

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5211-01
Bill No.: HB 2226
Subject: Education, Higher; Taxation and Revenue - Income; Revenue Dept.
Type: Original
Date: March 4, 2008

Bill Summary: Would allow married taxpayers filing joint returns to deduct a portion of contributions to the Missouri Higher Education Savings Program from income.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| General Revenue | | | |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|--|----------|----------|----------|
| FUND AFFECTED | FY 2009 | FY 2010 | FY 2011 |
| | | | |
| | | | |
| 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 2009 | FY 2010 | FY 2011 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization. BAP officials also assume this proposal would allow married taxpayers filing joint returns to deduct up to \$16,000 in annual contributions to the Missouri Higher Education Savings Program from their adjusted gross income. This is a subtle difference from current law, which allows an \$8,000 deduction per taxpayer. This proposal, therefore, would allow an increased deduction in the special case of joint filers who make a sufficient MOST contribution, but where one of the taxpayers does not have sufficient income to take advantage of the full deduction. This proposal could lower general and total state revenues by an unknown amount. Budget and Planning defers to the Department of Revenue for an estimate of reduced revenues.

Officials from the **University of Missouri, Economic Policy Analysis and Research Center (EPARC)** assume this proposal would permit married filers to deduct up to \$16,000 for contributions made to the Missouri MOST 529 plan for higher education. Because we do not know how much combined returns will actually contribute to the plan, we consider the case in which an eligible filer would make the maximum contribution. We then compare this outcome to the baseline value of net tax due. Thus, the results must be interpreted as the maximum impact on net general revenue.

The EPARC projection indicated a maximum reduction in net tax due of \$395 million, and EPARC assumed the proposal would reduce income tax revenues would be reduced from \$0 to \$395 million.

Officials from the **Department of Revenue (DOR)** do not anticipate an impact to their organization due to this proposal. In response to a similar proposal in the previous session (SB 224, LR 1247-01, 2007) DOR officials assumed the proposal would have no fiscal impact since it would allow married couples to take a full \$16,000 deduction for contributions to the Missouri Higher Education Savings Program without the current DOR requirement to segregate those contributions into separate accounts.

ASSUMPTION (continued)

DOR officials also provided an estimate of the IT cost to implement this proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates that this legislation could be implemented utilizing 3 existing CIT III for 3 months for modifications to MINITS at a total cost of \$37,674. ITSD/DOR assumes the IT portion of this request could be accomplished with existing resources; however, if priorities shift, additional FTE/overtime would be needed.

Oversight will use the Department of Revenue assumption that this proposal would eliminate the current need for a married couple filing a combined Missouri income tax return to use separate accounts to claim a full \$16,000 deduction. Therefore, Oversight assumes this proposal would have no fiscal impact.

| <u>FISCAL IMPACT - State Government</u> | FY 2009 (10 Mo.) | FY 2010 | FY 2011 |
|---|---------------------|------------|------------|
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| <u>FISCAL IMPACT - Local Government</u> | FY 2009 (10 Mo.) | FY 2010 | FY 2011 |
| | <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.

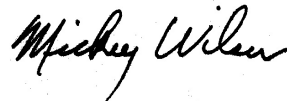
FISCAL DESCRIPTION

This proposal would allow married taxpayers filing joint returns to deduct a portion of contributions to the Missouri Higher Education Savings Program from income.

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 Administration
Division of Budget and Planning
Department of Revenue
University of Missouri
Economic Policy Analysis and Research Center



Mickey Wilson, CPA
Director
March 4, 2008