

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0377-01
Bill No.: SB 248
Subject: Taxation and Revenue – Income; Taxation and Revenue – General; Education,
 Elementary and Secondary
Type: Original
Date: March 30, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	\$0	(\$21,691,921)	(\$22,112,666)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$21,691,921)	(\$22,112,666)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials with the **Parkway School District** assume this proposal would result in a loss to state revenues.

Officials with the **Department of Elementary and Secondary Education (DESE)** assume this proposal would allow a taxpayer to deduct the amount spent for each dependent in grades K-12 for tuition, attendance fees, or school supplies for or on behalf of each dependent attending a school situated in Missouri, up to a maximum of \$2,500 for each dependent.

Per the 2004-2005 Missouri School Directory, the fall enrollment for the 2003-2004 school year was 893,146 for elementary and secondary schools (grades K-12). Per DESE's federal financial management section, the fall 2003-2004 enrollment for private/parochial schools for such grades totaled 95,230. Multiplying 988,376 total students by \$2,500 deduction per student would yield \$2.47 billion in income that could potentially be deducted.

Using an income tax rate of 5.5%, DESE assumes the potential reduction in Missouri income tax collection to be approximately \$136 million. However, DESE notes that it is unlikely that the deduction would reach 100% participation; nor is it likely that each taxpayer meeting the requirements of this proposal would be eligible for the full \$2,500 deduction. DESE assumes no

ASSUMPTION (continued)

fiscal impact on its agency.

Officials with the **Department of Revenue (DOR)** anticipate, for the portion of the exemption related to tuition and attendance fees, requiring a receipt from the school reporting the amount of expenditures. The taxpayer will need to have this receipt attached to their return when filing.

Because of the extent of review required, Personal Tax believes this will increase the time to process a return claiming the deduction by as much as 33%. The expectation is that everyone with a dependent will have some deduction. Personal Tax's latest statistics (2002 returns) show that 48.5% of all e-filer's had dependents. This could eliminate as many as 750,000 e-filer's who would now have to file paper returns because there is no method for submitting this documentation through electronic filing. The 2002 stats show that 33% of all paper return filers have dependents. In total, DOR would be processing more than 1.1 million paper returns with this deduction and the documentation requirements.

For such an increase in paper returns, Personal Tax would need 62 additional temporary employees. Personal Tax will need one Tax Processing Tech for every 2,400 pieces of correspondence as a result of adjustments to the amounts claimed.

Information Technology will need to modify the MINITS, SPEED-Up and all associated systems to allow for the additional line and DOR box on the returns. It is estimated that it will take 6 programmers 2 months (2,076 hours at a cost of \$69,255) to handle the additional line on the returns and 4 programmers 1 month (692 hours at a cost of \$23,085) to do the edits necessary to generate the error notices if returns are incorrect on this new line.

Customer Assistance will need 1 Tax Processing Tech for every 4,800 contacts in the field; 1 Tax Collection Tech for every 24,000 calls to the 751-3505 income tax hotline on adjusted refunds; and 1 Tax Collection Tech for every 15,000 calls to the 751-7200 delinquent tax hotline for billings.

Oversight assumes that any necessary equipment and expense required by the addition of tax season temporary employees and the four additional FTE could be accommodated by existing or planned resources.

DOR estimates that, with a total of 993,502 dependents claimed on Missouri with a maximum \$150 reduction in tax liability per child (\$2,500 per dependent x 6% tax rate), the maximum potential revenue loss for the state would be \$267.54 million. DOR notes, however, that are not a dependents claims are school-age children and that not all taxpayer would earn sufficient

ASSUMPTION (continued)

income or students would generate enough related expenses to qualify for the entire deduction.

Officials with the **Office of Administration – Division of Budget and Planning (BAP)** assume this proposal creates a Missouri income tax deduction for tuition, attendance fees, and school supplies paid for education expenses for grades kindergarten through twelve. The school must be situated in Missouri. The deduction is capped at \$2500. This proposal does not define what is meant by “tuition, fees, and school supplies”. BAP assumes no fiscal impact to its agency.

For fiscal note purposes only, BAP makes the following assumptions:

According to the 2002-2003 Report of Public Schools in Missouri published by DESE, there are approximately 272,000 students in public schools in 9th – 12th grades. BAP assumes that for each of these students, \$200 is spent for school supplies and fees annually, or a total of \$54.4 million.

According to the 2002-2003 Report of Public Schools in Missouri published by DESE, there are approximately 622,000 students in K-8th grades. BAP assumes that for each of these students, \$150 is spent for school supplies and fees annually, or a total of \$93.3 million.

According to the US Census Bureau’s Quick Facts website, there are approximately 1.1 million total children between the ages of 5-18 in Missouri. Subtracting the estimated students above, and allowing for children not attending school, an estimated 150,000 students attend private K-12th institutions, in Missouri or elsewhere. For fiscal note purposes, BAP assumes that each of these students attends school in Missouri, and that for each of these students, \$1,200 is spent for tuition, school supplies, and fees annually, or a total of \$180.0 million.

Therefore, an estimated \$327.7 million is paid in tuition, fees, and school supplies annually and could be deducted if this proposal is enacted. Assuming the 6% tax rate, this proposal will have a negative impact of \$19.7 million on general and total state revenues.

However, since “tuition, attendance fees, and school supplies” is undefined, BAP assumes the impact could be much greater. The cap for this deduction is \$2,500 per student. Multiplying this figure by the estimated 1.1 million students in Missouri would allow a negative impact of \$165 million on general and total state revenues.

For purposes of this fiscal note, **Oversight** concurs with BAP’s assumption of \$327.7 million paid annually for tuition, fees, and school supplies; thus, **Oversight** assumes an annual loss to General Revenue as a result of this proposal (applying a 2% annual inflation rate) of \$20.9 million in FY07 and \$21.3 million in FY08.

RK:LR:OD (12/02)

ASSUMPTION (continued)

Oversight notes that fiscal impact resulting from this proposal could be significantly higher should tuition rates drastically increase or if the term “school supplies” is applied to a very broad spectrum of products.

This proposal could decrease Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE			
<u>Loss</u> – Income Tax Deduction	\$0	(\$20,865,500)	(\$21,282,800)
<u>Cost</u> – DOR			
Salaries & Fringe Benefits	<u>\$0</u>	<u>(\$826,421)</u>	<u>(\$829,866)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>(\$21,691,921)</u>	<u>(\$22,112,666)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<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.

DESCRIPTION

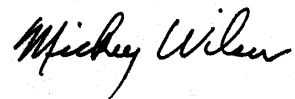
This proposal creates a Missouri income tax deduction for tuition, fees, and school supplies paid for education expenses for grades kindergarten through twelve. The school must be situated in Missouri. The deduction is capped at \$2500.

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

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SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Department of Revenue
Office of Administration
 Division of Budget and Planning
Parkway School District



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