

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0959H.05C
Bill No.: HCS for HB 77
Subject: Tax Credits; Taxation and Revenue - Income; Taxation and Revenue - General;
Education, Elementary and Secondary Education
Type: Original
Date: April 23, 2025

Bill Summary: This proposal establishes the "Missouri Parental Choice Tax Credit Act"
relating to a tax credit for certain educational expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue Fund*	\$0	Less than (\$929,300,822) or Could Exceed (\$1,201,983,542)	Less than (\$928,040,106) or Could Exceed (\$1,200,722,826)
Total Estimated Net Effect on General Revenue	\$0	Less than (\$929,300,822) or Could Exceed (\$1,201,983,542)	Less than (\$928,040,106) or Could Exceed (\$1,200,722,826)

*Oversight will reflect a range in education expense tax credits, which does not have any maximum cap, and additionally show 96 DOR FTEs to comply with the implementation and process specified by the proposal, effective FY 2027.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
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 2026	FY 2027	FY 2028
Total Estimated Net Effect on <u>All</u> Federal Funds			

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue Fund – DOR FTE	0 FTE	96 FTE	96 FTE
Total Estimated Net Effect on FTE	0 FTE	96 FTE	96 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 2026	FY 2027	FY 2028
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.721- Missouri Parental Choice Tax Credit Act

Officials from the **Department of Revenue (DOR)** note:

For all tax years starting on or after January 1, 2026, this program would allow a qualified taxpayer to claim a refundable credit for educating each child at a private school FPE school or home school. The tax credit is equal to the amount of qualified expenses or the state adequacy target whichever is less. Qualified expenses include tuition and fees, textbooks, educational therapies, tutoring services and more. A taxpayer cannot receive this tax credit if the child participates in the MO Empowerment Scholarship Program.

DOR checked the tuition price of some of the private schools across the state:

2024-2025 tuition prices	
Rockhurst High School – Kansas City	\$17,550
Barstow K-12- Kansas City - \$19,500 K-5, \$25,500 5 th – 9 th and \$29,500 10 th -12 th	\$25,500
Helias High School – Jefferson City	\$3,250
Springfield Catholic – Springfield – \$6,654 K-5 th , \$7,315 6 th - 8 th and \$10,229 9 th - 12 th	\$7,315
Vianney High School – St. Louis	\$18,950
St. Louis University High School – St. Louis	\$23,300

DOR notes the prices for items used by home school students:

Curriculums	\$500
Curriculum with tutor enhancements	\$7,000
Materials	\$300

This program does not have a cap but does limit each taxpayer's credit to no more than the current state adequacy target amount. It should be noted that the state adequacy target is set by the General Assembly and for several years was frozen at \$6,375. Additionally, the state adequacy target is set on a school year basis (July 1 – June 30), while the tax year is set on a calendar year (January 1 – December 31) basis. It is unclear which adequacy amount DOR would use for a tax year if the amount were changed mid-year for the new school year. For the fiscal note purposes only, DOR will use the \$7,145 current amount for all fiscal years.

The State Adequacy Target History

School Year	State Adequacy Target Amount
2025-2026	\$7,145
2024-2025	\$6,760
2023-2024	\$6,375
2022-2023	\$6,375
2021-2022	\$6,735
2020-2021	\$6,735
2019-2020	\$6,313

From the information gathered by DOR, tuition costs at most private schools in Missouri exceed the state adequacy target amount and so for fiscal note purposes we will assume that all the taxpayers with students in private school will qualify for the current \$7,145 as their tax credit amount. Students that are homeschooled or attending a FPE school could potentially reach the state adequacy target amount depending on the program and services they use. DOR will show the impact as if all have a minimum of \$800 (curriculum & supplies) up to all qualifying for the state adequacy target amount.

The Department of Elementary and Secondary Education said there were 859,638 of the 1,026,656 kids reported by the U.S. Census Bureau between the ages of 5 and 18 enrolled in public schools. Which leaves about 167,018 either in private school, FPE school or being home schooled. The Private School Review, an organization aimed at helping parents find private schools right for their children noted there are 124,042 kids enrolled in MO private schools. Therefore, we will assume the remaining 42,976 may be homeschooled or FPE school.

This proposal allows qualified taxpayers to apply for the credit starting January 15 through March 16 annually. Then DOR has 30 days to verify the qualified taxpayer is eligible for the credit and get notice to the taxpayer of the credit amount to be awarded. This language does allow DOR to prorate the credit should a student switch from a public school to a private school for part of a school year. DOR notes that the Department will have to create a new application form for parents to complete. This is estimated to cost \$10,000.

This proposal allows the taxpayer to submit an enrollment verification form for the private school the student will be enrolled in, for the school year. Using the information from the form on the amount of tuition and fees that will be paid, DOR is able to grant an advanced payment, paid to the taxpayer prior to them making the tuition payment. This would create an advanced payment credit. **DOR** assumes the Department would create a form that could be used by school districts to provide the information. The creation of the form is estimated to cost \$10,000.

If a school district chooses to submit the information using the enrollment form, DOR would allow them to submit them electronically by June 15th each year and DOR would be required to submit the payment to the taxpayer by June 30th. DOR will need to update our computer

systems to handle the electronic submission of these forms and the distribution of the payments. That is expected to cost at least \$100,000.

This proposal would allow DOR to contact with a third-party vendor to help collect the necessary information from the taxpayers, schools and to help with identification of which taxpayers will receive which funds. DOR notes that the submission of the forms requires taxpayers to submit copies of their tax returns verifying their Missouri adjusted gross income. DOR notes that due to our confidentiality laws that prohibit non-employees from viewing tax returns, it is unclear if we could use a third-party vendor to handle these duties. **DOR** for purposes of this fiscal note will assume no third-party vendor could be used.

This proposal requires DOR to deliver an annual report to the general assembly on the number of applications accepted and denied as well as the socioeconomic data and geographical distribution of applicants. DOR notes that due our confidentiality laws we would be able to release the number of applicants, and the amount distributed. However, information on the socioeconomic data and geographical distribution may not be able to be provided. **DOR** assumes the report can be handled by existing staff resources.

This proposal does not allow a student to be receiving benefits under the MO Empowerment Scholarship program and be eligible for this program. This proposal requires DOR to receive verification of the student's status with the State Treasurer's Office. DOR assumes the Department will need to update the computer program to accept the names of all recipients of the MO Empowerment Scholarship that DOR would then use to cross reference this credit against. The updates are estimated at \$10,000.

DOR notes this is a refundable credit but does not allow the credit to be carried forward, sold, transferred or assigned. Additionally, this proposal says that the refunded credit will not be considered Missouri taxable income.

This proposal appears to have conflicting language regarding whether the tax credit can be used to offset any qualified taxpayer's outstanding state tax liability or any other fine from an allowed debt offsetting agency. In Section 135.721.10(2) it allows DOR to offset any outstanding tax liability but in Section 135.721.10(7) it does not allow DOR to offset the refund payment against state tax liability or other agency debt.

This program requires that DOR calculate the amount of the total credits claimed in the completed applications received from January 15th to March 16th. Then as long as the total amount of credits claimed do not exceed the "annual maximum limit" DOR is to reopen the application period. DOR notes that "annual maximum limit" is not defined in this proposal and no cap is placed on the program. Therefore, it appears DOR will be continually reopening this program on a 30-day application cycle.

For fiscal note purposes, DOR will assume that all of the current 124,042 private school kids will have parents that apply for the credit and can claim the full credit amount for each child, which

will result in \$886,280,090 ($\$7,145 * 124,042$) in credits being claimed. Assuming that all of the 42,976 homeschool kids or FPE students apply for the credit, this could result in another \$34,380,800 (based on \$800 in expenses) to \$307,063,520 (based on expenses equaling the state adequacy target) being claimed.

This credit is a refundable credit and therefore the state could see a reduction in general revenue of \$920,660,890 to \$1,193,343,610 annually if every non-public school child claims the credit. DOR notes this program could encourage more students to switch from public school to private school and depending on the number of additional students that may switch, the cost of this program could significantly increase over the estimated amount.

This tax credit is to begin on January 1, 2026, and does not require the credit be claimed on their tax return unless the parent chooses to do so. The 2026 tax year individual income tax returns are not filed until January 2027 (FY 2027) and so if claimed on the return would not impact general revenue until FY 2027. However, given they can receive the credit through advanced payments, taxpayers may apply for the refundable advanced payment starting in March 2026 (FY 2026). For fiscal note purposes only, DOR will show the entire impact starting in FY 2026.

This proposal allows the parents to claim the credit on their return and therefore the new tax credit would require a new line being added to the Form MO-TC (\$2,200), updates to our website and changes to our individual income tax computer system (\$1,832). These changes are estimated to cost \$4,032. As previously listed above a new form for the advanced application and school verification form will be needed at a combined cost of \$20,000 with additional computer upgrades equaling \$110,000.

Verifying expenses and whether a student is enrolled in a certain school is outside the normal course of business for DOR. It would more appropriately be done by DESE who has access to the records needed to handle this quicker for the taxpayer. DESE could issue a tax credit certificate once verification is done and the taxpayer could file the tax certificate with DOR for redemption.

DOR's existing tax credit staff is no longer able to handle the redemption of any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed DOR is not able to use temporary staff to help with processing these returns. DOR will need one Associate Customer Service Representative (ASCR) at \$37,020 each for every 3,000 returns to handle the verification, authorization and issuance of the credit. Given the number of participants expected in this program of 124,042 private school kids, DOR will need 41 FTE to handle the administration of this credit for private school kids and depending on the number of homeschooled students (estimated at 42,976 currently) DOR would expect the need of an additional 15 FTE for those returns.

Additionally, DOR will need one Associate Customer Service Representative (\$37,020) for every 5,000 returns to handle the redemption of the credit which is 33 FTE.

DOR will also need two Auditor positions to help with the auditing of school records and individual applicant records at a cost of (\$60,960 each).

DOR will also need two Lead Customer Service Representative (\$40,572 each) to supervise all the new Associate Customer Service Representatives.

Given the number of new FTE that would be needed to handle this program, DOR assumes it would need to create a Division of Education within the Department to handle this refundable credit. Therefore, the DOR would need a Division Director (\$135,000), a Deputy Division Director (\$118,680) and a Managing Counsel (\$96,000) to oversee the new division.

Total Cost for new FTE for Division of Education leadership:

Division Director	\$135,000
Deputy Division Director	\$118,680
Managing Counsel	\$96,000
Auditor	\$121,920
Lead ACSR	\$81,144
ASCR	\$3,294,780
Total FTE salary cost	\$3,847,524

Oversight provides detailed breakdown of DOR estimated FTE needed as follow:

Type of Schooling	Pupil Total	Items per FTE	Total FTE Needed	Staff Assignment
Private School	124,042	3000 per FTE	41	verification, authorization, and issuance
Home School	42,976	3000 per FTE	15	verification, authorization, and issuance
Private School	124,042	5000 per FTE	25	redemption of the tax credit
Home School	42,976	5000 per FTE	8	redemption of the tax credit
Total			89 FTE	

Oversight notes DOR assumes the need for additional FTE (2) Lead Customer Service Rep at a salary of \$40,572, to supervise and assure compliance with this proposal and lastly, (2) Auditor for (\$60,960); Managing Counsel (1) \$96,000; Division Director (1) \$135,000; and the Deputy Director (1) \$118,680. Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR's FTE costs in the fiscal note, beginning FY 2027.

Oversight notes that DOR costs consists of proposal allowing the parents to claim the credit on their return and therefore the new tax credit would require a new line being added to the Form MO-TC (\$2,200), updates to the website and changes to the DOR individual income tax computer system (\$1,832). These changes are estimated to cost \$4,032. As listed above by the DOR a new form for the advanced application and school verification form will be needed at a combined cost of \$20,000 with additional computer upgrades equaling \$110,000.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the DOR impact, for the DOR – ITSD related costs mention above in the fiscal note.

Oversight notes that §135.721 9 (4) allows for DOR to recapture tax credit that were improperly issued, due to specified non-compliance. Therefore, Oversight will reflect \$0 (the auditor find all taxpayers are in compliance) to unknown (the auditor finds that some of the taxpayers did not comply with the criteria of the tax credits) gain to the general revenue in the fiscal note.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume beginning with tax year 2026, this proposal would grant a tax credit for qualifying private school and homeschooling expenses. The tax credit shall be equal to 100% of the expenses incurred, up to the state adequacy target amount. The credit shall be refundable, but may not be transferred, sold, or otherwise assigned.

B&P notes that the state adequacy target is set on a school year basis (July 1 – June 30), while the tax year is generally set on a calendar year (January 1 – December 31) basis. It is unclear which adequacy amount should be used for a tax year if the amount is changed mid-year for the new school year.

B&P does not know what the adequacy target will be in future years; for the purpose of this fiscal note, B&P will use the current amount. B&P notes that the current state adequacy target will be \$7,145 beginning FY26. B&P further notes that the tax credit limit is per taxpayer, regardless of number of qualified students that taxpayer may claim as a dependent.

Private School

Based on information published by DESE, there are 859,355 students enrolled in public K-12 schools. Based on data published by the Private School Review there are 124,042 students enrolled in private K-12 schools within Missouri. Of the 124,042 private school students, B&P estimates that 88,304 are enrolled in elementary school and 35,738 are enrolled in secondary school.

The Private School Review shows the average private school tuition in Missouri is \$11,290 for elementary and \$13,686 for secondary. Assuming 20% is reduced for scholarships or other financial assistance, the total average cost of elementary is \$9,032 and \$10,949 for secondary. B&P notes that both elementary and private school tuition exceed the state adequacy target / tax credit limit. Therefore, B&P will reflect the loss from this provision as at the maximum credit limit. (<http://www.privateschoolreview.com/missouri>)

Therefore, B&P estimates that this provision could reduce GR by \$886,280,090 (124,042 private school students x \$7,145 credit limit FY26) in FY27.

B&P does not have data on the number of public-school students that might switch to private schools because of this proposal. Depending on the number of students that switch, the cost of this program could increase significantly.

Home School

Using the information above, B&P estimates that there are approximately 15,725 children (999,122 children – 859,355 public school – 124,042 private school) homeschooled in Missouri.

Based on numerous websites, the average cost to homeschool a child is between \$400 (cheapest online option) and \$7,000 (homeschooling with additional tutoring). For the purpose of this fiscal note, B&P will reflect the potential cost of \$400 (lowest cost) to \$7,000 (upper average range < \$7,145 state adequacy target).

Therefore, B&P estimates that this provision could reduce GR by \$6,290,000 (15,725 students x \$400 cost) to \$110,075,000 (15,725 students x \$7,000 cost) annually.

Summary

B&P estimates that this proposal could reduce TSR and GR by \$892,570,090 (\$886,280,090 private school + \$6,290,000 homeschool) up to \$996,355,090 (\$886,280,090 private school + \$110,075,000 homeschool) annually beginning in FY27.

Officials from the **Office of the State Treasurer (STO)** assume this bill could change the calculation of potential contract fees, should STO have to verify the participation of every home-schooled student in MO. This is a change from our prior fiscal notes for this bill.

Officials from the STO assume the proposal will have a direct fiscal impact on their organization, due to the STO being required to verify the participation of homeschooled children within this program. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect range of impact from zero (STO is not required to verify the participants) to STO estimated impact (STO is required to verify the participants) in the fiscal note.

Oversight notes that STO assume a negligible impact to the "Missouri Empowerment Scholarship Accounts Program", (as promulgated in §135.712 to §135.719) where some students, due to the less stringent rules, could potentially utilize a tax credit under this proposal rather than the MOScholar program. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for the STO, in the fiscal note.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for the DESE.

Oversight, for purpose of this fiscal note, will accept the DOR's findings as to how many children there are in homeschool or private school settings.

State Adeq. Target	Children in homeschool	Total tax credit potential
\$800- \$7,145	42,976	\$34,380,800 - \$307,063,520
State Adeq. Target	Children in private schools	Total tax credit potential
\$7,145	124,042	\$886,280,090

Therefore, **Oversight** will reflect a reduction in general revenue of \$920,660,890 to \$1,193,343,610 annually, as of FY 2027 annually.

Officials from the **Oversight Division** state they are responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, Oversight can absorb the cost with the current budget authority.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

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. 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 the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the 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 the office can sustain with its core budget. Therefore, the 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.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE			
<u>Revenue Loss</u> – 135.721 Educational Tax Credit p. 9-11	\$0	Less than (\$920,660,890) or Could Exceed (\$1,193,343,610)	Less than (\$920,660,890) or Could Exceed (\$1,193,343,610)
<u>Costs</u> – Sections 135.721 (p.6)			
Personnel Service	\$0	(\$3,924,474)	(\$4,002,964)
Fringe Benefits	\$0	(\$3,088,961)	(\$3,120,420)
Expense & Equipment	\$0	(\$1,292,465)	(\$55,832)
<u>Total Costs - DOR</u>	<u>\$0</u>	<u>(\$8,305,900)</u>	<u>(\$7,179,216)</u>
FTE Change	0 FTE	96 FTE	96 FTE
<u>Costs</u> - Section 135.721 6 - DOR ITSD updates to the forms, websites and software p.	\$0	(\$134,032)	\$0
<u>Revenue Gain</u> - §135.721 9. (4) recapture of the tax credit for non- compliance, p.8	\$0	\$0 to Unknown	\$0 to Unknown
<u>Cost</u> – STO – recalculation of contract fees, p. 9	<u>\$0</u>	<u>\$0 or (\$200,000)</u>	<u>\$0 or (\$200,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	Less than (\$929,300,822) or Could Exceed <u>(\$1,201,983,542)</u>	Less than (\$928,040,106) or Could Exceed <u>(\$1,200,722,826)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
	<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

This bill establishes the "Missouri Parental Choice Tax Credit Act" and provides a tax credit to parents or guardians of any "qualified student" enrolling in a home school, family paced education school, private school, private virtual school, parochial school, or parish school. The tax credit can be claimed for eligible expenses which are outlined in the bill and include the cost of tuition and fees, textbooks, and tutoring services. The tax credit cannot exceed the lesser of the eligible qualified expenses paid by the taxpayer or the State adequacy target for the tax year.

The bill outlines specific provisions for claiming the tax credit along with eligibility restrictions. Taxpayers participating in the Missouri Empowerment Scholarship Program are ineligible. Tax credits are refundable but not transferable. This program sunsets six years after the effective date.

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 Revenue
Office of Administration – Budget & Planning
Joint Committee on Administrative Rules
Department of Elementary and Secondary Education
Office of the Secretary of State
Oversight Division



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April 23, 2025



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April 23, 2025