

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3514-02  
Bill No.: Truly Agreed To and Finally Passed HCS for SB 863  
Subject: Education, Higher; Taxation and Revenue - Income  
Type: Original  
Date: May 30, 2008

Bill Summary: Would allow additional deductible contributions to college savings plans for Missouri residents.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(\$3,200,000 to \$7,900,000)	(\$3,200,000 to \$7,900,000)	(\$3,200,000 to \$7,900,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$3,200,000 to \$7,900,000)</b>	<b>(\$3,200,000 to \$7,900,000)</b>	<b>(\$3,200,000 to \$7,900,000)</b>

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

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

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

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

- 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).

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

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## 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.

Officials from the **University of Central Missouri** (UCM) assume UCM would have no fiscal impact as a result 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.

Officials from the **Office of the State Treasurer** (STO) provided a calculation of estimated revenue losses. STO officials based that calculation on the assumption that Missouri residents would have the same level of contributions to IRC Section 529 college savings plans as a calculated national average, and their observation that MOST program assets were only 39% of expected contributions using that national average. The STO calculation resulted in an estimate of \$14 million in revenue losses due to allowing deductions for contributions to other state plans by Missouri residents.

ASSUMPTION (continued)

STO officials provided an estimate that there were 109,893 active MOST accounts as of March 31, 2008 and that the average annual MOST plan contribution was \$2,616.

In response to a similar proposal in a prior year, (SCS for SB 324, LR 0982-03, 2005) the STO estimated that there were approximately 86,000 active MOST accounts and that approximately 29,000 Missouri residents had made contributions to other states' IRC Section 529 plans.

**Oversight** notes that the previous estimate by the STO would indicate that 75% of Missouri residents' IRC Code 529 college savings plan contributions were for MOST accounts and that 25% were for other states' programs. Oversight assumes the percentage of Missouri residents using other states' programs would be more than the 25% indicated in the 2005 estimate but less than the 61% indicated in the 2008 estimate.

Oversight assumes there would be a revenue reduction resulting from allowing a deduction for contributions to other states' IRC Section 529 plans, and estimates that revenue reduction as follows:

This proposal would cause an increase in the number of Missouri residents with deductible college savings plan contributions ranging from 25% to 61%. A 25% increase would result in 27,473 additional accounts and a 61% increase would result in 67,035 additional accounts.

Minimum estimate:

Increase of 27,473 deductible contributions x \$2,616 average contribution x 4.5% average Missouri income tax rate, or \$3,234,122.

Maximum estimate:

Increase of 67,035 deductible contributions x \$2,616 average contribution x 4.5% average Missouri tax rate, or \$7,891,360.

Oversight will round these estimates and indicate a revenue reduction from \$3.2 million to \$7.9 million. Oversight notes that the expansion of tax deductibility for IRC Section 529 college savings plans could also cause an increase in contributions, making the impact larger than estimated.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction - additional deductions for college savings plans.</u>	<u>(\$3,200,000 to \$7,900,000)</u>	<u>(\$3,200,000 to \$7,900,000)</u>	<u>(\$3,200,000 to \$7,900,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$3,200,000 to \$7,900,000)</u></b>	<b><u>(\$3,200,000 to \$7,900,000)</u></b>	<b><u>(\$3,200,000 to \$7,900,000)</u></b>
<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.

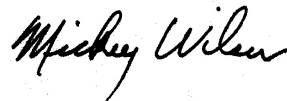
FISCAL DESCRIPTION

This proposal would allow married taxpayers filing joint returns to deduct up to \$16,000 of contributions to any state's 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 state-funded financial assistance programs.

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



Mickey Wilson, CPA  
Director  
May 30, 2008