

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0849S.02C
 Bill No.: SCS for SB 152
 Subject: Education, Elementary and Secondary; Education, Higher; Elementary and Secondary Education, Department of; Higher Education And Workforce Development, Department of; Tax Credits; Tax Incentives; Taxation and Revenue - General
 Type: Original
 Date: February 19, 2021

Bill Summary: This proposal would modify provisions of the Missouri Education Savings Program.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | | |
|--|--|---|---|--|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
| General Revenue | (\$1,409,653) to could exceed (\$7,060,449) | (\$3,623,683) to could exceed (\$21,658,615) | (\$4,286,929) to could exceed (\$22,528,129) | (\$1,081,927) to could exceed (\$5,856,916) |
| Total Estimated Net Effect on General Revenue | (\$1,409,653) to could exceed (\$7,060,449) | (\$3,623,683) to could exceed (\$21,658,615) | (\$4,286,929) to could exceed (\$22,528,129) | (\$1,081,927) to could exceed (\$5,856,916) |

*The actual impact of the changes to the MOST program is dependent upon utilization. If a percentage of participants utilize the expansion (to include repayment of student loan debt) similar to those currently using the MOST program to fund K-12 and higher education, the lower estimates should be used. If utilization percentage is similar to those claiming student loan interest deduction on their tax returns, the larger estimates should be used. If a larger population of those with student loan debt utilize the program, Oversight used "could exceed".

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|--|------------|------------|------------|-----------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
| Total Estimated Net Effect on Other State Funds | \$0 | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | | |
|--|----------------|----------------|----------------|------------------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
| | | | | |
| | | | | |
| Total Estimated Net Effect on All Federal Funds | \$0 | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | | |
|---|----------------|----------------|----------------|------------------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
| | | | | |
| | | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 | \$0 |

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.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | | |
|--|----------------|----------------|----------------|------------------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
| | | | | |
| Local Government | \$0 | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Section 166.400 – Missouri Education Savings Program

Oversight notes this section changes the name of the Missouri Education Savings Program to the Missouri Education Program.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation renames the “Missouri Education Savings Program” to the “Missouri Education Program.”

B&P assumes this proposed legislation may reduce General Revenue (GR) and Total State Revenue (TSR) between \$13,592,420 and \$16,248,600 in Fiscal Year 2022, between \$40,022,126 and \$48,745,800 in Fiscal Year 2023, and between \$39,266,992 and \$48,745,800 in Fiscal Year 2024.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation changes the name of the Missouri Education Savings Program to the Missouri Education Program.

Section 166.410 – Missouri Education Savings Program - Definitions

Officials from **B&P** state this proposed legislation changes the definition of “eligible education institution” from those specified in Sections 529(e)(5), 529(c)(7), and 529(e)(3) to all references in Section 529. B&P notes that this would allow individuals to use the savings account program for student loan repayment.

Based on research, B&P determined that the average student loan in Missouri was between [\\$29,613](#) and [\\$35,400](#). Assuming individuals use a 10-year repayment plan the average annual repayment amount would be between \$2,961.30 and \$3,540. In Tax Year 2018, the most recent complete tax year data available, there were 255,000 tax filers that claimed the federal tax deduction for student loan interest. Therefore, B&P estimates that approximately \$755,134,461 to \$902,700,000 in deductions could be claimed under this provision.

However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from [SB 509 \(2014\)](#).

| | Current Law | Future Top Tax Rates | | |
|----------------|----------------|----------------------|----------------|----------------|
| Tax Rate | 5.4% | 5.3% | 5.2% | 5.1% |
| GR Loss - Low | (\$40,777,261) | (\$40,022,126) | (\$39,266,992) | (\$38,511,858) |
| GR Loss - High | (\$48,745,800) | (\$47,843,100) | (\$46,940,400) | (\$46,037,700) |

B&P notes that this provision would take effect August 28, 2021; allowing individuals to use the savings account plan for four (4) months of Tax Year 2021. Therefore, B&P estimates that this proposed legislation will reduce TSR and GR by \$13,592,420 to \$16,248,600 in Fiscal Year 2022. Once SB 509 (2014) has fully implemented, this proposal could reduce TSR and GR by \$38,511,858 to \$46,037,700 annually.

Oversight notes B&P has estimated the impact(s) of individuals first contributing/depositing their (re)payment of student loan principle or interest into a 529 savings account, permitting them to recognize tax savings.

Oversight notes B&P's analysis suggests individuals will be on a ten (10) year repayment plan. Oversight assumes a ten (10) year repayment plan is the default repayment plan. However, after conducting independent research, Oversight assumes the average term of repayment of student loan(s) totals anywhere between [twenty \(20\)](#) and twenty-five (25) years (Oversight estimate).

Furthermore, **Oversight** notes individuals would **not** be able to deduct the total average student loan amount on their Missouri taxes. This proposed legislation caps the amount that is permitted to be (re)paid through a student's 529 savings account at \$10,000.

Thus, Oversight anticipates the impact(s) of this section will increase for several years post implementation, and then decrease and flatten out afterwards.

Officials from the **Missouri State Treasurer's Office (STO)** state this section expands the MOST 529 Education Plan Program to allow for the repayment of student loans up to \$10,000 per beneficiary.

STO anticipates this section will reduce state revenues by:

- \$1,409,653 in Fiscal Year 2022
- \$3,623,683 in Fiscal Year 2023
- \$4,286,929 in Fiscal Year 2024
- \$4,346,834 in Fiscal Year 2025 and Fiscal Year 2026
- \$2,895,764 in Fiscal Year 2027
- \$1,444,695 in Fiscal Year 2028
- \$1,081,927 in Fiscal Year 2029 and each year thereafter.

Oversight assumes STO anticipates a 4.13% participation rate among individuals who will (re)pay their student loans through MOST 529 Education Savings accounts.

Oversight has estimated a **maximum** participation rate equal to 31.64%. Oversight notes the participation rate of 31.64% is among individuals who currently owe student loan debt and is **not** a participation rate based on the population of Missouri.

Oversight notes 31.64% is equal to the number of Missouri taxpayers that claimed the student loan interest deduction for Tax Year 2018 (255,000) divided by the number of individuals who currently have student loan debt (806,000).

Oversight assumes such individuals may seek tax benefits/savings that are available while adhering to their student loan obligations/terms and would continue to seek such benefits/savings as federal and state laws and programs are modified.

Oversight notes STO estimates the annual (re)payment per student to be \$4,464. This is the result of STO's estimated monthly (re)payment of \$372 multiplied by 12. Therefore, Oversight assumes STO anticipates taxpayers will receive full benefit within 2.25 years ($\$10,000 / \$4,464$).

Oversight calculated an average monthly (re)payment amount of \$128 and an annual (re)payment amount of \$1,536 ($\$10,000 / \$1,536$). Therefore, Oversight estimates that taxpayers with student loan debt would experience tax savings for a total of seven (7) tax years as a result of the \$10,000 cap placed on the total amount permitted to be contributed/deposited into MOST 529 Education Savings accounts and used for such (re)payment ($\$10,000 / \$1,536$).

Oversight notes, the larger the monthly payment used to calculate an annual repayment, the faster an individual will reach maximum benefit under this proposed legislation.

Oversight assumes STO's analysis suggests full participation in the program would not occur until the fifth (5th) year post implementation.

Oversight did not use a ramp up period (time until full participation is recognized) when estimating the fiscal impact of this proposed legislation.

For purposes of this fiscal note, **Oversight** will range the revenue reduction to GR beginning with STO's estimates to an amount that "could exceed" the impacts estimated by Oversight (as stated below), depending upon utilization of these changes.

Officials from **DOR** state this proposed legislation would remove the language "529(e)(3)" and replace it with "529" of the Internal Revenue Code. Section 529 of the Internal Revenue Code allows for the repayment of principal and interest on student loans as an allowable expense. Therefore, a taxpayer would be allowed to run their student loan payment through their Missouri Education Savings Program Account (MOST account) and do it tax free.

Oversight notes the language changes mentioned by DOR occur within the definition of "Qualified Higher Education Expenses or Qualified Education Expenses".

DOR states, based on information from the Institute for College Access and Success, the average student loan debt in Missouri is \$27,108. Assuming an annual tax rate of 5.3%, and based on the number of Missouri filers who claim the student loan interest deduction (255,000) this would result in over \$36,490,500 loss to GR annually.

\$27,000 student loan amount = \$225 per month payment
X 5.3% tax rate
\$11.925 monthly tax loss
X 12 months
\$143.10 total tax loss per person per year
X 255,000
\$36,490,500 loss to state

DOR notes this proposal would become effective August 28, 2021 and therefore only four (4) months of payments would be claimed in Fiscal Year 2022. The first full year of loss would occur in Fiscal Year 2023.

DOR assumes the following loss to GR:

| | |
|------------------|----------------|
| Fiscal Year 2022 | (\$12,163,500) |
| Fiscal Year 2023 | (\$36,490,500) |
| Fiscal Year 2024 | (\$36,490,500) |

Oversight notes DOR’s analysis suggests individuals will be on a ten (10) year repayment plan. Oversight assumes a ten (10) year repayment plan is the default repayment plan. However, after conducting independent research, Oversight assumes the average term of repayment of student loan(s) totals anywhere between twenty (20) and twenty-five (25) years.

Oversight notes this section modifies the definition of “Eligible Educational Institution”

The current definition is “an institution of post-secondary education as defined in Section 529 (e)(5) of the Internal Revenue Code, and institutions of elementary and secondary education as provide din Section 529 (c)(7) and 529 (e)(3) of the Internal Revenue Code”.

This section modifies the definition to define an “Eligible Educational Institution” as “an eligible education institution as defined in Section 529 of the Internal Revenue Code”.

Oversight notes this section modifies the definition of “Qualified Higher Education Expenses or Qualified Education Expenses”.

The current definition is “the qualified costs of tuition and fees and other expenses for attendance at an eligible educational institution, as defined in Section 529 (e)(3) of the Internal Revenue Code.

This section modifies the definition to define “Qualified Higher Education Expenses” or “Qualified Education Expenses” as “the qualified costs of tuition and fees and other expenses for attendance at an eligible educational institution, as defined in Section 529 of the Internal Revenue Code.

Oversight assumes this section would allow individuals to first deposit/contribute the amount(s) of principal and/or interest applicable for qualified education loan (re)payment into established Missouri Educational Savings accounts (MOST accounts/529 accounts) prior to actual (re)payment of such loan. Such repayment would then be paid with the funds initially deposited/contributed into the participating individual's MOST account.

Oversight assumes this would permit such individuals to recognize Missouri tax savings while completing the obligations/terms of their qualified educational loan(s).

Per Section 166.435, amount(s) deposited/contributed to MOST accounts may be subtracted from the individual's Federal Adjusted Gross Income to determine the individual's Missouri Adjusted Gross Income. The maximum annual amount that may be subtracted cannot exceed \$8,000 per taxpayer.

Oversight notes pre-tax subtractions from income do not reduce revenue(s) on a dollar-for-dollar basis. The estimated amount of deduction must be multiplied by the applicable tax rate to estimate the impact to state revenue(s).

Oversight assumes this section would become effective August 28, 2021 (Fiscal Year 2022). Therefore, Oversight assumes Fiscal Year 2022 would be impacted by this section for four (4) months.

According to the [Federal Student Aid – U.S. Department of Education](#), as of March 31, 2020, students and past students of Missouri have an outstanding balance of federal student aid debt equal to \$28,380,000,000. Additionally, there are approximately 806,000 borrows. Oversight assumes, then, the average amount per borrower is \$35,211 ($\$28,380,000,000 / 806,000$). Oversight calculated the estimated number of years it takes one of the 806,000 individuals that have an outstanding balance of federal student aid debt to repay the amount in full; Oversight estimates a (re)payment term of approximately 22.89 years. Therefore, Oversight estimates \$1,239,808,754 in federal student aid debt is paid annually by Missouri's federal student aid debtors ($\$28,380,000,000 / 22.89$). Having calculated the estimated amount of federal student aid debt that is repaid annually by all Missouri federal student aid debtors, Oversight estimates approximately \$1,538 is paid annually by each debtor ($\$1,239,808,754 / 806,000$), or \$128 each month ($\$1,538 / 12$). This would allow these students to experience tax benefits/savings as a result of this proposed legislation for an estimated 7 years ($\$10,000 / \$1,538$). Using these statistics in conjunction with Oversight's estimated participation rate (31.64%), Oversight calculated the estimated reduction to GR from existing federal student aid debtors.

Furthermore, per the [National Student Clearinghouse Research Center](#), each year in Missouri, there are approximately 44,573 first time college graduates and 13,370 college graduates earning additional awards each for a total of 58,123 graduates. Per the [Institute for College Access and Success](#), approximately 58% of the students who graduate from a four year (or above) institution had outstanding federal loan debt. Therefore, Oversight estimates 33,711 new students graduate each year with debt $(44,573 + 13,370) * 58\%$. Using the statistics provided in the previous paragraph, Oversight calculated the estimated reduction to GR from the newest graduates each year and added them to the estimated reduction to GR from existing federal student aid debtors. Oversight notes that, with new graduates included in the analysis each year, the reduction to GR will increase for seven (7) years until the existing federal student aid debtors reach their maximum benefit and no longer participate in this program.

Upon completing the analysis, Oversight assumes this section would reduce GR by the following amount(s):

| Fiscal Year | Cost |
|-------------|---------------|
| 2022 | \$ 7,060,449 |
| 2023 | \$ 21,658,615 |
| 2024 | \$ 22,528,129 |
| 2025 | \$ 23,397,644 |
| 2026 | \$ 24,267,158 |
| 2027 | \$ 25,136,672 |
| 2028 | \$ 26,006,186 |
| 2029 | \$ 5,856,916 |
| 2030 | \$ 5,856,916 |

For purposes of this fiscal note, since B&P and DOR used what appears to be a term of repayment (10 years) less than what many sources suggest (20-25 years), and since STO's impacts are calculated using a participation rate based on current experience, Oversight will range the revenue reduction to GR beginning with STO's estimates to an amount that "could exceed" the impacts estimated by Oversight, depending upon utilization of these changes.

Legislation As A Whole

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**, the **Missouri Department of Higher Education and Workforce Development**, the **Springfield R-XII School District**, the **Missouri State University**, the **Northwest Missouri State University**, the **University of Central Missouri**, and the **St. Charles Community College** do not anticipate this proposed legislation will cause a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for these organizations.

| <u>FISCAL IMPACT – State Government</u> | FY 2022 (10 Mo.) | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
|--|---|--|--|---|
| GENERAL REVENUE FUND | | | | |
| <u>Revenue Reduction – Section(s) 166.410 & 166.435 – Subtraction From Federal Adjusted Gross Income For Contributions/Deposits Into 529/MOST Savings Accounts</u> | <u>(\$1,409,653) to could exceed (\$7,060,449)</u> | <u>(\$3,623,683) to could exceed (\$21,658,615)</u> | <u>(\$4,286,929) to could exceed (\$22,528,129)</u> | <u>(\$1,081,927) to could exceed (\$5,856,916)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>(\$1,409,653) to could exceed (\$7,060,449)</u> | <u>(\$3,623,683) to could exceed (\$21,658,615)</u> | <u>(\$4,286,929) to could exceed (\$22,528,129)</u> | <u>(\$1,081,927) to could exceed (\$5,856,916)</u> |

| <u>FISCAL IMPACT – Local Government</u> | FY 2022 (10 Mo.) | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
|---|---------------------|-------------------|-------------------|--------------------------------|
| | <u>\$0</u> | <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 proposed legislation renames the Missouri Education Savings Program to the Missouri Education Program.

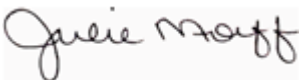
This proposed legislation modifies the definition of “eligible education institution” to include all eligible educational institutions, rather than just institutions of postsecondary education.

This proposed legislation modifies the definition of ““qualified higher education expenses or qualified education expenses”. This modification will allow individuals to first deposit/contribute the amount(s) of principal and/or interest applicable for qualified education loan (re)payment into established Missouri Educational Savings accounts (MOST accounts/529 accounts) prior to actual (re)payment of such loan.

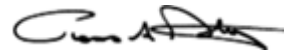
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Elementary and Secondary Education
Missouri Department of Higher Education and Workforce Development
Missouri Department of Revenue
Missouri Secretary of State’s Office
Springfield R-XII School District
Missouri State University
Northwest Missouri State University
University of Central Missouri
St. Charles Community College
Missouri State Treasurer’s Office
Joint Committee on Administrative Rules



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