COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0401-01
Bill No.: SB 107
Subject: Education, Higher; Taxation and Revenue - Income
Type: Original
Date: February 4, 2009

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	$0	($54,449,250 to $65,649,250)	($54,573,684 to $65,773,684)
Total Estimated Net Effect on General Revenue Fund	**$0**	**($54,449,250 to $65,649,250)**	**($54,573,684 to $65,773,684)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue *	0	7	7
Total Estimated Net Effect on FTE *	**0**	**7**	**7**

* Additional FTE for six months of FY 2011.

☒ 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 2010	FY 2011	FY 2012
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) provided the following response.

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS 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 their organization as a result of this bill.

BAP officials stated that this 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 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 570,630 residents age 18-24 in 2007 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 CBHE website, that figure was 249,549, on an FTE basis, for Fall 2007.

Also according to the CBHE website, tuition and fees range from $5,090 to $18,920 for undergraduates at 4-year public institutions in Missouri each year, but could be much higher at independent institutions. BAP estimates 95% of attendees would fall below the FAGI limit. Therefore, BAP estimates 237,072 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 $54.3 million to $201.8 million.

ASSUMPTION (continued)

Officials from the **Department of Higher Education** (DHE) assume this proposal would have no direct impact on their organization.

DHE officials stated that they are unable to estimate the fiscal impact of this proposal with any precision because they cannot predict the extent to which this tax credit would be utilized, the income levels of those who would take advantage of the credit, other deductions available to those persons, etc. The DHE data does indicate, however, that the total amount of tuition paid for FY 07 (the most recent year for which data is available) is approximately $1.8 billion. This data includes amounts paid by or on behalf of non-Missouri residents and students attending less than half-time.

Officials from the **Department of Revenue** (DOR) assume this proposal would create the "Higher Education Expenses Deduction". Beginning January 1, 2010, 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 100% deduction of the expenses paid during the taxable year. DOR would promulgate rules for this proposal. DOR officials stated that modifications to tax forms and instructions would be required, and modifications to the MINITS system would be required.

DOR officials estimated that Personal Tax would require two Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I (Range 10, Step L) for every 19,000 returns verified, and one FTE Revenue Processing Technician I (Range 10, Step L) for every 2,4000 pieces of correspondence. In addition, Collections and Tax Assistance would require one FTE Tax Collection Technician I (Range 10, Step L) for every 15,000 contacts on the Delinquent inbound line, one FTE Tax Collection Technician I (Range 10, Step L) for every 24,000 calls each year to the non-delinquent tax line, and three FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts in the field offices. Taxation anticipates most customers will contact the department via phone, therefore, would only request 1 Full Time Employee for each of the larger field offices including Kansas City, St. Louis, and Springfield.

DOR provided an estimate of the cost to implement the proposal including seven additional employees and the related equipment and expenditures totaling $283,634 for FY 2010, $304,088 for FY 2011, and $313,210 for FY 2012.

ASSUMPTION (continued)

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.

Oversight also assumes that the DOR cost for employees and fringe benefits would apply to only half of FY 2011 since tax returns reflecting these deductions would be processed starting in January 2011.

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

Officials from the **Office of Administration, Information Technology Services Division** (ITSD/DOR) estimate that the IT portion of this request could be implemented with one FTE existing CIT III for two months for modifications to the MINITS system at a cost of $8,882. ITSD/DOR officials assume this proposal could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would create an income tax deduction for higher education expenses. Specifically, taxpayers who have tuition and fee expenses for enrollment of at least half time at a higher education institution AND have a federal adjusted gross income of less than two hundred thousand dollars would be able to subtract from their federal adjusted gross income 100% of such costs.

EPARC officials noted that the limited data available for this estimation resulted in a very conservative estimate for the fiscal impact this bill would produce. The most accurate estimation would have been possible if data were available for 100% of individual taxpayer's higher education expenses for "at least half time" status students. However, our current database does not include this data. Our database does include individual taxpayers' itemized Education Credit, but not the Tuition and Fees deduction, both standard line items on the federal tax forms.

ASSUMPTION (continued)

Therefore, the following estimate was calculated by reducing individual taxpayers' federal adjusted gross income by the amount of their itemized Education Credit. Since this credit is capped, it does not capture 100% of individual taxpayer's higher education expenses, nor does it distinguish "at least half time" students. Without the incorporation of the Tuition and Fees deduction and the aforementioned shortcomings, this estimate would appear to capture less than one half of the total fiscal impact this legislation may potentially produce.

Based on the information available, the EPARC estimate was a reduction in Net General Revenue equal to $5.8 million.

Officials from the **Department of Higher Education** (DHE) provided an estimated average tuition for Missouri institutions of higher education of $6,143, 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 (237,072 students x $6,143 average tuition x 4.5% average tax rate) = $65.5 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 $54.3 million to $65.5 million for this fiscal note.

This proposal would become effective for tax years beginning on or after January 1, 2010, and tax returns for those years would be filed beginning in FY 2011. Although some taxpayers might adjust their state income tax withholding and reduce FY 2010 revenues, Oversight will indicate all of the first year's revenue reduction in FY 2011.

FISCAL IMPACT - State Government	FY 2010	FY 2011 (6 Mo.)	FY 2012
GENERAL REVENUE FUND			
Revenue reduction- tuition and fee deduction	$0	($54,300,000 to $65,500,000)	($54,300,000 to $65,500,000)
Cost - Department of Revenue			
Personal Service (7 FTE) *	$0	($72,845)	($180,073)
Fringe Benefits	$0	($35,425)	($87,569)
Expense and Equipment	$0	($40,980)	($6,042)
Totals	$0	($149,250)	($273,684)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**($54,449,250 to $65,649,250)**	**($54,573,684 to $65,773,684)**
Estimated Net FTE Effect on General Revenue Fund *	0	7	7

* Additional FTE for six months of FY 2011.

FISCAL IMPACT - Local Government	FY 2010	FY 2011 (6 Mo.)	FY 2012
	$0	**$0**	**$0**

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 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 Higher Education
Department of Revenue
University of Missouri
Economic and Policy Analysis Research Center

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