

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3514-02
Bill No.: HCS for SB 863
Subject: Education, Higher; Taxation and Revenue - Income
Type: Original
Date: April 18, 2008

Bill Summary: Would allow married taxpayers filing joint returns to deduct a portion of contributions to IRC Section 529 college savings plans from their taxable income, and would exclude assets and income in those plans from consideration in determining a student's eligibility for financial assistance.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed a previous version of this proposal would not result in additional costs or savings to their organization. BAP officials also assume this proposal would allow married taxpayers filing joint returns to deduct up to \$16,000 in annual contributions to the Missouri Higher Education Savings Program from their adjusted gross income. This is a subtle difference from current law, which allows an \$8,000 deduction per taxpayer. This proposal, therefore, would allow an increased deduction in the special case of joint filers who make a sufficient MOST contribution, but where one of the taxpayers does not have sufficient income to take advantage of the full deduction. This proposal could lower general and total state revenues by an unknown amount. Budget and Planning defers to the Department of Revenue for an estimate of reduced revenues.

Officials from the **Department of Higher Education** (DHE) assume this proposal would allow the deduction of deposits into IRC Section 529 college savings programs other than MOST, which would result in a decrease of total state revenue.

DHE officials assume that the provision of this version of the bill that says that contributions to college savings plans could not be considered income for purposes of determining eligibility to receive state financial aid would have minimal impact on general revenue. A student's eligibility to receive state financial aid is determined based on their federal Free Application for Student Aid (FAFSA), which provides the calculation of a student's expected family contribution (EFC). EFC is the most important criteria for determining the amount of a student's Access Missouri award. Contributions to such programs are often tax-deductible under current federal law and are thus not included in the calculation of a student's EFC.

Officials from the **University of Missouri** (UM) assume UM would incur no additional administrative costs as a result of the passage of this proposal.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic Policy Analysis and Research Center** (EPARC) assumed a previous version of this proposal would alter the maximum contribution to the state's 529 plan. Specifically, the current limit is for a filer to contribute \$8,000 to a fund. A fund is identified for each student. Under this law, the maximum would be \$8,000 per person on the tax return. Thus, a married couple filing a combined return could contribute \$16,000 to a fund.

In response to a similar proposal in the previous session (SB 224, LR 1247-01, 2007) EPARC officials stated that the proposal would have no fiscal impact if contributions to the savings program do not change. EPARC estimated the fiscal impact of the proposal could be as much as \$398 million if every eligible taxpayer who also claims a dependent increases their contributions to the maximum deduction of \$16,000 for joint filers and \$8,000 for single filers.

Officials from the **Department of Revenue** (DOR) did not anticipate an impact to their organization from a previous version of this proposal. In response to a similar proposal in the previous session (SB 224, LR 1247-01, 2007) DOR officials assumed the proposal would have no fiscal impact since it would allow married couples to take a full \$16,000 deduction for contributions to the Missouri Higher Education Savings Program without the current DOR requirement to segregate those contributions into separate accounts.

DOR officials also provided an estimate of the IT cost to implement this proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) assumes the IT portion of this request could be accomplished with existing resources; however, if priorities shift, additional FTE/overtime would be needed. ITSD/DOR estimates that this legislation could be implemented utilizing 3 existing CIT III for 3 months for modifications to MINITS at a total cost of \$37,674.

Oversight will use the Department of Revenue assumption that this proposal would eliminate the current need for a married couple filing a combined Missouri income tax return to use separate accounts to claim a full \$16,000 deduction. Therefore, Oversight assumes this proposal would have no fiscal impact from those provisions.

ASSUMPTION (continued)

Oversight assumes that the provision which would allow the deduction of contributions to IRC Section 529 college savings programs other than MOST could result in Missouri residents making contributions to plans set up by other states, but would not result in an overall increase in contributions to these plans. Therefore, Oversight assumes there would be no additional deductions to these plans and these provisions would have no fiscal impact to the General Revenue Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<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

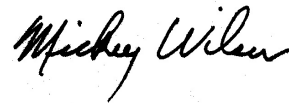
This proposal would appear to have no fiscal impact.

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

Office of Administration
 Division of Budget and Planning
Department of Revenue
University of Missouri
University of Missouri
 Economic Policy Analysis and Research Center



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