

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3371-01
Bill No.: SB 670
Subject: Education, Higher; Taxation and Revenue - Income.
Type: Original
Date: February 7, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$0	(Could exceed \$238,190,712)	(Could exceed \$238,161,011)
Total Estimated Net Effect on General Revenue Fund	\$0	(Could Exceed \$238,190,712)	(Could Exceed \$238,161,011)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
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 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Revenue's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 12 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 18 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$738, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

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.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the legislation creates the "Higher Education Expenses Deduction", which provides a deduction from federal

ASSUMPTION (continued)

adjusted gross income of 100% of qualifying tuition and fees at a higher education institution for taxpayers with Federal Adjusted Gross Income of less than \$200,000.

- BAP notes that this proposal is not specific to Missouri institutions.
- BAP notes that according to US Census figures, Missouri had 589,000 residents age 18-24 in 2004, but it is unknown how many may be attending a qualifying institution. Therefore, the number of qualifying taxpayers is likely quite large.
- BAP notes that, according to the University of Missouri's website, tuition and fees range from \$7,000 to \$27,000 each year.

This proposal will reduce General and Total State Revenues by an unknown significant amount.

Officials from the **Department of Revenue (DOR)** state coordination with Higher Education will be necessary to determine qualifying institutions. Documentation necessary to qualify for the deduction will include name of institution, proof of ½ time or more enrollment, & proof of expenses for tuition and fees. DOR would expect a lot of adjustments and requests for additional information. It is suggested that the most direct approach would involve a new worksheet or application to be submitted with the return when filed, similar to the MO- ATC form.

Due to the new deduction, DOR anticipates an impact as follows:

- DOR's Personal Tax will require two additional temporary employees to key the additional line added to the MO-A. Taxation anticipates a high number of taxpayers taking advantage of this deduction, therefore, Personal Tax will also need 1 Tax Processing Technician I for every 19,000 errors and 1 Tax Processing Technician I for every 2,500 additional pieces of correspondence. (2 Tax Season Temps, 2 TPTs)
- DOR's Customer Services will require 1 Tax Collection Technician I (TCTs) for every 15,000 calls a year on the income tax hot line due to lack of documentation. 1 Tax Collection Tech. I for every 24,000 calls a year to the delinquency/collections lined on billings and denied deductions due to lack of documentation. They will also need 1 Tax Processing Tech. I for every additional 4,800 contacts in the field offices. While the volume created by a deduction of this type is certain for the main processing areas, the field impact can vary. For this reason, DOR will request the Tax Processing Technicians mentioned above for the field offices when, and if, they are required due to an increased volume of contacts. (2 TCTs)

ASSUMPTION (continued)

- This legislation will require modifications to individual income tax systems. Taxation estimates these modifications will require a MINITS programming costs of \$46,170 (1,384 hours). DOR proposes to cover these costs with current IT staff. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

In summary, DOR assumes a cost of roughly \$170,000 per year to administer this new deduction.

Oversight assumes DOR would not need additional FTE to administer this proposal until FY 2008. Oversight also assumes DOR would not pay for additional floor space in Jefferson City.

Oversight assumes this proposal would permit an income tax deduction for persons with qualified higher education expenses. **Oversight** assumes that a significant number of persons would qualify for this deduction and submit the proper paperwork to the Department of Revenue. This proposal would reduce General Revenue by an unknown, but significant amount.

According to the United State Census Bureau, 321,000 Missourians were enrolled in Degree-Granting Institutions of higher education in 2000. The most recent (2003) average amount paid for tuition and required fees at institutions of higher education is \$16,517 per student per year. Therefore, **Oversight** will assume tuition and required fees of over \$5.3 billion (321,000 x \$16,517) were paid by Missourians in 2003. Using a marginal tax rate of 4.5%, this new deduction would reduce General Revenue collections in a given fiscal year by over \$238 million. Many factors could change the fiscal impact of this proposal, therefore, Oversight will utilize a fiscal impact of "Could exceed \$238,000,000".

This proposal would reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Costs - Department of Revenue</u>			
Personal Service (4 FTE)	\$0	(\$96,624)	(\$99,040)
Fringe Benefits	\$0	(\$42,573)	(\$43,637)
Expense and Equipment	\$0	(\$36,386)	(\$2,827)
Temporary Tax Employees	<u>\$0</u>	<u>(\$15,129)</u>	<u>(\$15,507)</u>
<u>Total Costs - DOR</u>	<u>\$0</u>	<u>(\$190,712)</u>	<u>(\$161,011)</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2007 (10 Mo.)	FY 2008	FY 2009
Loss – Reduced Income Tax Receipts from income tax deduction for higher education expenses	<u>\$0</u>	<u>(Could exceed \$238,000,000)</u>	<u>(Could exceed \$238,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>(Could Exceed \$238,190,712)</u>	<u>(Could Exceed \$238,161,011)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<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

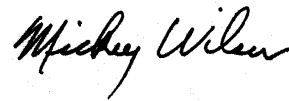
This proposal creates a deduction against a taxpayers Missouri state income tax for qualified higher education expenses. In order to qualify, the taxpayer student or taxpayer claiming a student as a dependent, must have a federal adjusted gross income of less than two hundred thousand dollars regardless of whether the taxpayer files a joint or single return and the educational expenses must be incurred by a student registered at least half time.

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 Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State



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