

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5585-01
Bill No.: HB 2533
Subject: Education, Higher; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: April 29, 2008

Bill Summary: Would provide an income tax deduction for certain resident taxpayers for
instate tuition and fees.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(More than \$972,000)	(More than \$972,000)	(More than \$972,000)
Total Estimated Net Effect on General Revenue Fund	(More than \$972,000)	(More than \$972,000)	(More than \$972,000)

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 8 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 the Secretary of State (SOS)** provided the following response.

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 \$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 **Office of Administration, Division of Budget and Planning (BAP)** assume the proposed legislation would not result in additional costs or savings to their organization.

This proposal would provide a deduction equivalent to the tuition paid for the final hours of college credits, up to eighteen hours, for resident taxpayers at public four-year institutions. BAP provided a calculation of the estimated impact of the proposal based on estimated graduation rates, which indicated estimated total deductions of \$3.7 million and an estimated General Revenue Fund revenue reduction of \$167,000.

Officials from the **Department of Higher Education (DHE)** assume this proposal would have no fiscal impact on their organization.

DHE officials noted that this proposal would provide an income tax deduction for certain tuition costs. The Department of Revenue would oversee the deduction. DHE officials assume that all students who:

- * are Missouri residents for at least a year before the year they claim the deduction,
- * paid tuition at the resident rate,
- * have not been full-time students for more than 4 years, and
- * graduate from a Missouri public institution of higher education with a bachelor's degree could receive an income tax deduction for 100% of the tuition paid during their last semester, not to exceed the cost of 18 credit hours.

ASSUMPTION (continued)

DHE officials also assume that all students who ever paid in-state tuition for their last 18 hours of college would be able to claim the credit, not just those students whose last semester occurs after this bill is passed.

DHE officials cannot predict with any reasonable degree of certainty the economic impact of this bill since the extent to which the deduction will be utilized is unknown. In addition, the impact of the deduction would vary based on different individuals' income levels. This proposal would appear to permit only students (as opposed to students AND their parents) to take the deduction.

DHE officials noted that a very small percentage of students graduate in 4 years. That number ranges from 54.5% at Truman to 8% at Harris-Stowe. The average 4-year graduation rate for institutions is about 24%.

DHE officials advised us that 5,142 students received their bachelor's degrees from Missouri public four-year institutions in 2007; these graduates had graduated in four years and attended a Missouri public institution all four years. DHE officials advised us that they did not have information on students other than the public institutions.

Oversight assumes that an unknown number of additional students graduated from Missouri public four-year institutions in 2007 who completed their degree programs within four years.

Officials from the **Department of Revenue** (DOR) assume this proposal would allow a deduction for 100% of tuition costs for a taxpayer who has:

- * been a resident of the state for at least one year preceding the claim for deduction;
- * paid resident tuition at a public 4-year higher education institution;
- * has not been enrolled for more than four (4) years; and
- * presents proof of graduation from a public 4-year institution.

DOR would create procedures for implementation, and may confer with public 4-year higher education institutions. Changes would be required in DOR systems and forms.

ASSUMPTION (continued)

DOR officials assume that Customer Services would require one FTE Tax Collection Technician I for every additional 24,000 contacts annually on the non-delinquent tax line; one FTE Tax Collection Technician I for every additional 15,000 contacts annually on the delinquent tax line; and one FTE Revenue Processing Technician I for every additional 4,800 contacts annually in the field, and that Personal Tax would require two temporary tax employees for key entry; one FTE Revenue Processing Technician I per 19,000 errors; and one FTE Revenue Processing Technician I per 2,400 pieces of correspondence.

DOR provided an estimate of the cost to implement this proposal including five additional employees with related equipment and expenses, totaling \$199,273 for FY 2009, \$207,929 for FY 2010, and \$214,167 for FY 2011.

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

Officials from the Office of Administration, Information Technology Services Division (ITSD/DOR) assume the IT portion of this request could be accomplished with existing resources; however, if priorities shift, additional FTE/overtime would be needed. ITSD/DOR officials estimate that this legislation could be implemented using one FTE existing CIT III for two months for modifications to MINITS, at an estimated cost of \$8,372.

Oversight assumes that this proposal would require only the addition of a line for the deduction on DOR forms, would involve a limited number of taxpayers, and could be implemented with existing resources. If unanticipated costs are incurred or if multiple proposals are implement which increase the DOR workload, resources could be requested through the budget process.

Oversight has calculated the amount of allowable deductions as shown in the following table.

Institution	Number of Graduates	Tuition and Fees per Credit Hour	Tuition and Fees for 18 Credit Hours
Harris-Stowe	3	\$170	\$9,162
Lincoln	62	\$200	\$223,014
Missouri Southern	87	\$143	\$223,207
Missouri State	769	\$200	\$2,762,863
Missouri University of Science and Technology	188	\$272	\$921,802
Missouri Western	157	\$178	\$502,086
Northwest	321	\$215	\$1,239,959
Southeast	334	\$198	\$1,187,370
Truman	708	\$214	\$2,732,314
University of Central Missouri	328	\$207	\$1,224,883
University of Missouri - Columbia	1,948	\$270	\$9,464,942
University of Missouri - Kansas City	126	\$265	\$600,718
University of Missouri - St. Louis	111	\$275	\$550,382
Totals	5,142		\$21,642,720

Oversight will estimate the cost of this proposal as \$21.6 million deductions x 4.5% average tax rate = \$972,000. Oversight assumes the cost of this proposal would be larger than the amount calculated due to the unknown number of students who complete a degree in four years but do not attend a Missouri public institution for the duration of their undergraduate studies. In addition, taxpayers who completed qualifying degree programs in previous years could claim this deduction. For the purposes of this fiscal note, Oversight will indicate a cost of more than \$972,000 per year.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - additional income tax deductions	<u>(More than</u> <u>\$972,000)</u>	<u>(More than</u> <u>\$972,000)</u>	<u>(More than</u> <u>\$972,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(More than</u> <u>\$972,000)</u>	<u>(More than</u> <u>\$972,000)</u>	<u>(More than</u> <u>\$972,000)</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 provide an income tax deduction for resident taxpayers for instate tuition and fees for the last eighteen credit hours toward a bachelor's degree from a Missouri public institution of higher education. The taxpayer would be required to provide proof of graduation and could not have been enrolled as a full-time student for more than four years.

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
Office of Administration
 Division of Budget and Planning
Department of Higher Education
Department of Revenue

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

Mickey Wilson, CPA
Director
April 29, 2008