

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3442-01  
Bill No.: HB 1956  
Subject: Education, Higher; Revenue Dept.; Taxation and Revenue - Income  
Type: Original  
Date: April 19, 2010

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Bill Summary: Would create an income tax deduction for certain public college tuition costs.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(More than \$1,327,500)	(More than \$1,327,500)	(More than \$1,327,500)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(More than \$1,327,500)</b>	<b>(More than \$1,327,500)</b>	<b>(More than \$1,327,500)</b>

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

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 8 pages.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## **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 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 Revenue** (DOR) assume this proposal would, beginning January 1, 2011, create a deduction equal to 100% of the taxpayer's qualified tuition costs. The deduction would be limited to taxpayers who have been a resident of the state for at least one year preceding the claim for deduction, paid tuition at the resident rate at a public 4-year higher education institution, and had not been enrolled as a full time student for more than four (4) years. Proof of graduation from a public 4-year institution would be required.

DOR would create procedures for implementation and would confer with public 4-year higher education institutions to develop the procedures. DOR would need to make changes to forms and instructions, and DOR and OA-ITSD (DOR) would need to make programming changes to the individual income tax processing system (MINITS).

### Administrative Impact

DOR officials assume that Personal Tax would require two 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. In addition, Dor officials assume that Collections and Tax Assistance would require one FTE Tax Collection Technician I (Range 10, Step L) for each additional 24,000 contacts annually on the non-delinquent tax line, one FTE Tax Collection Technician I (Range 10, Step L) for additional 15,000 contacts annually on the delinquent tax line, and one FTE Revenue Processing Technician I (Range 10, Step L) for each additional 4,800 contacts annually in the field.

In summary, the DOR estimate of cost to implement the proposal including five additional employees and the related equipment and expenditures totaling \$211,644 for FY 2011, \$226,957 for FY 2012, and \$233,767 for FY 2013.

Oversight assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,000 per employee.

**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.

DOR officials also provided an estimate of the IT cost to implement the proposal. The estimate of cost for OA-ITSD (DOR) was \$8,904, based on 336 programming hours to make changes to the individual income tax processing system (MINITS).

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of 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.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no additional cost or savings to their organization. BAP officials stated that 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 who have recently graduated from a public four-year institution. Data from the DHE website was included in a table in the BAP response, and BAP officials concluded that approximately \$66.0 million could be deductible under this proposal. Assuming a 4.5% effective tax rate, BAP officials estimated that this proposal could reduce general and total state revenues by \$2.97 million.

Officials from the **Department of Higher Education** (DHE) provided the information used in the calculation of fiscal impact shown below. DHE officials did not indicate any fiscal impact to their organizations, and **Oversight** assumes this proposal would have no fiscal impact to DHE.

**Oversight** has calculated the amount of allowable deductions using information provided by the Department of Higher Education in the following table.

Institution	Number of Graduates	Tuition and Fees per Credit Hour	Tuition and Fees for Eighteen Credit Hours
Harris-Stowe	3	\$177	\$9,558
Lincoln	62	\$206	\$229,896
Missouri Southern	96	\$161	\$278,208
Missouri State	925	\$209	\$3,479,850
Missouri University of Science and Technology	271	\$283	\$1,380,474
Missouri Western	123	\$185	\$409,590
Northwest	290	\$230	\$1,200,600
Southeast	393	\$209	\$1,478,466
Truman	573	\$223	\$2,300,022
University of Central Missouri	431	\$220	\$1,706,760
University of Missouri - Columbia	2,311	\$282	\$11,730,636
University of Missouri - Kansas City	658	\$276	\$3,268,944
University of Missouri - St. Louis	398	\$287	\$2,056,068
Totals	6,534		\$29,529,072

ASSUMPTION (continued)

**Oversight** will estimate the cost of this proposal as \$29.5 million in additional deductions at a 4.5% average tax rate, for a total estimated cost of \$1,327,500. 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 \$1,327,500 per year.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction</u> - additional income tax deductions	<u>(More than \$1,327,500)</u>	<u>(More than \$1,327,500)</u>	<u>(More than \$1,327,500)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(More than \$1,327,500)</u></b>	<b><u>(More than \$1,327,500)</u></b>	<b><u>(More than \$1,327,500)</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

FISCAL IMPACT - Small Business

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

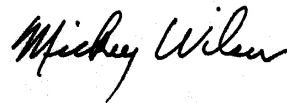
### FISCAL DESCRIPTION

The proposed legislation would create an income tax deduction for certain public college tuition costs.

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



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Director  
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