

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0463H.01I
Bill No.: HB 528
Subject: Taxation and Revenue - General; Tax Incentives; Education, Elementary and Secondary; Revenue, Department of; Taxation and Revenue - Income; Children and Minors
Type: Original
Date: April 19, 2021

Bill Summary: This proposal would authorize a tax deduction for certain families of children attending private school or a home school.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund		Less than (\$3,500,373) up to (\$6,876,446)	Less than (\$3,477,419) up to (\$6,853,492)
Total Estimated Net Effect on General Revenue	\$0	Less than (\$3,500,373) up to (\$6,876,446)	Less than (\$3,477,419) up to (\$6,853,492)

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 (DOR)	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 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 may reduce Total State Revenue (TSR) by \$3,248,675 to \$6,497,349 annually once [SB 509 \(2014\)](#) has fully implemented.

B&P notes this proposed legislation will impact the calculation under Article X, Section 18(e).

Section 143.128 – Tax Deduction for Private School and Home School Education Expenditures

Officials from **B&P** state this section would grant taxpayers a tax deduction for qualifying education-related expenses for private and homeschooled children in elementary and secondary school. Qualifying expenses include tuition, fees, computer software, workbooks, curricula, school supplies, and other materials used for instruction. This tax deduction would begin for Tax Year 2022 and is available for education costs up to \$1,000 per year.

Based on information published by the Census Bureau, there were 127,399 students in K-12 that attended either private school or were homeschooled during the 2019-20 school year. B&P notes that the data provided did not break out the total between private school and homeschool. According to the [Private School Review](#), there are 123,314 private school students in Missouri. Therefore, B&P estimates that of the 127,399 total 4,085 are homeschooled.

B&P assumes the largest qualifying costs for children in private school would be tuition, which the Private School Review estimates as \$8,183 for elementary students and \$12,181 for high school students. Based on research, B&P determined that the average cost of homeschooling in Missouri is \$700 to \$1,800 per year.

B&P notes that the claimed expenses are limited to \$1,000 per taxpayer, not per child. B&P further notes that based on 2018 tax returns, the most recent complete year available; taxpayers claimed, an average, 1-2 children per return. Therefore, B&P will provide a range of estimates showing the potential loss if all taxpayers had one (1) child or two (2) children. Furthermore, B&P will assume (based on actual estimated costs shown above) that each taxpayer will claim the full \$1,000 allowable.

In total, B&P estimates that between \$63,699,500 and \$127,399,000 in eligible costs could be claimed under this deduction. 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	\$3,439,773	\$3,376,074	\$3,312,374	\$3,248,675
High Estimate	\$6,879,546	\$6,752,147	\$6,624,748	\$6,497,349

Therefore, B&P estimates that this proposed legislation could reduce TSR and General Revenue (GR) by \$3,439,773 to \$6,879,549 (top tax rate 5.4%) or by \$3,376,074 to \$6,752,147 (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 \$3,248,675 to \$6,497,349 annually.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation, beginning on or after January 1, 2022, in addition to all other deductions and modifications allowed by law, shall allow a taxpayer a deduction from the taxpayer's Missouri Adjusted Gross Income in an amount equal to the taxpayer's qualifying amount. The qualifying amount is defined as the amount spent by the taxpayer on education expenditures, up to one thousand dollars (\$1,000).

Education expenses include any expenditure made in connection with the enrollment, attendance, or participation of the taxpayer's dependent child in a private school program or home school program. It includes, tuition, fees, computer software, textbooks, workbooks, curricula, school supplies other than personal computers, and other written materials used primarily for academic instruction or academic tutoring.

DOR found data on the annual tuition only costs of several private schools in the state:

- Rockhurst High School – Kansas City - \$14,900.
- Barstow K-12- Kansas City - \$18,800 K-5, \$21,615 5th – 9th and \$22,385 10th- 12th
- Helias High School – Jefferson City – \$3,000
- Sacred Heart Elementary – Sedalia - \$4,500
- Springfield Catholic – Springfield – \$5,885 K-8th, and \$9,047 9th- 12th
- Vianney High School – St. Louis - \$16,000
- St. Louis University High School – St. Louis - \$18,000

The Department of Elementary and Secondary Education notes their records indicate that there are 1,003,159 school age students and that 123,314 of those students attend a private school or are homeschooled in Missouri. DOR was not able to determine the average cost spent by homeschool parents for educational materials for their students. DOR will assume, for the purposes of the fiscal note, that all the private school students and homeschool students will provide proof of the full \$1,000 qualifying expenditures.

DOR notes if every student had a parent who qualified for this deduction, this would result in \$123,314,000 ($123,314 * \$1,000$) in qualified expenses being reported. However, DOR notes that this proposed legislation is for the taxpayer on the amount of total education expenses they report. It is not on a per student basis. Therefore, DOR would assume this could have reported qualified expenses for at least half the students of \$61,657,000 ($61,657 * \$1,000$). However, DOR recognizes that it will be less than all students receiving the deduction. DOR will show the impact as half the students to less than all the students.

This proposed legislation is a tax deduction and does not impact on a dollar for dollar basis. The current tax rates are estimated to be:

Tax Rate	5.4%	5.3%	5.2%	5.1%
Low Estimate	\$3,329,478	\$3,267,821	\$3,206,164	\$3,144,507
High Estimate	\$6,658,956	\$6,535,642	\$6,412,328	\$6,289,014

Since this proposed legislation begins on January 1, 2022, then the first tax returns filed that would report this deduction would be starting in January 2023 (Fiscal Year 2023). Therefore this deduction is expected to impact General Revenue.

GR Impact	Low	High
FY 2022	\$0	\$0
FY 2023	(\$3,267,821)	(\$6,658,956)
FY 2024	(\$3,267,821)	(\$6,658,956)

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, one (1) temporary employee for the new line item, and a one-time cost for system and form updates equal to \$2,000.

Based on the estimated number of taxpayers that could claim the deduction, **Oversight** will include DOR's administrative costs, as estimated by DOR.

However, **Oversight** notes the first tax year in which taxpayers would qualify for the tax deduction created is Tax Year 2022. Oversight notes individuals would not file their Tax Year 2022 tax returns until after January 1, 2023 (6 months after the beginning of Fiscal Year 2023). Therefore, Oversight will report DOR's administrative cost(s) beginning in Fiscal Year 2023 assuming DOR can hire and train such FTE(s) within the first six (6) months of Fiscal Year 2023; before Tax Year 2022 tax returns would begin to be filed claiming the tax deduction created.

In addition, **Oversight** assumes DOR can furnish the temporary employee with the equipment required. Therefore, Oversight will report DOR's equipment and expense cost (not including the system and form update cost of \$2,000) for the two (2) FTE Associate Customer Service Representatives.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state this proposed legislation would create a deduction, for Tax Year(s) 2022 and beyond, for "expenditure made in connection with the enrollment, attendance, or participation of the taxpayer's dependent child in a private school program or home school program, not to exceed \$1,000 per taxpayer." The deduction will be subtracted from taxpayers' Missouri Adjusted Gross Income.

Using the latest 2018 Individual Income Tax data as EPARC's baseline, EPARC found that Net Tax Due is equal to \$5,875.670 million. When EPARC considers a \$1,000 deduction for every taxpayer with at least one child, they see Net Tax Due is reduced to \$5,840.510 million, a decrease of \$35.160 million; a decrease in Net General Revenue of \$35.160 million.

Oversight notes this proposed legislation would allow taxpayers to claim a tax deduction equal to the taxpayers "qualifying amount" for all tax years beginning on or after January 1, 2022.

The tax deduction created may be claimed by a taxpayer on either an individual or combined return, but for each dependent child for whom any taxpayer made education expenditures, a deduction under this section shall be allowed for no more than one return. Should two taxpayers file separately, in which both taxpayers could otherwise claim the deduction created for the same child, only one such taxpayer shall be allowed to claim the deduction.

Oversight notes "Qualifying Amount" is defined as "the amount spent by a taxpayer in a given tax year on education expenditures, up to one thousand dollars".

Oversight assumes, then, that the tax deduction created is a "per tax return" rather than "per child".

Oversight notes "Education Expenditure" is defined as "any expenditure made in connection with the enrollment, attendance, or participation of the taxpayer's dependent child in a private school program or home school program. Education expenditure includes, but is not limited to, tuition, fees, computer software, textbooks, workbooks, curricula, school supplies, other than personal computers, and other written materials used primarily for academic instruction or academic tutoring.

Oversight assumes, based on the definition of "education expenditure" that most qualifying taxpayers will claim a tax deduction equal to the maximum amount available (\$1,000).

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 for Tax Year 2021 is 5.4%.

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.

Oversight anticipates the Individual Income Tax Rate will be reduced from 5.4% to 5.3% for Tax Year 2022. This is assumed to occur partially as a result of the extended tax filing deadline that was recognized for Tax Year 2020, which pushed revenues that would have otherwise been recognized in Fiscal Year 2020 into Fiscal Year 2021. Provided a rate reduction occurs (5.4% to 5.3%) in Tax Year 2022, SB 509 (2014) would allow for two (2) more rate reductions to occur, in future, but separate, tax years.

Oversight does not anticipate the fiscal years reported in this fiscal note will be impacted by additional rate reductions that would reduce the tax rate beyond 5.3%. 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%.

Oversight notes, each taxpayer that qualifies for and claims the tax deduction created, equal to \$1,000, would recognize a tax savings equal to \$53 ($\$1,000 * 5.3\%$).

Oversight notes the first tax year in which the tax deduction would be available is Tax Year 2022. Taxpayers will not file their Tax Year 2022 tax return until after January 1, 2023 (Fiscal Year 2023).

For purposes of this fiscal note, **Oversight** will report the revenue reduction to GR equal to the range estimated by B&P beginning in Fiscal Year 2023. Oversight notes the lower bound estimate assumes each taxpayer claiming the tax deduction has two (2) children. Oversight notes the higher bound estimate assumes each taxpayer claiming the tax deduction has one (1) child. Therefore, Oversight will report the lower bound estimate as “less than”, assuming some taxpayers may have more than two (2) children.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, they 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 they can sustain with their core budget. Therefore, they 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

Officials from the **Joint Committee on Administrative Rules** assume this proposed legislation will not cause a fiscal impact beyond its current appropriation.

Oversight assumes JCAR will be able to administer any rules from this proposed legislation with existing resources.

Officials from the **Missouri Department of Elementary and Secondary Education** do not anticipate this proposed legislation will cause a fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for this organization.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Revenue Reduction – Section 143.128 – Tax Deduction For Private School and Home School Education Expenditures p. 4</u>	\$0	Less than (\$3,376,074) up to (\$6,752,147)	Less than (\$3,376,074) up to (\$6,752,147)
<u>Cost – DOR – Section 143.128 – Tax Deduction For Private School and Home School Education Expenditures p. 5</u>			
Personnel Services	\$0	(\$57,453)	(\$58,027)
Fringe Benefits	\$0	(\$42,120)	(\$42,311)
Equipment & Expense	\$0	(\$24,726)	(\$1,007)
Total Cost	\$0	(\$124,299)	(\$101,345)
FTE Change – DOR	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	<u>Less than (\$3,500,373) up to (\$6,876,446)</u>	<u>Less than (\$3,477,419) up to (\$6,853,492)</u>
Estimated Net FTE Change to the General Revenue Fund	<u>0 FTE</u>	<u>2 FTE</u>	<u>2 FTE</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	<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.

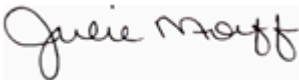
FISCAL DESCRIPTION

Beginning in tax years after January 1, 2022, this bill authorizes a tax deduction of up to \$1000 for "qualified education expenditures" as defined in the bill for a dependent in a private school or home school.

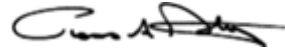
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Elementary and Secondary Education
Missouri Department of Revenue
Missouri Secretary of State's Office
Joint Committee on Administrative Rules
University of Missouri's Economic & Policy Analysis Research Center



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