

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3256-01
Bill No.: HB 1240
Subject: Education, Elementary and Secondary; Education, Higher Revenue Dept.;
Taxation and Revenue - Income
Type: Original
Date: February 16, 2010

Bill Summary: Would authorize a state income tax deduction for tuition costs for any dependent of a resident taxpayer enrolled in any elementary or secondary school or any institution of post-secondary education in this state.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$269,467,433)	(\$269,479,819)	(\$269,484,913)
Total Estimated Net Effect on General Revenue Fund	(\$269,467,433)	(\$269,479,819)	(\$269,484,913)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	4	4	4
Total Estimated Net Effect on FTE	4	4	4

☐ 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 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

In response to similar proposals, 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 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 **Department of Elementary and Secondary Education** assume this proposal would create an additional tax deduction for tuition paid for dependents of Missouri taxpayers, and that tax subsidy would reduce the state's revenues and decrease the amount of money available for public schools and public school students.

Officials from the **Department of Revenue (DOR)** assume this proposal would create a deduction for tuition which would result in an unknown negative impact on Total State Revenue. Beginning January 1, 2011, taxpayers could deduct all amounts paid for tuition for dependents.

The Department of Revenue would establish procedures for claiming the deduction, may create rules to implement the provisions, would make changes to forms and instructions, and DOR and ITSD-DOR, would need to make programming changes to the individual income tax system.

DOR officials stated that Personal Tax would require two FTE Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 returns manually reviewed, and one FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence; Collections and Tax Assistance would require one FTE Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually on the non-delinquent tax line and one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually in the field.

ASSUMPTION (continued)

DOR provided an estimate of the cost to implement the proposal including four additional employees and related benefits, equipment, and expense totaling \$171,993 for FY 2011, \$171,553 for FY 2012, and \$190,423 for FY 2013.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees 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 adjusted the DOR estimate of equipment and expenses in accordance with OA budget guidelines, and Oversight assumes that a limited number of additional employees could be accommodated in existing office space.

DOR officials provided a \$13,323 estimate of the IT portion of the fiscal impact calculated by taking 3 FTE for 1 month at \$4,441 per month to make updates to the individual income tax system (MINITS).

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of normal activity each year. **Oversight** assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** stated that they did not have information available to estimate the fiscal impact of the proposal.

Officials from **Lincoln University** assume this proposal would have no direct fiscal impact on their organization.

Officials from **Missouri Western University** assume this proposal could result in increased enrollment due to the tax deduction; however, the tax deduction would result in a reduction of state revenue which could negatively impact state higher education institutions.

Officials from the **University of Central Missouri** assume this proposal would have a negative fiscal impact on their organization but did not provide an estimate of the impact.

ASSUMPTION (continued)

Officials from the **Sikeston School District** assume this proposal would diminish monies available to districts reliant on the state foundation formula.

Officials from the **University of Missouri System** (UM) assume this proposal could provide an incentive for students to attend one of the UM campuses, thus increasing revenue. UM officials assumed the proposal would result in a decrease in state revenue which could reduce funds available for allocation to their organization.

Officials from the **Blue Springs School District** assume this proposal would cost hundreds of thousands if not millions of dollars of tax revenues annually.

Officials from the **Special School District of St. Louis County** assume this proposal would likely have an adverse impact on state aid received by their organization, since the increase in tax deductions would reduce the amount of state funds available to fund public school districts.

Officials from **Missouri State University** responded to our request for information but did not indicate whether this proposal would be expected to have an impact on their organization.

Officials from **Missouri Southern State University** (MSSU) assume this proposal would not have a direct fiscal impact on their organization. However, MSSU officials stated that implementation of this proposal would erode the tax base that supports all Missouri agencies including higher education.

Officials from **Linn State Technical College** assume this proposal would have no fiscal impact on their organization.

Officials from the **Metropolitan Community Colleges** assume this proposal would have no significant impact on their organization.

ASSUMPTION (continued)

Oversight has prepared an estimate of the fiscal impact of the proposed tax deduction.

Private (K-12) School Tuition

According to a report on Private Schools in the United States published by the National Center on Educational Statistics and based on a United States Department of Education Schools and Staffing Survey, average parochial school tuition was \$3,084 per student in 1993-1994.

Oversight was not able to find any more recent data; so assuming that tuition increased 3% per year from 1994 to 2009, tuition would be approximately \$4,900 per student per year in 2009-2010.

According to a report from the United States Department of Education, National Center for Education Statistics, Missouri private school enrollment in 2007-2008 was 112,368 students. Oversight assumes that private school enrollment would remain stable from 2007-2008 to 2009-2010.

The amount of tuition which could be deducted under this proposal would be (\$4,900 per student x 112,368 students) = \$550,600,000. At a tax rate of 6%, those deductions would amount to a revenue reduction of \$33,036,000.

Public Institutions of Higher Education

Based on statistics reported by the Missouri Department of Higher Education, there were 177,094 students enrolled in Missouri public institutions of higher education for the fall 2009 term. Oversight was not able to determine what percentage of those students were dependents of Missouri taxpayers.

The amount of tuition deduction which would be available under this proposal assuming all the students were Missouri taxpayer dependents and using the institutions' reported average tuition and fees, and calculated a total of \$970,700,000. At a tax rate of 6%, those deductions would amount to a revenue reduction of \$58,242,000.

ASSUMPTION (continued)

Private Nonprofit Institutions of Higher Education

Based on statistics reported by the Missouri Department of Higher Education, there were 92,740 students enrolled in Missouri private nonprofit institutions of higher education for the fall 2009 term. Oversight was not able to determine what percentage of those students were dependents of Missouri taxpayers.

The amount of tuition deduction which would be available under this proposal assuming all the students were Missouri taxpayer dependents and using the institutions' reported average tuition and fees, and calculated a total of \$1,846,100,000. At a tax rate of 6%, those deductions would amount to a revenue reduction of \$110,766,000.

Proprietary Schools

The Missouri Commission on Higher Education annual report for 2008 indicated an enrollment of 56,337 for all forms of proprietary schools. Oversight was not able to determine any additional information regarding proprietary schools.

Assuming that annual tuition for proprietary schools was equivalent to private nonprofit institutions, the estimated annual tuition would be $(\$1,846,100,000 / 92,740) =$ approximately \$19,900 and the tuition deduction available under this proposal would be $(\$19,900 \times 56,337) =$ \$1,121,100,000. Assuming those students were dependents of resident taxpayers and a tax rate of 6%, the tax deduction available under this proposal for those students would be $(\$1,121,100,000 \times 6\%) =$ \$67,266,000.

In summary, this proposal could result in a reduction of state revenues as follows.

Parochial schools	\$33,036,000
Public institutions	\$58,242,000
Private nonprofit institutions	\$110,766,000
Proprietary schools	\$67,266,000
Total	<u>\$269,310,000</u>

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE FUND			
<u>Cost - Department of Revenue</u>			
Salaries - 4 FTE	(\$88,990)	(\$109,992)	(\$113,292)
Benefits	(\$46,666)	(\$57,680)	(\$59,410)
Equipment and Expense	(\$21,777)	(\$2,147)	(\$2,211)
Total	(\$157,433)	(\$169,819)	(\$174,913)
<u>Revenue reduction - tax deduction for tuition</u>	(\$269,310,000)	(\$269,310,000)	(\$269,310,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$269,467,433)	(\$269,479,819)	(\$269,484,913)
Estimated Net FTE Impact on General Revenue Fund	4	4	4
 <u>FISCAL IMPACT - Local Government</u>	 FY 2011 (10 Mo.)	 FY 2012	 FY 2013
	<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.

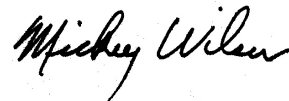
FISCAL DESCRIPTION

Would authorize a state income tax deduction for tuition costs for any dependent of a resident taxpayer enrolled in any elementary or secondary school or any institution of postsecondary education in this state

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 Elementary and Secondary Education
Department of Revenue
Lincoln University
Missouri State University
Missouri Southern State University
Missouri Western University
University of Central Missouri
University of Missouri System
University of Missouri
 Economic and Policy Analysis Research Center
Linn State Technical college
Metropolitan Community Colleges
Blue Springs School District
Sikeston School District
Special School District of St. Louis County



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Director
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