

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3323S.01I
 Bill No.: SB 873
 Subject: Taxation And Revenue - Income; Teachers
 Type: Original
 Date: March 28, 2022

Bill Summary: This proposal allows for an income tax deduction for educator expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	\$0	(\$1,057,379 - \$1,969,037)	(\$1,058,256 - \$1,969,914)
Total Estimated Net Effect on General Revenue	\$0	(\$1,057,379 - \$1,969,037)	(\$1,058,256 - \$1,969,914)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
FTE Changes DOR	0 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0 FTE	2 FTE	2 FTE

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 2023	FY 2024	FY 2025
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.121

Officials from the **Department of Revenue (DOR)** state this proposal states for all tax years beginning on or after January 1, 2023, one hundred percent (100%) of all unreimbursed educator expenses incurred by an eligible educator during the taxable year, not to exceed five hundred dollars is eligible to be deducted from a taxpayer's Missouri adjusted gross income. An eligible educator is defined as one who qualifies under 26 U.S.C. Section 62, and teachers in an early childhood education program to participate.

DOR used IRS 2019 data for determining those who qualify under 26 U.S.C. Section 62(they have a similar program):

- Number of Filers: 65,410
- Amount: \$16,875,000
- Average Claimed: \$258

This proposal allows for a \$500 Missouri deduction while the current average amount claimed on federal tax returns is approximately \$258. Using the 65,410 number of federal filers, DOR calculated a high/low range showing the potential revenue impact if all individuals claimed at the \$258 current average amount versus all individuals claiming the proposed \$500 deduction. DOR notes that this is a deduction and therefore is not a dollar for dollar loss. The impact for the teachers under 26 U.S.C Section 62:

Tax Year Current Law	TY 22	TY23*	TY24*
Tax Rate	5.3%	5.3%	5.2%
Low Estimate	\$894,375	\$894,375	\$877,500
High Estimate	\$1,733,365	\$1,733,365	\$1,700,660

*assumes each SB 509 (2014) trigger is reached

This proposal allows teachers in an early childhood education program to claim the deduction as well. The Department contacted the Department of Elementary and Secondary Education to determine how many additional persons would qualify as a teacher in an early childhood education program and was provided the following information last year.

Child Care Workers – 13,390; Preschool Teachers - 5,920; Special Ed Preschool Teachers - 150; Special Ed Preschool/Child Care Center Directors – 150; All ECE Employees Missouri - 20,000

DOR will assume the 150 preschool special education teachers and the 5,920 preschool teachers (6,070 total) would also be eligible for this tax deduction. DOR will show these teachers at the low rate of \$258 as well as the \$500 deduction established under this proposal.

Early Childhood Education Teachers
Tax Year TY23 TY24 TY25
Tax Rate 5.30% 5.20% 5.10%
Low Estimate \$85,052 \$83,448 \$81,843
High Estimate \$164,830 \$161,720 \$158,610

DOR notes this proposal begin January 1, 2023 and the tax returns claiming the deduction would be filed starting in FY 2024. This is estimated to be a loss to General Revenue.

DOR assumes that a new line on the Form MO-A would be created, instead of creating a check box for the “other” subtraction line. \$8,386 in form and computer programming changes would be needed. Additionally, this would require FTE as this is a new subtraction.

- 1 FTE Revenue Processing Technician for every 14,700 errors created
- 1 FTE Revenue Processing Technician for every 5,700 pieces of correspondence generated
- 1 temporary employee for new line item

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs for form and computer upgrades related to this proposal. However, given the number of returns which might be affected, Oversight will show the abovementioned 3 FTE for purposes of this fiscal note. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

However, **Oversight** notes the first tax year in which taxpayers would qualify for the new/expanded tax credit(s) is Tax Year 2023. Oversight notes individuals would not file their Tax Year 2023 tax returns until after January 1, 2024 (6 months after the beginning of Fiscal Year 2024). Therefore, Oversight will report DOR’s administrative cost(s) beginning in Fiscal Year 2024 assuming DOR can hire and train such FTE(s) within the first six (6) months of Fiscal Year 2024; before Tax Year 2023 tax returns would begin to be filed claiming the new/expanded tax credits.

Officials from the **Office of Administration - Budget and Planning (B&P)** states Section 143.121.3(12) creates a tax deduction of up to \$500 for qualifying educator expenses beginning in tax year 2023. The deduction would only be granted for educators and expenses that qualify for the current federal tax deduction or for teachers in an early childhood education program.

B&P notes that while the deduction will become available in tax year 2023, the impact to TSR will not occur until taxpayers file their annual return in FY 2024.

In tax year 2019, the most recent complete tax year data available, there were 65,410 tax filers that claimed the federal tax deduction for a total claim amount of \$16.9M, for an average claim amount of approximately \$258.

In addition, based on data published by the BLS there were approximately 5,577 preschool teachers in Missouri on average from May 2018 to May 2020. B&P notes that preschool teachers do not qualify for the federal deduction. However, for the purpose of this fiscal note B&P will assume that they will have similar deduction patterns as teachers that qualify for the federal deduction.

For the purpose of this fiscal note B&P will show a range in potential revenue loss between the average of \$258 federal deduction actually claimed in tax year 2019 and the cap of \$500 set forth in this proposal. 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) and SB 153 (2021).

	Tax Year (Fiscal Year)					
Tax Rate	2023 (FY24)		2024 (FY25)		2025 (FY26)	
	Low	High	Low	High	Low	High
5.30%	\$970,631	\$1,881,156				
5.20%	\$952,318	\$1,845,662	\$952,318	\$1,845,662	\$952,318	\$1,845,662
5.10%			\$934,004	\$1,810,169	\$934,004	\$1,810,169
5.00%					\$915,690	\$1,774,675
4.90%						
4.80%						

	Tax Year (Fiscal Year) cont.					
Tax Rate	2026 (FY27)		2027 (FY28)		2028 (FY29)	
	Low	High	Low	High	Low	High
5.30%						
5.20%	\$952,318	\$1,845,662	\$952,318	\$1,845,662	\$952,318	\$1,845,662
5.10%	\$934,004	\$1,810,169	\$934,004	\$1,810,169	\$934,004	\$1,810,169
5.00%	\$915,690	\$1,774,675	\$915,690	\$1,774,675	\$915,690	\$1,774,675
4.90%	\$897,376	\$1,739,182	\$897,376	\$1,739,182	\$897,376	\$1,739,182
4.80%			\$879,062	\$1,703,688	\$879,062	\$1,703,688

Therefore, B&P estimates that this proposal could reduce TSR and GR by \$970,631 to \$1,881,156 (top tax rate 5.3%) or by \$952,318 to \$1,845,662 (top tax rate 5.2%) in FY24. Once

SB 509 (2014) and SB 153 (2021) have fully implemented, this proposal could reduce TSR and GR by \$879,062 to \$1,703,688 annually.

Oversight will range B&P’s projected fiscal estimated impacts of this proposal throughout the implementation of the tax rate reductions from SB 509 (2014) and SB 153 (2021) to show the maximum low and high impact of the proposal.

Oversight notes this proposal begins January 1, 2023 and the tax returns claiming the deduction would be filed starting in FY 2024.

Oversight notes that B&P uses a 42% in first fiscal year and 58% split in the second year to convert the income tax numbers from tax year to fiscal year.

Officials from the **Department of Elementary and Secondary Education** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
Revenue Reduction – §143.121 – Tax Deduction For Eligible Educator Expenses Up To \$500 p. 5	\$0	(\$934,004 - \$1,845,662)	(\$934,004 - \$1,845,662)
<u>Costs – DOR §143.121 p. 4</u>			
Personal Service	\$0	(\$61,738)	(\$62,355)
Fringe Benefits	\$0	(\$60,164)	(\$60,388)
Equipment and Expense	\$0	(\$1,473)	(\$1,509)
Total <u>Costs - DOR</u>	\$0	(\$123,375)	(\$124,252)
FTE Changes DOR	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	(\$1,057,379 - \$1,969,037)	(\$1,058,256 - \$1,969,914)

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	\$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

For all tax years beginning on or after January 1, 2023, this act establishes a tax deduction in the amount of 100% of unreimbursed educator expenses incurred by an eligible educator, not to exceed \$500.

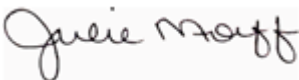
An eligible educator is defined as an individual who is a kindergarten through grade twelve teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year, or is a teacher in an early childhood education program.

Educator expenses are defined as expenses incurred as a result of the participation by the educator in professional development courses related to the curriculum in which the educator provides instruction, and expenses in connection with books, supplies, computer equipment and other equipment, and supplementary materials used by the eligible educator in the classroom.

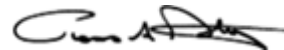
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Department of Revenue
Office of Administration - Budget and Planning



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March 28, 2022



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March 28, 2022