

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0277H.01I
 Bill No.: HB 314
 Subject: TAXATION AND REVENUE - GENERAL; TAXATION AND REVENUE - INCOME; EDUCATION, ELEMENTARY AND SECONDARY; TEACHERS; REVENUE, DEPARTMENT OF
 Type: Original
 Date: March 22, 2021

Bill Summary: This proposal would establish a tax deduction for educator expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund	\$0	(\$999,826) to (\$1,824,771)	(\$980,178) to (\$1,805,123)
Total Estimated Net Effect on General Revenue	\$0	(\$999,826) to (\$1,824,771)	(\$980,178) to (\$1,805,123)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund – DOR	0 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0 FTE	2 FTE	2 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation will reduce Total State Revenue (TSR) by \$844,560 to \$1,638,375 once SB 509 (2014) has fully implemented.

This proposed legislation will impact the calculation under Article X, Section 18(e).

Section 143.121 – Tax Deduction For Educator Expenses

Officials from **B&P** state there are multiple reference changes throughout this section. These changes will not impact TSR, General Revenue (GR), or the calculation under Article X, Section 18(e).

This section creates a tax deduction of up to \$500 for qualifying educator expenses beginning in Tax Year 2022. The deduction would only be granted for educators and expenses that qualify for the current federal tax deduction. B&P notes that while the deduction will become available in Tax Year 2022, the impact to TSR will not occur until taxpayers file their annual return in Fiscal Year 2023.

In Tax Year 2018, the most recent complete tax year data available, there were 64,250 tax filers that claimed the federal tax deduction for a total claim amount of \$16.6 million, for an average claim amount of approximately \$258.

For the purpose of this fiscal note, B&P will show a range in potential revenue loss between the average of \$257 federal deduction actually claimed in Tax Year 2018 and the cap of \$500 set forth in this proposed legislation. However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014).

Tax Rate	5.4%	5.3%	5.2%	5.1%
Low Estimate	\$894,240	\$877,680	\$861,120	\$844,560
High Estimate	\$1,734,750	\$1,702,625	\$1,670,500	\$1,638,375

Therefore, B&P estimates that this proposed legislation could reduce TSR and GR by \$894,240 to \$1,734,750 (top tax rate 5.4%) or by \$877,680 to \$1,702,625 (top tax rate 5.3%) in Fiscal Year 2023. Once SB 509 (2014) has fully implemented, this proposed legislation could reduce TSR and GR by \$844,560 to \$1,638,375 annually.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation states, for all tax years beginning on or after January 1, 2022, one hundred percent (100%) of all unreimbursed educator expenses incurred by an eligible educator during the taxable year, not to exceed five hundred dollars (\$500) is eligible to be deducted from a taxpayer’s Missouri Adjusted Gross Income. An eligible educator is defined as one who qualifies under 26 U.S.C. Section 62.

DOR used IRS data for Tax Year 2018 to determine who would qualify under 26 U.S.C. Section 62:

- Number of Filers: 64,250
- Amount: \$16,560,000
- Average Claimed: \$258

This proposed legislation allows for a \$500 Missouri deduction while the current average amount claimed on federal tax returns is approximately \$258. Using the 64,250 number of federal filers, DOR calculated a high/low range showing the potential revenue impact if all individuals claimed at the \$258 current average amount versus all individuals claiming the proposed \$500 deduction. DOR notes that this is a deduction and therefore is not a dollar for dollar loss. The impact for the teachers under 26 U.S.C Section 62:

Tax Year	TY22	TY23	TY24
Tax Rate	5.3%	5.3%	5.3%
Low Estimate	\$877,680	\$877,680	\$877,680
High Estimate	\$1,702,625	\$1,702,625	\$1,702,625

DOR notes this proposed legislation begins January 1, 2022 and the tax returns claiming the deduction would be filed starting in Fiscal Year 2023. This is estimated to be a loss to GR.

Total impact.

Tax Year	TY22	TY23	TY24
Low Estimate	\$0	\$877,680	\$877,680
High Estimate	\$0	\$1,702,625	\$1,702,625

DOR anticipates the need for one (1) FTE Associate Customer Service Representative for every 14,700 errors created, one (1) FTE Associate Customer Service Representative for every 5,700 pieces of correspondence generated and one (1) temporary employee for the new line item.

Also, DOR states that a new line would need to be created on Form MO-A. DOR anticipates this will result in a cost of approximately \$2,000.

Oversight notes the estimated number of taxpayers that would qualify for the tax deduction created under this proposed legislation is greater than the threshold(s) established by DOR warranting additional FTE. Therefore, for purposes of this fiscal note, Oversight will include DOR's administrative cost(s) in this fiscal note.

However, **Oversight** will not report DOR's administrative cost(s) in Fiscal Year 2022. Rather, Oversight will report DOR's administrative cost(s) beginning in Fiscal Year 2023. Oversight notes the tax deduction created is for all tax years beginning on or after January 1, 2022. Tax Year 2022 tax returns will not be filed until after January 1, 2023 (Fiscal Year 2023). Oversight assumes DOR can hire the FTE required at the beginning of Fiscal Year 2023 (July 2022) and have such FTE properly trained within the six (6) months prior to the date in which the first tax returns are filed claiming the tax deduction created (January 2023). Furthermore, Oversight assumes the equipment and expense cost(s) DOR estimated for the part time employee can be absorbed with existing resources.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state this proposed legislation would create a tax deduction for educator expenses for all tax years beginning on or after January 1, 2022, equal to one hundred percent (100%) of all unreimbursed educator expenses incurred by an eligible educator during the taxable year, not to exceed \$500.

EPARC estimates this proposed legislation will reduce Net General Revenue by \$738,000 in Fiscal Year 2023 and each year thereafter.

Oversight notes this proposed legislation creates an Individual Income Tax deduction under Section 143.121.3.12 equal to the lesser of: one hundred percent of all unreimbursed educator expenses or \$500.

An eligible educator is defined as an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal or aid in a school for at least 900 hours during a school year. This is the same definition used for the Federal Educator Expense Deduction allowed under [Section 26 U.S.C. Section 62](#).

Educator expenses are defined as expenses incurred by an eligible educator that qualify for a federal deduction under 26 U.S.C. Section 62.

Oversight notes pre-tax deductions do not reduce revenue(s) on a dollar-for-dollar basis. The estimated amount of deduction must be multiplied by the applicable tax rate to estimate the impact to state revenue(s).

The current Individual Income Tax rate is subject to be reduced by one-tenth of one percent three more times pursuant to [SB 509 \(2014\)](#). A reduction in the rate of tax shall **only** occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least \$150 million.

The Individual Income Tax rate for Tax Year 2021 is 5.4%.

Oversight anticipates the Individual Income Tax Rate will be reduced from 5.4% to 5.3% for **Tax Year 2022**. This would allow for two more rate reductions to occur, in future, but separate, tax years, pursuant to SB 509 (2014).

Oversight does not anticipate the **fiscal years reported in this fiscal note** to be impacted by **additional** rate reductions. Therefore, for purposes of this fiscal note, the impact for **each** fiscal year reported will be calculated using an Individual Income Tax Rate of 5.3%.

B&P and **DOR** assume Individual Income Tax rate reduction(s) will be/occur as follows:

Tax Year	Top Individual Income Tax Rate
2021	5.4%
2022	5.3%
2023	5.3%
2024	5.3%
2025	5.2%
2026	5.1% (last rate reduction)

Oversight notes the Internal Revenue Service (IRS) publishes Federal Individual Income Tax data by state. Based on the information reported for [Missouri](#), there were approximately 64,250 returns filed claiming the Federal Educator Expense Deduction in Tax Year 2018, the most current tax year in which data is available. The total amount of Federal Educator Expense Deduction claimed in Tax Year 2018 was \$16,560,000. Oversight estimates the average amount of Federal Educator Expense Deduction claimed on each return equals \$258 ($\$16,560,000 / 64,250$).

The Federal Educator Expense Deduction is capped at \$250 per eligible educator. This proposed legislation permits a deduction for eligible educator expenses that is capped at \$500.

Therefore, for purposes of this fiscal note, Oversight reports a reduction to General Revenue equal to a range beginning with an amount calculated using the average amount of Federal Educator Expense Deduction (\$258) and ending with an amount calculated using the maximum amount allowed under this proposed legislation (\$500). Oversight notes the deduction created under this proposed legislation would begin Tax Year 2022. Tax Year 2022 tax returns will not be filed until after January 1, 2023; Fiscal Year 2023.

Oversight estimates the following reduction to General Revenue beginning in Fiscal Year 2023:

Fiscal Year	Estimated Reduction to General Revenue Assuming Taxpayer Claims Average Amount Claimed on Federal Return (2018)	Estimated Reduction to General Revenue Assuming Taxpayer Claims Maximum Amount Permitted Under This Proposed Legislation
	Low	High
2022	\$0	\$0
2023	(\$878,555)	(\$1,702,625)
2024	(\$878,555)	(\$1,702,625)

For purposes of this fiscal note, Oversight will report a revenue reduction to GR beginning in Fiscal Year 2023 equal to the amount(s) estimated by DOR and B&P when using a tax rate of 5.3%.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Revenue Reduction –</u> Section 143.121 – Tax Deduction For Eligible Educator Expenses Up To \$500	\$0	(\$877,680) to (\$1,702,625)	(\$877,680) to (\$1,702,625)
<u>Cost – DOR –</u> Section 143.121			
Personnel Services	\$0	(\$57,453)	(\$58,027)
Fringe Benefits	\$0	(\$43,270)	(\$43,464)
Equipment & Expense	\$0	(\$21,423)	(\$1,007)
Total Cost – DOR	\$0	(\$122,146)	(\$102,498)
FTE Change – DOR	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	<u>(\$999,826) to</u> <u>(\$1,824,771)</u>	<u>(\$980,178) to</u> <u>(\$1,805,123)</u>
<u>FISCAL IMPACT –</u> <u>Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	\$0	\$0	\$0

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

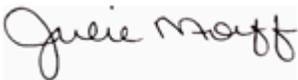
For all tax years beginning on or after January 1, 2022, this bill authorizes a tax deduction in the amount of 100% of unreimbursed educator expenses incurred by an eligible educator, not to exceed \$500. An eligible educator is defined as an individual who is a K12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

Educator expenses are expenses incurred as a result of the participation by the educator in professional development courses related to the curriculum in which the educator provides instruction, and expenses in connection with books, supplies, computer equipment and other equipment, and supplementary materials used by the eligible educator in the classroom.

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 – Budget & Planning Division
Missouri Department of Revenue
University of Missouri’s Economic & Policy Analysis Research Center



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March 22, 2021



Ross Strobe
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March 22, 2021