COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0982-03
Bill No.: SCS for SB 324
Subject: Education, Higher; Banks and Financial Institutions
Type: Original
Date: March 11, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	($3,262,500) to (Unknown)	($3,262,500) to (Unknown)	($3,262,500) to (Unknown)
Total Estimated Net Effect on General Revenue Fund	**($3,262,500) to (Unknown)**	**($3,262,500) to (Unknown)**	**($3,262,500) to (Unknown)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on All 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 **Department of Economic Development - Division of Finance** and the **Coordinating Board for Higher Education** assume this proposal would have no fiscal impact on their agencies.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state there should be no added cost to the BAP as a result of this proposal.

BAP notes that this proposal would allow taxpayers to make deductible contributions to qualifying higher education savings plans similar to the MOST program yet sponsored by other states. BAP is unable to estimate the number of participants or the amount they might contribute to these programs, and is therefore unable to estimate the revenue impact. However, this program will negatively, and perhaps significantly, impact general and total state revenues.

Officials from the **Office of Secretary of State (SOS)** assumed the rules, regulations and forms issued by the Office of State Treasurer could require as many as 6 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is $23. The estimated cost of a page in the *Code of State Regulations* is $27. The actual costs could be

ASSUMPTION (continued)

more or less the SOS's estimated cost of $369 for FY 2006. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Revenue - Division of Taxation** assume documentation will have to be attached to the tax return indicating that deduction is from a 529 plan and provide the amount qualifying for the deduction. With the Tax Season Temporaries verifying this information it is estimated that 2 Tax Season Temps will be needed for every 32,000 returns filed using the deduction, one Tax Processing Tech for every 19,000 additional errors, and one Tax Processing Tech for every 2,400 pieces of correspondence generated by this legislation.

The Division of Taxation will have internal costs estimated to be $61,554 and 2 FTE associated with the implement of this legislation; however, the division believes it can manage these costs at current appropriation levels unless there is a material change in the division's other responsibilities.

Officials with the **Office of State Treasurer (STO)** assume this proposal would expand the state's MOST program by extending income tax deductions to Missouri citizens placing investments in any 529 college savings plan offered by state or any political subdivision of any state. Currently, this deduction is allowed only to investors in Missouri's MOST plan.

While it is impossible to precisely estimate the impact of extending the state income tax deduction to all 529 plans offered by all states, as well as additional marketing by broker dealers that may increase the number of citizens investing in 529 plans who are currently not invested in the MOST plan, it is possible to establish a low and high range of tax revenue that will not be paid into the state's General Revenue fund based on estimates of the number of Missouri citizens who currently invest in 529 plans offered by other states whose investments would become tax exempt if this proposal becomes law.

STO estimates that there are currently 86,000 MOST accounts qualifying for the state income tax deduction, and that approximately 29,000 Missouri residents currently invest in out-of-state plans that would become eligible for the tax deduction as a result of this proposal. STO assumes that the average annual investment in such plans ranges from $2,500 to $8,000 (the maximum

ASSUMPTION (continued)

allowed by law). STO assumes an average income tax rate of 4.5 percent.

Under the Senate Committee Substitute, a $4,000 limit is placed on the income tax exemption for investments in out of state plans. This would not affect the low-range estimate, because it is based on a $2,500 annual investment, which is below the cap.

This change would affect the upper estimate range as reflected below.

The low range estimated, therefore, involves 29,000 newly qualified accounts receiving annual investments of $2,500 per account at a tax rate of 4.5 percent creating a loss to General Revenue of $3,262,500

The high range estimate assumes 29,000 newly qualified accounts receiving the annual maximum investment of $4,000 allowed by law and the taxation would occur at a higher bracket of 6 percent creating a loss to General Revenue of $6,960,000.

STO notes that such estimates fail to consider potential impact from any increase in the number of total investors in such savings plans. Due to the uncertainly of consumer investment behavior, STO cannot predict the rate at which investments (either the number of investors or the amount they invest) would increase as a result of this proposal.

This legislation would reduce Total State Revenue.

FISCAL IMPACT - State Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE			
Loss – Reduced Income Tax Receipts	($3,262,500) to (Unknown)	($3,262,500) to (Unknown)	($3,262,500) to (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($3,262,500) to (Unknown)**	**($3,262,500) to (Unknown)**	**($3,262,500) to (Unknown)**

FISCAL IMPACT - Local Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal authorizes a state tax deduction of up to $4,000 per taxpayer for contributions made to qualified educational savings programs sponsored by other states. No person cannot deduct more than $8,000, in the aggregate, in a fiscal year for contributions to a Missouri educational savings program or another state's educational savings program. Such programs must meet certain investor protection measures promulgated the Missouri Higher Education Savings Program Board. Contributions to the program must be held for at least one year. Contributions and earnings in the program shall not be considered income when determining a student's eligibility for financial assistance under any state aid program.

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 State Treasurer
Department of Revenue
    Division of Taxation
Coordinating Board for Higher Education
Department of Economic Development
    Division of Finance
Office of Secretary of State
    Administrative Rules Division

Mickey Wilson

Mickey Wilson, CPA
Director
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