

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3730-01
Bill No.: SB 894
Subject: Education, Higher; Taxation and Revenue - Income
Type: Original
Date: February 22, 2008

Bill Summary: Would create an income tax deduction for higher education expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(\$44,727,293 to \$71,427,293)	(\$44,745,177 to \$71,445,177)	(\$44,755,532 to \$71,445,532)
Total Estimated Net Effect on General Revenue Fund	(\$44,727,293 to \$71,427,293)	(\$44,745,177 to \$71,445,177)	(\$44,755,532 to \$71,445,532)

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 7 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
General Revenue	9	9	9
Total Estimated Net Effect on FTE	9	9	9

☒ 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 the Secretary of State (SOS)** provided this response. Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume there would be no added cost to BAP as a result of this proposal. BAP officials also provided an estimate of the state fiscal impact of this proposal.

The proposal would create the "Higher Education Expenses Deduction", which would provide a deduction from federal adjusted gross income of 100% of qualifying tuition and fees at a higher education institution for taxpayers with FAGI 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 569,000 residents age 18-24 in 2006 but it is unknown how many may be attending a qualifying institution. BAP assumes the number of qualifiers would be approximately equal to the total enrollment at qualifying Missouri institutions. According to the Coordinating Board for Higher Education (CBHE) website, that figure was 243,066, on an FTE basis, for Fall 2006.
- * According to the CBHE website, tuition and fees range from \$4,276 to \$18,920 for undergraduates at 4-year public institutions in Missouri each year, and could be much higher at independent institutions.
- * BAP estimates 95% of attendees would fall below the FAGI limit.

Therefore, BAP estimates 230,913 taxpayers would qualify for a deduction in the range above. Assuming a 4.5% tax rate, this proposal could reduce general and total state revenues by (\$44.4 million to \$196.6 million).

ASSUMPTION (continued)

Officials from the **Department of Higher Education** (DHE) provided an estimated average tuition for Missouri institutions of higher education of \$6,847, and noted that their estimate did not account for financial aid or other discounts which institutions customarily provide to many students. The DHE estimate of average tuition and the BAP estimate of attendance would indicate a potential revenue reduction of $(230,913 \text{ students} \times \$6,847 \text{ average tuition} \times 4.5\% \text{ average tax rate}) = \71.1 million .

Oversight assumes this proposal would allow a deduction for only those expenses equivalent to tuition and other mandatory enrollment fees charged by higher education institutions and would not allow a deduction for other expenditures commonly made by students such as room, board, textbooks, and supplies. In addition, Oversight assumes that the number of Missouri residents attending out-of-state institutions would approximately equal the number of nonresidents attending Missouri institutions. Since the proposal does not limit this deduction to residents nor to those attending Missouri institutions, Oversight will assume a revenue reduction from \$44.4 million to \$71.1 million for this fiscal note.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** did not respond to our request for information.

Officials from the **Department of Revenue** (DOR) assume this proposal would create an additional income tax deduction. Deductions reduce the amount of state tax due; therefore, total state revenues would be reduced. Beginning January 1, 2009, an individual with a Federal Adjusted Gross Income of less than \$200,000 who incurs tuition or fee expenses for enrollment of at least half-time at a higher education institution would be allowed a deduction for 100% of the expenses paid during the taxable year. The Department of Revenue would promulgate rules to implement the proposal.

Personal Tax would require one FTE Tax Processing Technician I for verification, assuming that verification requirements would exceed temporary staff capabilities; two FTE Temporary Tax Employee for key-entry of the MO-1040 and 1040 family, one FTE Tax Processing Technician I for every 19,000 returns to be verified on the MO-1040 and 1040 family; one FTE Tax Processing Technician I for every 2,400 pieces of correspondence regarding the MO-1040 and 1040 family; two FTE Temporary Tax Employees for key-entry of MO-1040P and Property Tax Credit forms, one FTE Tax Processing Technician I for every additional 5,000 verified returns plus correspondence on the MO-1040P and Property Tax Credit forms.

ASSUMPTION (continued)

Customer Assistance would require one FTE Tax Collection Technician I for every 15,000 calls a year on the income tax phone line; one FTE Tax Collection Technician I for every 24,000 calls a year to the delinquency phone line; and three FTE Tax Processing Technician I for every additional 4,800 contacts in the field offices. Taxation anticipates most customers would contact the department via phone and would only request one FTE for each of the larger field offices including Kansas City, St. Louis, and Springfield.

DOR officials also provided this estimate of the IT cost to implement the proposal. Office of Administration, Information Technology Services Division (ITSD/DOR) estimates the IT portion of this request could be implemented utilizing one existing FTE CIT III for 2 months for modifications to MINITS at a total estimated cost of \$8,372. ITSD/DOR assumes this proposal could be implemented with existing resources; however, if priorities shift, additional FTE/overtime would be needed.

DOR provided an estimate of the administrative cost to implement the proposal including nine additional FTE, with related equipment and expenses totaling \$369,555 for FY 2009, \$396,750 for FY 2010, and \$408,654 for FY 2011.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has adjusted equipment and expenditure amounts in accordance with OA budget guidelines, and Oversight assumes that individual additional employees in Springfield, St. Louis County, and Kansas City, could be accommodated in existing office space.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Revenue reduction-</u> tuition and fee deduction	<u>(\$44,400,000 to \$71,100,000)</u>	<u>(\$44,400,000 to \$71,100,000)</u>	<u>(\$44,400,000 to \$71,100,000)</u>
<u>Cost - Department of Revenue</u>			
Personal Service (9 FTE)	(\$191,930)	(\$237,225)	(\$244,342)
Fringe Benefits	(\$84,871)	(\$104,901)	(\$108,048)
Expense and Equipment	<u>(\$50,492)</u>	<u>(\$3,051)</u>	<u>(\$3,142)</u>
Totals	<u>(\$327,293)</u>	<u>(\$345,177)</u>	<u>(\$355,532)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$44,727,293 to \$71,427,293)</u>	<u>(\$44,745,177 to \$71,445,177)</u>	<u>(\$44,755,532 to \$71,445,532)</u>
Estimated Net FTE Effect on General Revenue Fund _____	9	9	9
<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 create an income tax deduction for eligible higher education expenses.

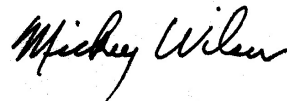
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
Division of Budget and Planning
Department of Revenue

NOT RESPONDING

University of Missouri
Economic and Policy Analysis Research Center



Mickey Wilson, CPA
Director
February 22, 2008