

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1911-01
Bill No.: HB 798
Subject: Education, Elementary and Secondary; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: March 10, 2009

Bill Summary: Would authorize a state income tax deduction for tuition, attendance fees, and school supplies purchased for educating a dependent enrolled in a Missouri elementary or secondary school.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| General Revenue * | \$0 | \$0 | \$0 |
| | | | |
| Total Estimated Net Effect on General Revenue Fund * | \$0 | \$0 | \$0 |

* Costs and revenue reduction would be incurred beginning in FY 2013.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| 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 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|--|----------|----------|----------|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| General Revenue * | 0 | 0 | 0 |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

* FTE would be added in FY 2013.

☐ 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 2010 | FY 2011 | FY 2012 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** stated that 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 there would be no added cost to their organization as a result of this proposal.

This proposal would provide an income tax deduction for all amounts paid for tuition, attendance fees, and school supplies purchased for taxpayers' dependents enrolled in grades kindergarten through twelve. The deduction could not exceed \$2,500 for each dependent. According to the U.S. Census Bureau definition of school age (between ages 5 and 17) and data, the number of Missouri school age residents is 1,032,732. Using the maximum amount allowed per dependent, the total deduction amount on school supplies is $(\$2,500 * 1,032,732) = \2.6 billion. Using an effective tax rate of 4.5%, this proposal could reduce general and total state revenues up to $(\$2.6 \text{ billion} * .045) = \116.2 million.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume this proposal would have an unknown negative fiscal impact to the General Revenue Fund and to local governments.

DESE officials also provided the 2007-2008 fall enrollment.

| | |
|---------------------------------|-----------------------|
| Elementary schools (Grades K-8) | 609,055 |
| Secondary schools (Grades 9-12) | <u>285,442</u> |
| Total | <u><u>894,497</u></u> |

ASSUMPTION (continued)

Oversight will calculate an estimate of the maximum fiscal impact for this proposal using the enrollment reported by DESE. Oversight assumes the revenue reduction for this proposal would be less than $(894,497 \times \$2,500 \times 4.5\%) = \$100,630,913$.

This proposal would be effective beginning with tax years starting on or after January 1, 2012, and the first tax returns for that tax year would be filed in January 2013 (FY 2013).

Officials from the **Department of Revenue** assume this proposal would create a new individual income tax deduction for school supplies; therefore, state revenues would be reduced.

DOR officials stated that for all taxable years beginning on or after January 1, 2012, a resident taxpayer would be allowed an individual income tax deduction for dependents' school supplies, attendance fees and tuition. The amount of the deduction would be equal to the full amount expended for school supplies in the taxable year for which the deduction is claimed, but could not exceed \$2,500 for each dependent. DOR would promulgate rules for the implementation of the program and procedures by which the deduction would be provided. Modifications to tax forms and the MINITS system would be required.

Personal Tax would require two Temporary Tax Employees for key entry; one FTE Revenue Processing Technician per 19,000 returns verified, and one FTE Revenue Processing Technician per 2,400 pieces of correspondence. Collections & Tax Assistance would require one FTE Tax Collection Technician for every additional 24,000 contacts annually on the non-delinquent tax line and one FTE Revenue Processing Technician for every additional 4,800 contacts annually in the field.

DOR submitted an estimate of the cost to implement the proposal including four additional employees and the related equipment and expenditures totaling \$167,845 for FY 2010, \$180,83 for FY 2011, and \$186,319 for FY 2012.

Oversight notes that this proposal would be effective beginning with tax years starting on or after January 1, 2012, and the first tax returns for that tax year would be filed in January 2013 (FY 2013). Any cost to DOR would begin in FY 2013.

ASSUMPTION (continued)

Officials from the **Office of Administration, Information Technology Services Division** (ITSD/DOR) estimated the IT cost to implement the proposal using one FTE existing CIT III for three months for system modifications to MINITS at a total cost of \$13,323. ITSD/DOR officials assume the IT portion of the proposal could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

Oversight assumes ITSD/DOR could implement this proposal with existing resources.

| <u>FISCAL IMPACT - State Government</u> | FY 2010 (10 Mo.) | FY 2011 | FY 2012 |
|---|---------------------|-------------------|-------------------|
| GENERAL REVENUE FUND | | | |
| <u>Revenue reduction - DOR *</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| <u>Cost - DOR *</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND * | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

* Cost and Revenue Reduction beginning in FY 2013.

| <u>FISCAL IMPACT - Local Government</u> | FY 2010 (10 Mo.) | FY 2011 | FY 2012 |
|---|---------------------|------------|------------|
| | <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.

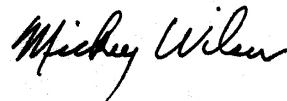
FISCAL DESCRIPTION

This proposal would a state income tax deduction for tuition, attendance fees, and school supplies purchased for educating a dependent enrolled in a Missouri elementary or secondary school.

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 Elementary and Secondary Education
Department of Revenue



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Director
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