

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1428H.01I
Bill No.: HB 540
Subject: Tax Credits; Education, Elementary and Secondary; Revenue, Department of;
Treasurer, State
Type: Original
Date: January 22, 2021

Bill Summary: This proposal would establish the "Show Me A Brighter Future Scholarship Program".

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2031)
General Revenue Fund*	Could exceed (\$7,060,449)	Could exceed (\$26,791,521) to could exceed (\$46,658,615)	Could exceed (\$28,174,326) to could exceed (\$50,028,129)	Could exceed (\$16,122,728) to could exceed (\$55,856,916)
Total Estimated Net Effect on General Revenue	Could exceed (\$7,060,449)	Could exceed (\$26,791,521) to could exceed (\$46,658,615)	Could exceed (\$28,174,326) to could exceed (\$50,028,129)	Could exceed (\$16,122,728) to could exceed (\$55,856,916)

*The range in the fiscal impact stems from the amount of savings (if any) that can be realized by the state as a result of scholarships provided to students who will attend non-public schools who would otherwise attend public schools.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2031)
State School Moneys Fund*	\$0	\$0	\$0	\$0
Show Me A Brighter Future Scholarship Fund**	\$0	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0	\$0

*Cost avoidance and loss reported to State School Moneys Fund net \$0

**Transfer In and transfer out net \$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2031)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2031)
Show Me A Brighter Future Scholarship Fund - STO	4 FTE	4 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	4 FTE	4 FTE	4 FTE	4 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.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2031)
Local Public School Districts	\$0	Less than (\$11,352,625) to less than (\$19,867,094)	Less than (\$12,487,888) to less than (\$21,853,803)	Less than (\$22,705,250 to (\$39,734,188)
Local Government	\$0	Less than (\$11,352,625) to less than (\$19,867,094)	Less than (\$12,487,888) to less than (\$21,853,803)	Less than (\$22,705,250) to (\$39,734,188)

FISCAL ANALYSIS

ASSUMPTION

Section 135.730 – Show Me A Brighter Future Scholarship Program

Oversight notes this section establishes the Show Me A Brighter Future Scholarship Program. This section further provides the definitions applicable for Section(s) 135.730 to 135.738.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section creates the Show Me a Brighter Future Scholarship Program which grants scholarships to eligible students for qualifying schools.

An “eligible student” is a member of a household whose total annual income in the year prior does not exceed an amount equal to two (2) times the income standard used to qualify for free and reduced lunch; and attended a public school for the preceding school year; received a scholarship grant from the program in the preceding semester; is starting school in Missouri for the first time and is a sibling of a student already enrolled in the program; or is an active duty military dependent who is enrolling in a school in the state for the first time.

A “qualifying school” is any private school in the state or any public school not within an eligible student’s district of residence that provides education to elementary or secondary students and has notified the state treasurer of its intention to participate. The private school must be accredited by an accrediting body approved by the State Treasurer; annually administer a state or national achievement tests as set forth in section 160.518; comply with all health and safety laws; hold a valid occupancy permit; comply with employee criminal background checks; and require that at least 80% of teachers hold bachelor’s degrees.

A “scholarship grant” is a contribution to a qualified tuition savings account established by Section 529 of the Internal Revenue Code or to a similar account approved by the State Treasurer. The grant is to cover all or part of the tuition, including special education services. This legislation also renames the “Missouri Education Savings Program” to the “Missouri Education Program.”

Section 135.732 – Tax Credit For Contribution(s) to Show Me A Brighter Future Scholarship Fund

Officials from **B&P** state, beginning on January 1, 2022, a taxpayer may claim a tax credit for contributions to the Scholarship Fund in an amount equal to one hundred percent (100%) of the amount the taxpayer contributed during the tax year for which the credit is claimed, not to exceed 50 percent of the taxpayer’s state tax liability. This credit may be carried forward for three (3) subsequent tax years.

The cumulative amount of tax credits is capped at \$25 million per calendar year, unless the amount of tax credits claimed in the first tax year exceeds ninety percent (90%) of the tax credits available. Then the amount of the tax credits available shall increase by ten percent (10%) in the subsequent years. The total amount of tax credits available shall not exceed \$50 million.

This proposed legislation may reduce General Revenue (GR) and Total State Revenue (TSR) up to a minimum of \$25 million starting on or after January 1, 2022, up to a minimum of \$27.5 million annually starting on or after July 1, 2022, and up to a minimum of \$30.25 million annually starting on or after July 1, 2023.

Oversight notes B&P assumes this section could reduce GR and TSR by an amount up to \$25,000,000 beginning on or after January 1, 2022 (Fiscal Year 2022), \$27,500,000 in Fiscal Year 2023 and \$30,250,000 in Fiscal Year 2024.

Oversight assumes the tax credit program created would begin January 1, 2022. Taxpayers contributing to the Show Me A Brighter Future Scholarship Fund would not claim the tax credits until such taxpayers file their Tax Year 2022 tax return after January 1, 2023 (Fiscal Year 2023).

Therefore, Oversight assumes the reduction to GR, as estimated by B&P equal to: \$25,000,000 would occur in Fiscal Year 2023, \$27,500,000 would occur in Fiscal Year 2024, and \$30,250,000 would occur in Fiscal Year 2025.

Officials from the **Missouri State Treasurer's Office (STO)** state this section requires STO to operate a tax credit program related to donations to the Show Me A Brighter Future Scholarship Fund.

STO does not operate tax credit programs and does not currently have the resources to absorb these duties. STO anticipates a minimum of four (4) FTE being required to perform the functions noted in the proposed legislation.

The proposed legislation allows for STO to pay for the costs to implement the proposed legislation from the Show Me A Brighter Future Scholarship Fund and STO anticipates being able to fully cover the costs from the fund.

Oversight notes STO anticipates the need for one (1) FTE Director (\$84,925 annual salary), two (2) FTE Analysts (\$39,708 annual salary/FTE), and one (1) FTE Clerk (\$24,744 annual salary) to administer the tax credit program created under this proposed legislation.

Oversight will report the administrative cost(s) reported by STO being paid from the Show Me A Brighter Future Scholarship Fund.

Officials from the **Missouri Department of Revenue (DOR)** assume any taxpayer who makes a qualifying contribution to the Show Me A Brighter Future Scholarship Fund set forth in Section 135.736 may claim a credit against the tax otherwise due under chapter 143, other than taxes withheld under Section(s) 143.191 to 143.265, and Chapter 153, in an amount equal to one hundred percent (100%) of the amount the taxpayer contributed during the tax year for which the credit is claimed.

This proposed legislation states the cumulative amount of tax credits that may be allocated to all taxpayers contributing to the scholarship fund in the first year of the program shall not exceed twenty-five million dollars (\$25,000,000). If the amount of tax credits claimed in the first tax year exceeds ninety percent (90%) of the tax credits available, the amount of tax credits available shall increase by ten percent (10%) in the subsequent years up to fifty million dollars (\$50,000,000).

The tax credit program begins for all tax years starting January 1, 2022. DOR assumes this would impact GR by \$25 million in Year 1 and Up to \$27,500,000 in the second year and possibly increasing each year thereafter. DOR notes that the credit would not be reported until Tax Year 2022 returns are filed on or after January 2023 (Fiscal Year 2023).

Loss To General Revenue	
Fiscal Year 2022	\$0
Fiscal Year 2023	(\$25,000,000)
Fiscal Year 2024	(\$27,500,000)

DOR anticipates the need for one (1) FTE Associate Customer Service Representative (\$24,360 annual salary/FTE) for every 6,000 tax credits redeemed and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated.

Oversight notes this proposed legislation allows for a tax credit equal to one hundred percent (100%) of the contribution to the Show Me A Brighter Future Scholarship Fund with no cap on the amount a taxpayer may claim on their Missouri tax return, other than it may not exceed fifty percent (50%) of the taxpayer's state tax liability. Oversight does not anticipate the increase in tax credit redemptions and errors/correspondence will justify an increase in DOR FTE.

Therefore, for purposes of this fiscal note, Oversight will not report an administrative (FTE) fiscal impact for this organization. Should the increase in redemptions or errors/correspondence prove to be significant, DOR may seek additional FTE through the appropriation process.

Oversight notes this section provides a tax credit to taxpayers who make contribution(s) to the Show Me A Brighter Future Scholarship Fund.

The tax credit created under this section shall be for all tax years beginning on or after January 1, 2022. Oversight notes contributions made during Calendar Year 2022 will qualify for a tax credit to be claimed on the taxpayer's Tax Year 2022 tax return which will not be filed under after January 1, 2023 (Fiscal Year 2023).

The tax credit shall be equal to one hundred percent (100%) of the amount such taxpayer contributed to the Show Me A Brighter Future Scholarship Fund during the tax year for which the taxpayer made such contribution.

However, the tax credit may not exceed fifty percent (50%) of the taxpayer's state tax liability for the tax year which the credit is claimed. The tax credit may not exceed fifty percent (50%) of a corporate taxpayer's state tax liability for the tax year which the credit is claimed. Any amount of tax credit that exceeds fifty percent (50%) of the taxpayer's state tax liability may be carried forward to any three (3) subsequent tax years.

The tax credits created under this section may **not** be transferred, sold or assigned and are **not** refundable.

This section states the Missouri State Treasurer shall certify the amount(s) of tax credit to qualifying taxpayers.

The cumulative amount of tax credits that may be allocated to all taxpayers contributing to the Show Me A Brighter Future Scholarship Fund, in the first year of the program, shall not exceed twenty-five million dollars (\$25,000,000). If the amount of tax credits claimed in the first year of the tax credit program created exceeds ninety percent (90%) of the tax credits available, the amount of tax credits available shall increase by ten percent (10%) in subsequent years. However, the total amount of tax credits available in a year shall not exceed fifty million dollars (\$50,000,000).

Oversight assumes if the total amount of tax credit(s) claimed during the first year the credit is available exceeds ninety percent (90%), the cumulative amount of tax credits will increase by ten percent (10%) each year thereafter, regardless of whether the total amount of tax credits claimed in subsequent tax years exceeds ninety percent (90%).

Oversight assumes that a tax credit equal to one hundred percent (100%) of the contribution made provides enough incentive to contributors that the maximum cap of twenty-five million dollars (\$25,000,000) will be reached the first year the tax credit is available.

Therefore, Oversight assumes the cumulative amount of tax credits available each year will be:

Year 1	\$25,000,000
Year 2	\$27,500,000
Year 3	\$30,250,000
Year 4	\$33,275,000
Year 5	\$36,602,500
Year 6	\$40,262,750
Year 7	\$44,289,025
Year 8	\$48,717,928
Year 9	\$50,000,000

Oversight notes if the total cumulative amount of tax credits estimated to be available in Year 8 is increased by ten percent (10%), the total would be \$53,589,720. This section states the total amount of tax credits available in a year shall not exceed fifty million dollars (\$50,000,000).

Therefore, Oversight assumes Year 9 will be increased by two and sixty-three hundredths percent (2.63%) to provide a total amount of tax credits available in Year 9, and each year thereafter, equal to fifty million dollars (\$50,000,000).

The tax credits created shall be allocated to taxpayers on a first come, first served basis.

Oversight notes individual can begin contributing and receiving tax credits under this section beginning January 1, 2022. Contributions made in Tax Year 2022 will not be claimed until such taxpayers file their Tax Year 2022 tax return after January 1, 2023 (Fiscal Year 2023).

Oversight notes tax credits reduce GR by an amount equal to the amount of tax credit redemptions each year. Therefore, due to the lucrativeness of the tax credit created (100% of a taxpayer's contribution), Oversight will report a reduction to GR by an amount "Up to" each year's estimated cap beginning in Fiscal Year 2023.

Section 134.734 – Responsibilities of Missouri State Treasurer

Oversight notes this section states the Missouri State Treasurer shall adopt rules and procedures setting forth:

- The procedures necessary to implement the Show Me A Brighter Future Scholarship Program
- Procedures for awarding scholarship grants in the following order of preference
 - o Eligible students who received a scholarship grant in the previous year
 - o Siblings of eligible students who will receive a scholarship grant
 - o Eligible students who qualify for free lunch under the Free and Reduced Price Lunch Program who attend any school that has been performing in the bottom five percent (5%) of schools
 - o Eligible students who qualify for reduced price lunch under the Free and Reduced Price Lunch Program who attended any school that has been performing in the bottom five percent (5%) of schools
 - o Eligible students who qualify for free lunch under the Free and Reduced Price Lunch Program who resides in an unaccredited school district
 - o Eligible students who qualify for reduced price lunch under the Free and Reduced Price Lunch Program who resides in an unaccredited school district
 - o Eligible students who qualify for free lunch under the Free and Reduced Price Lunch Program and resides in a provisionally accredited district
 - o Eligible students who qualify for reduced price lunch under the Free and Reduced Price Lunch Program and resides in a provisionally accredited district
 - o Students who are active duty military dependents who have relocated to Missouri and are enrolling in a school in the State of Missouri for the first time
- Reporting requirements
- Responsibilities of a parent and/or eligible student
- Responsibilities of an eligible student's school district of residence

This section states the Missouri State Treasurer shall provide each parent of an eligible student an explanation of a qualifying private school's special education program which must include the private school's methods of instruction and the private schools' qualifications of teachers and other persons who will be providing special education and related services.

This section states a scholarship grant awarded to an eligible student shall not exceed an amount equal to the State Adequacy Target or the actual cost of tuition at a qualifying school, whichever is less.

Oversight assumes the State Adequacy Target is \$6,375, as stated by the Missouri Department of Elementary and Secondary Education.

This section states a scholarship grant awarded to a student who qualifies for free or reduced price lunch or a limited English proficiency student shall not exceed an amount equal to the state adequacy target (\$6,375) multiplied by one and twenty-five hundredths (1.25) or the actual cost of tuition at a qualifying school, whichever is less.

Oversight assumes the total grant that can be awarded to students who qualify for free or reduced price lunch or a limited English proficiency student totals \$7,969 ($\$6,375 * 1.25$).

This section states a scholarship grant awarded to a special education eligible student shall not exceed an amount equal to the state adequacy target (\$6,375) multiplied by one and seventy-five-hundredths or the actual cost of tuition at a qualifying school, whichever is less.

Oversight assumes the total grant that can be awarded to special education eligible students totals \$11,156 ($\$6,375 * 1.75$).

Oversight notes Section 135.734.3/4/5 state a scholarship grant awarded to an eligible student shall **not exceed an amount equal to the state adequacy target (\$6,375), an amount equal to the state adequacy target multiplied by one and twenty-five-hundredths (\$7,969), or an amount equal to the state adequacy target multiplied by one and seventy-five hundredths (\$11,156), respectively.**

Oversight assumes, since the proposed legislation states the scholarship grant(s) awarded shall not exceed a **total** scholarship grant equal to the aforementioned amount(s), and since this proposed legislation does not specifically state that such grant(s) shall not exceed the aforementioned amount(s) annually, that the maximum amount of scholarship grant(s) that each student may receive under this program totals the aforementioned amount(s), regardless of the length of time such qualifying student participates in the program.

This section states that scholarship grants shall only be used for payment of tuition at qualifying schools.

This section states the Missouri State Treasurer shall not discriminate on the basis of race, color, creed, or national origin when making scholarship grants and shall not make multiyear scholarship grants.

This section permits the Missouri State Treasurer to bar a parent from future participation in the program if the parent has intentionally or negligently spent scholarship funds for purposes other than tuition at qualifying schools.

This section requires the Missouri State Treasurer to publish a report on its website six (6) years after the program's effective date providing narrative on the state of the program, including:

- Information regarding the finances of the program
- Educational outcomes of eligible students
- Results of the annual parental satisfaction surveys

The Missouri State Treasurer is to develop a standardized format in which qualifying schools can provide results from the annual parental satisfaction survey.

Section 135.736 – Show Me A Brighter Future Scholarship Fund

Officials from **B&P** state this section creates, in the State Treasury, the “Show Me A Brighter Future Scholarship Fund”. The State Treasurer shall be custodian of the fund.

This section may impact the calculation under Article X, Section 18(e).

Oversight notes this section creates the Show Me A Brighter Future Scholarship Fund (the Fund) in the Missouri State Treasury.

The Fund shall consist of moneys contributed to the Fund by Missouri taxpayers who shall receive a tax credit equal to the amount such taxpayer contributed.

The money(s) in the Fund shall only be used to make scholarship grants and pay for personal services, equipment, and other expenses related to the administration of the Show Me A Brighter Future Scholarship Program.

Officials from the **Missouri Department of Elementary and Secondary Education (DESE)** assume this proposed legislation could reduce state revenues by an amount equal to \$5,133,898 to \$13,647,690.

DESE provides the following:

Basic data

\$25,000,000 Tax Credit Cap

÷ \$6,375 state adequacy target at full funding for non-special education students
= 3,922 maximum number of available scholarships for non-special education students
÷ \$7,969 (\$6,375 x 1.25) state adequacy target at full funding for FRL/LEP students
= 3,137 maximum number of available scholarships for FRL/LEP students
÷ \$11,156 (\$6,375 x 1.75) state adequacy target at full funding for special education students
= 2,241 maximum number of available scholarships for special education students

DESE states, for the 2019 – 2020 school year, state funding amounted to \$4,275,593,319 with a regular term ADA equal to \$843,960. DESE assumes state revenue per pupil by regular term ADA totals \$5,066 (\$4,275,593,319 / 843,960).

DESE provides the first scenario that could occur:

If scholarship recipients are all non-special education public school students (or are incoming kindergartners who would be going to non-public schools) who use the scholarship at a non-public school the cost to the state would be \$5,132,906.

DESE provides the second scenario that could occur:

If scholarship recipients are all FRL/LEP public school students (or are incoming kindergartners who would be going to non-public schools) who use the scholarship at a non-public school the cost to the state would be \$9,106,711.

DESE provides the third scenario that could occur:

If scholarship recipients are all special education public school students (or are incoming kindergartners who would be going to non-public schools) who use the scholarship at a non-public school the cost to the state would be \$13,647,375.

Oversight notes DESE assumes this proposed legislation could reduce state revenues by an amount equal to \$5,133,898 to \$13,647,690.

Oversight assumes, should all scholarship recipients start school in this state for the first time, or all scholarship recipients be dependents of parents in active military service who relocated to the State of Missouri and is enrolling in school in the State of Missouri for the first time, the total cost to the state would be the tax credit cap(s) established.

Oversight notes DESE's analysis used a total amount of tax credits available equal to twenty-five million dollars (\$25,000,000). DESE's analysis does not report the impact(s) to the state should the tax credit cap increase by ten percent (10%) each year, as provided under this proposed legislation, so long as the total amount of tax credits claimed in the first year the tax credit is available exceeds ninety percent (90%) of the total amount available.

Oversight notes Section 135.732 establishes a tax credit program for taxpayers who contribute to the Show Me A Brighter Future Scholarship Fund. The tax credit program will reduce GR by an amount equal to the amount of tax credit redemptions that occur as a result of the tax credit program created.

However, the contributions made to the Show Me A Brighter Future Scholarship Fund will be used to fund scholarship grants to qualifying students under the Show Me A Brighter Future Scholarship Program.

The scholarship(s) could result in a cost savings to the GR by an amount equal to the savings in GR transfers to the State School Moneys Fund.

Oversight notes this proposed legislation would grant various scholarship amount(s) to various qualifying students.

Below, Oversight estimates the amount of saving(s) that would be recognized as a result of the scholarship program calculated using the various scholarship amounts. The savings are shown in green.

Oversight also estimates the **net cost** to GR as the result of the combination of the tax credit program and the scholarship program. The **net costs** are shown in yellow.

Scenario One - Grant Equal To \$6,375 - Qualified Student				
Program Year	Year 1	Year 2	Year 3	Year 9 – Fully Implemented
Fiscal Year	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2031
Tax Credit Cap	\$25,000,000	\$27,500,000	\$30,250,000	\$50,000,000
State Adequacy Target for This Pool	\$6,375	\$6,375	\$6,375	\$6,375
Maximum Number of Scholarships	3922	4314	4745	7843
Current ADA Cost Per Pupil	\$ 5,066	\$ 5,066	\$ 5,066	\$ 5,066
Total Savings From Qualified Student Transfers	\$19,867,094	\$21,853,803	\$24,039,184	\$39,734,188
Total Cost to State (Tax Credit Cap - Savings)	\$5,132,906	\$5,646,197	\$6,210,816	\$10,265,812
	up to	up to	up to	up to
	\$25,000,000	\$27,500,000	\$30,250,000	\$50,000,000

Scenario Two - Grant Equal To \$7,969 - Qualified Student Who Receives Free or Reduced Lunch or Limited English Proficiency Student				
Program Year	Year 1	Year 2	Year 3	Year 9 – Fully Implemented
Fiscal Year	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2031
Tax Credit Cap	\$25,000,000	\$27,500,000	\$30,250,000	\$50,000,000
State Adequacy Target for This Pool	\$7,969	\$7,969	\$7,969	\$7,969
Maximum Number of Scholarships	3137	3451	3796	6275
Current ADA Cost Per Pupil	\$ 5,066	\$ 5,066	\$ 5,066	\$ 5,066
Total Savings From Qualified Student Transfers	\$15,893,675	\$17,483,043	\$19,231,347	\$31,787,350
Total Cost to State (Tax Credit Cap - Savings)	\$9,106,325	\$10,016,957	\$11,018,653	\$18,212,650
	up to	up to	up to	up to
	\$25,000,000	\$27,500,000	\$30,250,000	\$50,000,000

Scenario Three - Grant Equal To \$11,156 - Qualified Student Who Is A Special Education Eligible Student				
Program Year	Year 1	Year 2	Year 3	Year 9 – Fully Implemented
Fiscal Year	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2031
Tax Credit Cap	\$25,000,000	\$27,500,000	\$30,250,000	\$50,000,000
State Adequacy Target for This Pool	\$11,156	\$11,156	\$11,156	\$11,156
Maximum Number of Scholarships	2241	2465	2711	4482
Current ADA Cost Per Pupil	\$ 5,066	\$ 5,066	\$ 5,066	\$ 5,066
Total Savings From Qualified Student Transfers	\$11,352,625	\$12,487,888	\$13,736,676	\$22,705,250
Total Cost to State (Tax Credit Cap - Savings)	\$13,647,375	\$15,012,112	\$16,513,324	\$27,294,750
	up to	up to	up to	up to
	\$25,000,000	\$27,500,000	\$30,250,000	\$50,000,000

Oversight notes the State School Moneys Fund would recognize a cost avoidance equal to the estimated savings to GR and the State School Moneys Fund would recognize a loss equal to the amount that would no longer be transferred to the State School Moneys Fund. Therefore, Oversight assumes the impact to the State School Moneys Fund would net \$0.

Oversight notes, even as this proposed legislation may reduce the number of students educated by public school districts, public school districts may not immediately reduce their fixed and variable costs proportionately, including buildings and staff. Therefore, Oversight will report a positive impact for local public school districts equal to “Unknown” as it relates to reduced fixed costs associated with educating public school students.

Furthermore, Oversight will report a negative impact for local public school districts equal to the amount of state aid that would no longer be provided to public school districts as a result of the transfer of eligible students/reduced ADA.

Section 166.400 – Missouri Education Savings Program

Oversight notes this section modifies the name of the Missouri Education Savings Program to the Missouri Education Program.

Section 166.410 – Missouri Education Savings Program – Definitions

Officials from **B&P** state this section changes the definition of “eligible education institution” from those specified in Sections 529(e)(5), 529(c)(7), and 529(e)(3) to all references in Section 529. B&P notes that this would allow individuals to use the savings account program for student loan repayment.

Based on research, B&P determined the average student loan in Missouri was between [\\$29,613](#) and [\\$35,400](#). Assuming individuals use a 10-year repayment plan the average annual repayment amount would be between \$2,961.30 and \$3,540. In Tax Year 2018, the most recent complete tax year data available, there were 255,000 tax filers that claimed the federal tax deduction for student loan interest. Therefore, B&P estimates that approximately \$755,134,461 to \$902,700,000 in deductions could be claimed under this provision.

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).

	Current Law	Future Top Tax Rates		
Tax Rate	5.4%	5.3%	5.2%	5.1%
GR Loss - Low	(\$40,777,261)	(\$40,022,126)	(\$39,266,992)	(\$38,511,858)
GR Loss - High	(\$48,745,800)	(\$47,843,100)	(\$46,940,400)	(\$46,037,700)

B&P notes that this provision would take effect August 28, 2021; allowing individuals to use the savings account plan for four (4) months of Tax Year 2021. Therefore, B&P estimates that this section will reduce TSR and GR by \$13,592,420 to \$16,248,600 in Fiscal Year 2022. Once SB 509 (2014) has fully implemented, this proposal could reduce TSR and GR by \$38,511,858 to \$46,037,700 annually.

Oversight notes B&P has estimated the impact(s) of individuals first contributing/depositing their (re)payment of student loan principle or interest into a 529 savings account, permitting them to recognize tax savings.

Oversight notes B&P's analysis suggests individuals will be on a ten year repayment plan. After conducting independent research, Oversight assumes the average term of repayment of student loan(s) totals anywhere between twenty (20) and twenty-five (25) years.

Furthermore, Oversight notes individuals would not be able to deduct the average total student loan amount on their Missouri taxes. This proposed legislation caps the amount that is permitted to be (re)paid through a student's 529 savings account at \$10,000.

Thus, Oversight anticipates the impact(s) of this section will increase for several years post implementation, and then decrease and flatten out afterwards.

Officials from **STO** state this section expands the MOST 529 Education Plan Program to allow for the repayment of student loans up to \$10,000 per beneficiary.

STO anticipates this section will reduce state revenues by:

- \$1,409,653 in Fiscal Year 2022
- \$3,623,683 in Fiscal Year 2023
- \$4,286,929 in Fiscal Year 2024
- \$4,346,834 in Fiscal Year 2025 and Fiscal Year 2026
- \$2,895,764 in Fiscal Year 2027
- \$1,444,695 in Fiscal Year 2028
- \$1,081,927 in Fiscal Year 2029 and each year thereafter.

Oversight assume STO anticipates a 4.13% participation rate among beneficiaries who will (re)pay their student loans through MOST 529 Education Savings accounts. Furthermore, Oversight assumes STO anticipates taxpayers will receive full benefit (\$10,000) within 2.25 years.

Oversight assumes, based on independent research, that taxpayers with student loan debt would experience tax savings for a total of seven (7) tax years as a result of the \$10,000 cap placed on the total amount permitted to be contributed/deposited into MOST 529 Education Savings accounts and used for such (re)payment.

Furthermore, Oversight assumes the participation rate of individuals who will first contribute/deposit their (re)payment of student loans, before actual payment is required, will be significantly higher.

Officials from **DOR** state this section changes the name of the Missouri Education Savings Program to the Missouri Education Program.

This section would remove the language “529(e)(5) of the Internal Revenue Code, and institutions of elementary and secondary education as provided in Sections 529(c)(7) and 529(e)(3) of the Internal Revenue Code, as amended” and replace it with “529 of the Internal Revenue Code, as amended;”. 529 of the Internal Revenue Code allows for the repayment of principal and interest on student loans as an allowable expense. Therefore, a taxpayer would be allowed to run their student loan payment through their Missouri Education Savings Program Account (MOST account) and do it tax free.

Based on information from the Institute for College Access and Success, the average student loan debt in Missouri is \$27,108. Assuming an annual tax rate of 5.3%, and based on the number of Missouri filers who claim the student loan interest deduction (255,000), this would result in a loss to GR in an amount greater than \$36,490,500 annually.

\$27,000 student loan amount = \$225 per month payment

X 5.3% tax rate

\$11.925 monthly tax loss

X 12 months

\$143.10 total tax loss per person per year

X 255,000

\$36,490,500 loss to state

DOR notes this proposal would become effective August 28, 2021 and therefore only four (4) months of payments would be claimed in Fiscal Year 2022. The first full year of loss would occur in Fiscal Year 2023.

Oversight notes DOR's analysis suggests individuals will be on a ten year repayment plan. After conducting independent research, Oversight assumes the average term of repayment of student loan(s) totals anywhere between twenty (20) and twenty-five (25) years.

Oversight notes this section modifies the definition of "Eligible Educational Institution".

The current definition is "an institution of post-secondary education as defined in Section 529 (e)(5) of the Internal Revenue Code, and institutions of elementary and secondary education as provide din Section 529 (c)(7) and 529 (e)(3)".

This section modifies the definition to define an "Eligible Educational Institution" as "an institution as defined in Section 529 of the Internal Revenue Code".

Oversight notes this section modifies the definition of "Qualified Higher Education Expenses" or "Qualified Education Expenses".

The current definition is "the qualified costs of tuition and fees and other expenses for attendance at an eligible educational institution, as defined under Section 529 (e)(3) of the Internal Revenue Code.

This section modifies the definition to define "Qualified Higher Education Expenses" or "Qualified Education Expenses" as "the qualified costs of tuition and fees and other expenses for attendance at an eligible educational institution, as defined in Section 529 of the Internal Revenue Code.

Oversight assumes this section would allow individuals to first deposit/contribute the amount(s) of principal and/or interest applicable for qualified education loan (re)payment into established Missouri Educational Savings accounts (MOST accounts/529 accounts) prior to actual (re)payment of such loan. Such repayment would then be paid with the funds initially deposited/contributed into the participating individual's MOST account.

Oversight assumes this would permit such individuals to recognize Missouri tax savings while completing the obligations/terms of their qualified educational loan(s).

Amount(s) deposited/contributed to MOST accounts may be subtracted from the individual's Federal Adjusted Gross Income to determine the individual's Missouri Adjusted Gross Income. The maximum annual amount that may be subtracted cannot exceed \$8,000 per taxpayer.

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).

Oversight assumes this section would become effective August 28, 2021 (Fiscal Year 2022). Therefore, Oversight assumes Fiscal Year 2022 would be impacted by this section for four (4) months.

Upon completing an independent analysis, Oversight assumes this section would reduce GR by the following amount(s):

Fiscal Year	Cost
2022	\$ 7,060,449
2023	\$ 21,658,615
2024	\$ 22,528,129
2025	\$ 23,397,644
2026	\$ 24,267,158
2027	\$ 25,136,672
2028	\$ 26,006,186
2029	\$ 5,856,916
2030	\$ 5,856,916
2031	\$ 5,856,916

For purposes of this fiscal note, since B&P and DOR used what appears to be a term of repayment (10 years) less than what may sources suggest (20 – 25 years), and since STO's impacts are calculated using what appears to be a significantly low participation rate, Oversight will report the fiscal impact(s) of this section in amounts that "Could exceed" the amounts impacts estimated by Oversight.

Legislation As A Whole

Officials from the **Eldon R-I School District** state this proposed legislation could have a significant financial hardship on the Eldon R-I School District.

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, SOS also recognizes 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 SOS can sustain with SOS's core budget. Therefore, SOS reserves 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 proposal is not anticipated to 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 Higher Education and Workforce Development** and **High Point R-III School District** do not anticipate this proposed legislation will have a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for these organizations.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2031)
GENERAL REVENUE FUND				
<u>Revenue Reduction – Section 135.732 – Tax Credit For Donations To Show Me A Brighter Future Scholarship Fund - p. 4-8</u>	\$0	Up to (\$25,000,000)	Up to (\$27,500,000)	Up to (\$50,000,000)
<u>Savings/Cost Avoidance - Section 135.736 – State School Moneys Fund Transfers Decreased Due to Eligible - Students p. 11-14</u>	\$0	\$0 up to \$11,352,625 to \$19,867,094	\$0 up to \$12,487,888 to \$21,853,803	\$0 up to \$22,705,250 to \$39,734,188
<u>Revenue Reduction – Section(s) 166.410 &166.435 – Subtraction From Federal Adjusted Gross Income For Contributions/Deposits Into 529/MOST Savings Accounts - p. 14-18</u>	<u>Could exceed (\$7,060,449)</u>	<u>Could exceed (\$21,658,615)</u>	<u>Could exceed (\$22,528,129)</u>	<u>Could exceed (\$5,856,916)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Could exceed (\$7,060,449)</u>	<u>Could exceed (\$26,791,521) to could exceed (\$46,658,615)</u>	<u>Could exceed (\$28,174,326) to could exceed (\$50,028,129)</u>	<u>Could exceed (\$16,122,728) to could exceed (\$55,856,916)</u>

STATE SCHOOL MONEYS FUND (0616)				
<u>Savings/Cost</u> <u>Avoidance</u> – Section 135.736 – General Revenue Decreased ADA for Transfer of Eligible Students - p. 11-14	\$0	\$0 up to \$11,352,625 to \$19,867,094	\$0 up to \$12,487,888, to \$21,853,803	\$0 up to \$22,705,250 to \$39,734,188
<u>Loss</u> – Section 135.736 – Schools Decreased ADA for Transfer of Eligible Students – p. 11-14	\$0	\$0 up to (\$11,352,625) to (\$19,867,094)	\$0 up to (\$12,487,888) to (\$21,853,803)	\$0 up to (\$22,705,250) to (\$39,734,188)
ESTIMATED NET EFFECT ON STATE SCHOOL MONEYS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

SHOW ME A BRIGHTER FUTURE SCHOLARSHIP FUND				
<u>Transfer In</u> – Section 135.736 – Contributions by Missouri Taxpayers to Show Me A Brighter Future Scholarship Fund – p. 11-14	Up to \$25,000,000	Up to \$27,500,000	Up to \$30,250,000	Up to \$50,000,000
<u>Costs</u> – STO – Section(s) 135.732 & 135.734 & 135.736 - p. 5				
Personnel Services	(\$157,571)	(\$190,976)	(\$192,886)	(\$206,799)
Fringe Benefits	(\$90,052)	(\$108,638)	(\$109,220)	(\$113,460)
Equipment & Expense	(\$57,000)	(\$21,836)	(\$22,491)	(\$27,661)
Total Cost – STO	(\$304,623)	(\$321,450)	(\$324,597)	(\$347,920)
FTE Change – STO	4 FTE	4 FTE	4 FTE	4 FTE
<u>Transfer Out</u> – Section 135.736 – Amount(s) To Be Spent On Scholarship(s) – p. 11-14	Up to (\$24,695,377)	Up to (\$27,178,550)	Up to (\$29,925,403)	Up to (\$49,652,080)
ESTIMATED NET EFFECT ON SHOW ME A BRIGHTER FUTURE SCHOLARSHIP FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2031)
LOCAL PUBLIC SCHOOL DISTRICTS				
<u>Savings –</u> Section 135.736 – Transfer of Qualified Students Out of School District Or to Non- Public School - p. 11-14	\$0	Unknown	Unknown	Unknown
<u>Loss – Section</u> 135.736 – State Funding Schools Decreased ADA For Transferred Students - p. 11-14	\$0	<u>\$0 up to</u> <u>(\$11,352,625) to</u> <u>(\$19,867,094)</u>	<u>\$0 up to</u> <u>(\$12,487,888) to</u> <u>(\$21,853,803)</u>	<u>\$0 up to</u> <u>(\$22,705,250) to</u> <u>(\$39,734,188)</u>
ESTIMATED NET EFFECT ON LOCAL PUBLIC SCHOOL DISTRICTS	\$0	<u>Less than</u> <u>(\$11,352,625) to</u> <u>less than</u> <u>(\$19,867,094)</u>	<u>Less than</u> <u>(\$12,487,888) to</u> <u>less than</u> <u>(\$21,853,803)</u>	<u>Less than</u> <u>(\$22,705,250) to</u> <u>(\$39,734,188)</u>

FISCAL IMPACT – Small Business

This proposed legislation could impact any small business that contributes/donates to the Show Me A Brighter Future Scholarship Fund as such small business would be able to reduce or eliminate such small business's tax liability.

FISCAL DESCRIPTION

This proposed legislation states, for all tax years beginning on January 1, 2022, any taxpayer who makes a qualifying contribution to the "Show Me a Brighter Future Scholarship Fund" created in the bill may claim a tax credit equal to 100% of the total contribution. The amount of the tax credit claimed by an individual taxpayer or a married couple filing jointly shall not exceed 50% of the taxpayer's state tax liability for the year in which the credit is claimed, nor shall a corporate taxpayer claim a tax credit in excess of 50% of such taxpayer's state tax liability for the year.

The State Treasurer shall certify the tax credit amount to the taxpayer. Such credit may be carried forward to any of the taxpayer's three subsequent tax years. No tax credits authorized under the program shall be transferred, sold, or assigned, and are not refundable.

The cumulative amount of tax credits that may be allocated to all taxpayers contributing to the scholarship fund in the first year of the program shall not exceed \$25 million. If the amount of the tax credits claimed in the first tax year exceeds 90% of the tax credits available, the amount of tax credits available shall increase by 10% in the subsequent year and are capped at \$50 million. Tax credits shall be allocated by the State Treasurer on a first come, first served basis.

A taxpayer who makes a contribution to the scholarship fund shall not designate the student who will receive a scholarship grant. The State Treasurer shall adopt rules and procedures necessary to implement the provisions of this bill, including rules setting forth the order of preference for scholarship awards, reporting requirements, responsibilities of a parent of an eligible student, and responsibilities of an eligible student's district of residence.

Scholarship grants shall be provided to eligible students with a qualified Tuition Savings Account.

This bill specifies that, an eligible student is any student who is a member of a household whose total annual income does not exceed an amount equal to two times the income standard used to qualify for free and reduced price lunch, who has attended a public school in the preceding semester or is starting school in the state for the first time, is currently receiving the Scholarship Grant, is a dependent of an active duty military who relocates to Missouri, or who is starting school in Missouri for the first time and is a sibling of a student already enrolled in the program.

The amount of scholarship grants awarded to eligible students shall be equal to the state adequacy target, and the amount of scholarship grants award to eligible students who qualify for free or reduced lunch shall be equal to the state adequacy target multiplied by 1.25, and the amount of scholarship grants awarded to a special education eligible student shall be in an amount equal to the state adequacy target multiplied by 1.75.

Scholarship funds in a qualified Tuition Savings Account shall only be used for payment of tuition at a qualifying school which includes private schools or any public school outside of eligible student's district of residence. All private qualifying schools must meet standards outlined in the bill.

The procedure for awarding scholarship grants is outlined with preference given to eligible students who qualify for free lunch at the lowest performing districts.

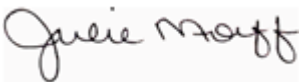
The State Treasurer may bar a parent from future participation in the Program if the State Treasurer establishes that the parent has intentionally spent Scholarship Grant funds for a purpose other than that allowed under the bill or by rule, and shall create a receipt to be issued to any taxpayer making a contribution. The State Treasurer shall publish a report on their website on this Program after it has been in effect 6 years.

The bill changes the "Missouri Education Savings Program" in Sections 166.400 to 166.455 RSMo by removing the word "savings" and aligning the term for "eligible education institution" to the Federal 529 of the Internal Revenue Code.

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 Higher Education and Workforce Development
Missouri Department of Revenue
Missouri Secretary of State's Office
Missouri State Treasurer's Office
Joint Committee on Administrative Rules
Eldon R-I School District
High Point R-III School District



Julie Morff
Director
January 22, 2021



Ross Strobe
Assistant Director
January 22, 2021