

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5755-02  
Bill No.: Truly Agreed To and Finally Passed SS for SB 882  
Subject: Higher Education; State Treasurer  
Type: Original  
Date: June 21, 2018

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Bill Summary: This proposal modifies provisions of the Missouri Higher Education Savings Program.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	(Unknown, possibly substantial)	(Unknown, possibly substantial)	(Unknown, possibly substantial)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Unknown, possibly substantial)</b>	<b>(Unknown, possibly substantial)</b>	<b>(Unknown, possibly substantial)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
<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 2019</b>	<b>FY 2020</b>	<b>FY 2021</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 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from **Department of Revenue (DOR)** assume transfers to ABLE accounts from the MOST accounts may result in an unknown negative impact to general revenue. Allowing MOST accounts to now be used at all grade levels may result in an unknown negative impact to general revenue (GR) as well.

Officials from **Office of Administration - Budget and Planning (BAP)** state, due to recent changes to federal law, 529 accounts can now be used for elementary and secondary education expenses without federal tax consequences. In this bill, references to higher education are being removed so that MOST 529 accounts can be used for elementary and secondary education expenses without state tax consequences. To the extent that taxpayers increase deposits into such accounts for elementary and secondary education expenses that would have otherwise been taxable distributions, general and total state revenues may be negatively impacted. Likewise, to the extent that taxpayers transfer monies from MOST Accounts to ABLE Accounts that would have otherwise been taxable distributions, general and total state revenues may be negatively impacted.

BAP notes the number of participants and amounts of any contributions is unknown, but are estimated below:

According to data available from DESE, there were 885,142 enrolled public K-12 students in 2017. Various media reports suggest the cost of school supplies is roughly \$100 per student. This suggests \$88,514,200 in potential costs. Based on data available regarding cafeteria plan participation, BAP estimates 20-50% of eligible taxpayers may choose to use the savings plan. At the current 5.9% income tax rate, this could reduce revenues - see table below.

#### I. Public Schools

Number of Students in Public School	885,142	
Average Cost of School Supplies (per Student)	\$100	
Total Avg Cost of Public	\$88,514,200	
Likely % Participating	20%	50%
Potential Contributions	\$17,702,840	\$44,257,100
<b>Estimated Loss to GR</b>	<b>\$1,044,468</b>	<b>\$2,611,169</b>

ASSUMPTION (continued)

According to the Private School Review, there are 117,723 private school students in Missouri. BAP assumes their largest qualifying costs would be tuition, which the review estimates as \$6,777 for elementary students, and \$12,411 for high school students. Based on available Census data, BAP estimates there are 84,390 private elementary students, and 33,333 private high school students. BAP further assumes that roughly 20% of these tuition costs would be covered by scholarships or other assistance. Using the 20-50% range above, at the current 5.9% income tax rate, this could reduce revenues - see table below.

II. Private Schools

Number of Students in Public School	117,723	
Estimated # Elementary	84,390	
Estimated # Secondary	33,333	
Avg Cost of Elementary in MO	\$6,777	
Avg Cost of Secondary in MO	\$12,411	
Percent of assistance	20%	
Total Avg Cost of Elementary (less assistance)	\$457,528,824	
Total Avg Cost of Secondary (less assistance)	\$330,956,690	
Total Cost	\$788,485,514	
Likely % Participating	20%	50%
Potential Contributions	\$157,697,103	\$394,242,757
<b>Estimated Loss to GR</b>	<b>\$9,304,129</b>	<b>\$23,260,323</b>

Summary

Therefore, it is possible that expanding the Missouri Education Savings program to include elementary and secondary school expenses may reduce general and total state revenues between \$10.3 million and \$25.8 million annually. The actual rates of participation, and any caps set by the Board, could impact these estimates.

ASSUMPTION (continued)

BAP notes the existing MOST program for higher education savings is a comparable program. Using MOST data on tax filings during FY17 supplied by DOR, approximately \$17.74 million was claimed as contributions to MOST accounts by taxpayers. At the current 5.9% rate, the loss to general and total state revenues is smaller than the estimate above, but that program has statutory caps on annual contributions, and the universe of families saving for higher education is likely smaller.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume section 166.415 will result in insignificant expenses.

Officials from the **Department of Higher Education** and **Office of the State Treasurer** assume the proposal will have no fiscal impact on their organizations.

**Oversight** notes an ABLE (Achieving a Better Life Experience) account is an investment account available to individuals with disabilities. The earnings on the accounts are tax-deferred and tax-free when used to pay for qualified disability expenses.

**Oversight** notes a MOST 529 account is a college savings investment account (Missouri's 529 College Savings Plan). The earnings from the account are deferred from federal and state income taxes when used for qualifying expenses.

**Oversight** notes recent changes to federal law allow transfers from 529 plans college savings plans to ABLE plans without federal tax consequences. Under current state law, transfers from MOST 529 college savings accounts to ABLE accounts would be subject to state taxation. Oversight assumes this proposal would allow transfers from MOST 529 college savings accounts to ABLE accounts without state tax consequences.

**Oversight** notes the assets of MOST 529 accounts totaled \$2.492 billion at the end of 2015.

**Oversight** cannot estimate the amount of funds that would transfer from MOST accounts to ABLE accounts as a result of this proposal. Oversight will show a fiscal impact of an unknown loss based on responses from DOR and BAP.

**Oversight** notes the 2017 non-public and homeschool enrollment number is estimated at 130,896 (based on information from DESE). If twenty five percent of those student received a maximum \$10,000 contribution per student per year to a MOST 529 account, contributions would total \$327,240,000. This would result in a loss of \$19,307,160 in state revenues (using a tax rate of 5.9%).

ASSUMPTION (continued)

**Oversight** notes based on information from the Office of the State Treasurer’s website, Missouri taxpayers can use MOST 529 assets to pay for K-12 tuition up to \$10,000 per year per student without state tax consequences as a result of changes to the federal law expanding the 529 savings program.

**Oversight** is uncertain if the changes provided for in this proposal constitute a change from allowable practices under current state law following the federal changes. Oversight will show a range of impact of \$0 (529 assets can already be used for K-12 tuition without tax consequence) to an unknown cost (this proposal authorizes 529 assets to be used for K-12 tuition without state tax consequences). Oversight notes that the Missouri State Treasurer’s website states that “Missouri taxpayers can use MOST 529 assets to pay for K-12 tuition up to \$10,000 per year per student without state tax consequences.” Therefore, Oversight assumes the various changes in this bill regarding K-12 education would simply reflect the current tax status of the program due to changes at the federal level and would not have additional fiscal impact by itself.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>GENERAL REVENUE</b>			
<u>Loss</u> - of income tax revenue from transfers to ABLE accounts from MOST accounts (which is currently state-taxable)	(Unknown)	(Unknown)	(Unknown)
<u>Loss</u> - of income tax revenue from taxpayers using MOST accounts for K-12 tuition	\$0 or (Unknown, possibly substantial)	\$0 or (Unknown, possibly substantial)	\$0 or (Unknown, possibly substantial)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>(Unknown, possibly <u>substantial</u>)</b>	<b>(Unknown, possibly <u>substantial</u>)</b>	<b>(Unknown, possibly <u>substantial</u>)</b>
<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

### FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

### FISCAL DESCRIPTION

This act modifies the Missouri Higher Education Savings Program to allow 529 MOST account holders to transfer money from such account to a Missouri ABLE account while retaining tax exempt status on any money transferred.

This act additionally stipulates that funds held in 529 MOST savings account that are used at a designated elementary and secondary institution are considered a qualified education expense, permitting a taxpayer to receive a tax deduction for such expenses.

The act adds the Commissioner of Education to the membership of the Missouri Higher Education Savings Program Board.

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

Department of Revenue  
Office of Administration - Budget and Planning  
Office of the State Treasurer  
Department of Higher Education  
Department of Elementary and Secondary Education

Ross Strobe



Acting Director  
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