue
Missouri State University
Truman State University
University of Central Missouri
University of Missouri
Linn State Technical College
Metropolitan Kansas City Community Colleges
St. Louis Community College



Mickey Wilson, CPA
Director
March 28, 2007