

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0241S.01I  
Bill No.: SB 48  
Subject: Taxation and Revenue - Income; Revenue, Department of  
Type: Original  
Date: March 3, 2021

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Bill Summary: This proposal would authorize a tax deduction for remote learning expenses.

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>  |   |                |                |
|--|---|----------------|----------------|
| <b>FUND AFFECTED</b>                                 | <b>FY 2022</b>                                  | <b>FY 2023</b> | <b>FY 2024</b> |
| General Revenue Fund                                 | Less than or greater than (\$14,796,487)        | \$0            | \$0            |
| <b>Total Estimated Net Effect on General Revenue</b> | <b>Less than or greater than (\$14,796,487)</b> | <b>\$0</b>     | <b>\$0</b>     |

| <b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>              |                |                |                |
|---|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>  | <b>FY 2022</b> | <b>FY 2023</b> | <b>FY 2024</b> |
|   |                |                |                |
|   |                |                |                |
| <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.

| <b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>                  |                |                |                |
|---|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>  | <b>FY 2022</b> | <b>FY 2023</b> | <b>FY 2024</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 2022</b> | <b>FY 2023</b> | <b>FY 2024</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 \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

| <b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b> |                |                |                |
|--|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>                       | <b>FY 2022</b> | <b>FY 2023</b> | <b>FY 2024</b> |
|  |                |                |                |
| <b>Local Government</b>                    | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     |

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposed legislation will reduce Total State Revenues (TSR) by \$14,796,487 to \$40,343,875 in Fiscal Year 2022 only. This proposed legislation will impact the calculation under Article X, Section 18(e).

B&P notes this proposed legislation would grant an income tax subtraction during Tax Year 2021 for costs incurred related to a qualifying dependent's remote learning during the 2020 and 2021 calendar years. The maximum subtraction allowed shall be \$1,500 per Individual Income Tax return. B&P notes that while the deduction will become available in Tax Year 2021, the impact to TSR will not occur until taxpayers file their annual return in Fiscal Year 2022.

In order for a dependent to qualify, they must meet the federal definition of a qualifying child and be required to attend elementary or secondary school remotely due to COVID-19.

Qualifying expenses are defined as:

- Personal computers and schools supplies as defined under Section 144.049, RSMo.
- Digital subscriptions required by the school district
- Tutoring services
- Internet access

For the purpose of this fiscal note, B&P estimated a low and high impact. The low impact assumes that qualifying expenses were primarily incurred before the start of the 2019-2020 school year and that the majority of students are not required to attend remote learning for a prolonged period. The high estimate assumes that additional qualifying expenses for the 2019-2020 school year were incurred as a result of remote learning and that the majority of students are required to attend remote learning for a prolonged period of time.

Based on research, B&P determined that the average amount spent on school supplies in 2019 (the most recent year data is available) was \$117 per student, the average cost of internet access is \$60 per month, the average amount spent on computers in 2019 (the most recent year data is available) was \$200 for every one in five (5) school students, the average cost of tutoring is \$150 per month, and that the majority of digital subscriptions have or had waived their fees during the COVID-19 pandemic. In addition, there are 879,845 public school students and 123,314 private school students within the state.

Based on numbers above, B&P estimates that total qualifying costs could range between \$274,009,027 (\$273 per qualifying child) and \$750,949,413 (\$749 per qualifying child). However, B&P notes that a taxpayer may have more than one (1) qualifying child. Using the number of children claimed per tax return, B&P estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children, and head of household returns claim an average of 1.48 children.

Therefore, the estimated amount claimed per tax return could range from \$388 to \$1,063 for single returns, \$552 to \$1,500 for married filing joint returns, and \$404 to \$1,108 for head of household returns. Under these scenarios, individuals claiming two (2) or more qualifying children would reach the \$1,500 maximum subtraction allowed. Therefore, B&P estimates that total qualifying expenses that may be claimed could range between \$274,009,027 and \$747,108,800.

B&P notes that deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. For Tax Year 2021, the top Individual Income Tax rate will be 5.4%. Therefore, B&P estimates that this proposed legislation could reduce TSR and General Revenue (GR) by \$14,796,487 to \$40,343,875 in Fiscal Year 2022.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation allows a taxpayer, beginning January 1, 2021 and ending December 31, 2021, to subtract from their Federal Adjusted Gross Income, an amount not to exceed \$1,500 for qualified expenses incurred for educating the child remotely as a result of COVID-19.

DOR notes there are 879,845 children in public schools in Missouri and 123,314 in private schools. Pursuant to the Governor's Executive Order 20-02 dated March 13, 2020 all schools in Missouri were to close as a result of COVID. Therefore, it is assumed that the parents of all 1,003,159 (879,845 + 123,314) children could potentially be eligible for this deduction.

DOR notes this proposed legislation allows for certain expenses to be considered qualifying expenses. Those include personal computers, school supplies, internet access and tutoring services. Pulling data from various sources, DOR assumed a low amount of qualifying expenses to be \$273 per taxpayer and a high amount to be \$749 per taxpayer.

Using DOR's Internal Income Tax Model that contains confidential taxpayer data, DOR was able to determine the average number of kids per filing status.

| Estimated # Dependents<br>(Tax Year 2017) | Avg. per filing<br>status |
|---|---------------------------|
| Single                                    | 1.42                      |
| MFJ                                       | 2.02                      |
| HOH                                       | 1.48                      |

Which would result in the following number of returns per filing status.

| Filing Status | Total Kids | # Returns |
|---------------|------------|-----------|
| Single        | 45,803     | 32,256    |
| MFJ           | 638,997    | 316,335   |
| HOH           | 318,358    | 215,107   |
|               |            | 563,698   |

DOR notes that deductions do not reduce revenue on a dollar for dollar basis, but rather in proportion to the top tax rate applied, this is estimated to be the impact based on the possible future tax rates.

DOR notes that this proposed legislation allows for the expenses that have been incurred during the 2020 or 2021 calendar year to be deducted. The deduction can only be claimed during the 2021 tax year. Those tax returns will be filed starting January 2022 (Fiscal Year 2022). The top tax rate for Tax Year 2021 is 5.4%. Based on the low/high estimates this could impact the state as follows:

| Fiscal Year | Loss to General Revenue       |
|-------------|-------------------------------|
| 2022        | (\$14,797,916 - \$40,344,976) |
| 2023        | \$0                           |
| 2024        | \$0                           |

DOR typically requires one (1) FTE Associate Customer Service Representative for every 14,700 errors created, one (1) FTE Associate Customer Service Representative for every 5,700 pieces of correspondence generated, one (1) temporary employee for the new line item and additional equipment and expense for form and programming changes.

DOR indicates, however, that since the tax returns impacted by this proposed legislation would be received for one year, the FTE would only be needed for that one year.

**Oversight** assumes, since this proposed legislation would impact one tax year only, that the Missouri Department of Revenue could absorb the responsibilities of the Individual Income Tax subtraction with existing resources.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state this proposed legislation would create a deduction, for Tax Year 2021 only, for taxpayers' educational expenses for teaching their own child that is/was required to attend elementary or secondary school remotely as a result of severe acute respiratory syndrome coronavirus 2 during 2020 or 2021, not to exceed \$1,500 per taxpayer. The deduction will be subtracted from taxpayers' Federal Adjusted Gross Income to arrive at the taxpayers' Missouri Adjusted Gross Income.

Using the latest 2018 Individual Income Tax data as the baseline, EPARC found that Net Tax Due is equal to \$5,875.670 million. When a \$1,500 deduction for every taxpayer with at least one child is allowed, Net Tax Due is reduced to \$5,823.966 million, a decrease of \$51.704 million. This figure translates into an equivalent decrease in Net General Revenue of \$51.704 million.

**Oversight** notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P, DOR, and EPARC.

**Oversight** notes this proposed legislation would **only** impact Tax Year 2021's tax filings. Oversight notes taxpayers would not file their Tax Year 2021 tax returns until after January 1, 2022 (Fiscal Year 2022).

**Oversight** assumes many of the deductible expenses (personal computers and school supplies and the like) would have been purchased, obtained, or in the possession of the majority of individuals prior to the onset of severe Acute Respiratory Syndrome Coronavirus 2. Also, Oversight assumes many school districts provide many necessities at no cost.

Therefore, for purposes of this fiscal note, Oversight will report a reduction to GR equal to an amount "Less than or greater than" \$14,796,487 (B&P's lowest estimate) in Fiscal Year 2022.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 SOS for administrative rules is less than \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, SOS also recognizes 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 SOS can sustain with SOS's core budget. Therefore, SOS reserves 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.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

**Oversight** assumes JCAR will be able to administer any rules from this proposed legislation with existing resources.

Officials from the **Missouri Department of Elementary and Secondary Education** do not anticipate this proposed legislation will cause a fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for this organization.

| <u>FISCAL IMPACT –<br/>State Government</u>   | FY 2022<br>(10 Mo.)  | FY 2023           | FY 2024           |
|---|--|-------------------|-------------------|
| <b>GENERAL<br/>REVENUE FUND</b>   |  |                   |                   |
| <u>Revenue Reduction –<br/>Section 143.121 –<br/>Tax Deduction For<br/>Remote Learning<br/>Expenses</u> | <u>Less than or greater<br/>than (\$14,796,487)</u>        | <u>\$0</u>        | <u>\$0</u>        |
| <b>ESTIMATED NET<br/>EFFECT ON<br/>GENERAL<br/>REVENUE FUND</b>   | <b><u>Less than or greater<br/>than (\$14,796,487)</u></b> | <b><u>\$0</u></b> | <b><u>\$0</u></b> |

| <u>FISCAL IMPACT –<br/>Local Government</u> | FY 2022<br>(10 Mo.) | FY 2023           | FY 2024           |
|---|---------------------|-------------------|-------------------|
|   | <b><u>\$0</u></b>   | <b><u>\$0</u></b> | <b><u>\$0</u></b> |

#### FISCAL IMPACT – Small Business

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

#### FISCAL DESCRIPTION

For the tax year beginning on or after January 1, 2021, and ending on or before December 31, 2021, this act authorizes a tax deduction for taxpayers with a qualifying child dependent who is attending elementary or secondary school remotely due to Severe Acute Respiratory Syndrome Coronavirus 2.

The tax deduction shall be equal to the lesser of \$1,500 or the amount of expenses incurred during the 2020 or 2021 calendar year for personal computers and school supplies, as defined in the act, digital subscriptions required by the qualifying child's school district, tutoring services, and internet access.

L.R. No. 0241S.01I

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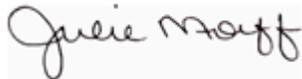
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This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division  
Missouri Department of Elementary and Secondary Education  
Missouri Department of Revenue  
Missouri Secretary of State’s Office  
Joint Committee on Administrative Rules  
University of Missouri’s Economic & Policy Analysis Research Center



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