

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0620S.01I
 Bill No.: SB 226
 Subject: Tax Credits; Education, Elementary and Secondary
 Type: Original
 Date: March 6, 2023

Bill Summary: This proposal authorizes a tax credit for certain education expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	\$0	Up to (\$1,302,626,560)	Up to (\$1,302,661,487)
Total Estimated Net Effect on General Revenue	\$0	Up to (\$1,302,626,560)	Up to (\$1,302,661,487)

*Oversight notes the above expenditures include students who are paying tuition in elementary and secondary schools throughout Missouri and students who currently attend a public school outside of the student’s resident district. Oversight notes some private school students do not pay ‘tuition’ (some are based on donations/contributions to the organization) so the impact may be smaller than reflected above. Also, with this credit, Oversight assumes some students currently in public schools may move to private schools; therefore, the impact may be larger than reflected above.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund – 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 2024	FY 2025	FY 2026
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.1132 – Tax Credit For Parents of Dependents Attending Private School Or Public School Outside of Resident District

Officials from the **Office of Administration - Budget and Planning (B&P)** state this proposal would create a tax credit, beginning in tax year 2024, for tuition expenses incurred by a taxpayer in a given tax year at one or more eligible public schools or private schools. A taxpayer shall be allowed to claim a credit against their income tax liability. The credit is refundable but shall not be assigned, transferred, sold, or otherwise conveyed. B&P notes that there is no cap on the amount of credits that may be issued per taxpayer or per year. B&P further notes that while the tax credit starts for tax year 2024, it will not be claimed until FY25, when individuals file their annual income tax return.

Based on information published by DESE, there are 863,261 students enrolled in public K-12 schools. Based on data published by the [Private School Review](#), there are 113,518 students enrolled in private K-12 schools within Missouri. Of the 113,518 private school students, B&P estimates that 80,812 are enrolled in elementary school and 32,706 are enrolled in secondary school.

The Private School Review shows the average private school tuition in Missouri is \$10,075 for elementary and \$12,195 for secondary. Assuming 20% is reduced for scholarships or other financial assistance, the total average cost of elementary (less assistance) is \$651,344,720 (\$10,075 x 80,812 students) and \$319,079,736 (\$12,195 x 32,706 students) for secondary. Therefore, assuming all parents of students currently enrolled in private school took advantage of this tax credit, the loss to GR could be approximately \$970,424,456.

B&P does not have data on the number of public school students that might switch to private schools as a result of this proposal. Depending on the number of students that switch, the cost of this program could increase significantly.

Therefore, B&P estimates that this proposal could reduce TSR and GR by an amount that could exceed \$970,424,456 annually, beginning FY25.

HYPERLINK "<https://www.privateschoolreview.com/missouri>" [Private School Review](#)

Oversight notes B&P's analysis **does not include** public school students who currently attend a public school outside the student's resident district.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation, beginning on or after January 1, 2024, will allow a taxpayer to claim a tax credit in an amount

equal to the taxpayer's Qualifying Amount. The Qualifying Amount is the amount spent by the taxpayer on eligible tuition expenses incurred for a given school year. This tuition can be paid to either a private school or a public school in a district outside the school district the student resides in. This tax credit is refundable and does not have an annual cap.

DOR pulled data on the annual tuition costs of several private schools in the state:

High School	Location	Tuition
Rockhurst High School	Kansas City	\$14,900
Barstow K-12	Kansas City	\$18,800 (K-5)/\$21,615 (6-9)/\$22,385
Helias High School	Jefferson City	\$3,000
Sacred Heart Elementary	Sedalia	\$4,500
Springfield Catholic	Springfield	\$5,885 (K-8)/\$9,047 (9-12)
Vianney High School	St. Louis	\$16,000
St. Louis University High School	St. Louis	\$18,000

Private School Review an organization dedicated to helping families find private schools indicates there are 624 private schools in Missouri serving 113,518 students. The Department of Elementary and Secondary Education notes there are 138,513 private school students with 98,344 in elementary school and 40,169 in secondary school in Missouri.

The DOR will calculate this fiscal note based on the 138,513 students all qualifying for this credit. DOR is unable to determine how many students attend a public school other than the one in their district and pay tuition and might be eligible for this tax credit also. Therefore, any fiscal impact could be underestimated.

As noted above, the cost of tuition varies greatly in Missouri. The average amount of the schools listed above is \$12,437. The Private School Review which maintains a list of private schools and their tuition costs estimates the average elementary school at \$8,183 and the secondary schools at \$12,181. For the purpose of the fiscal note, the DOR will use these averages for the potential amount of the credit.

	# Students	Tuition Amount	Tax Credit
Elementary	98,344	\$8,183	\$804,748,952
Secondary	40,169	\$12,181	\$489,298,589
Total			\$1,294,047,541

This is a **refundable** tax credit and is estimated to cost more than \$1,294,047,541 annually. Since this proposal begins on January 1, 2024, the first tax returns filed that would report this credit would be starting in January 2025 (FY 2025).

Fiscal Year	
2024	\$0
2025	(\$1,294,047,541)
2026	(\$1,294,047,541)

DOR assumes one (1) FTE Associate Customer Service Representative would be required for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative would be needed for every 7,600 errors/correspondence generated and additional expense funding for a one time update to forms and programming.

For purposes of this fiscal note, since the estimated number of tax credit claimants exceed DOR’s threshold(s) for additional FTE, **Oversight** will include DOR’s administrative cost(s), as reported by DOR.

However, Oversight notes the first tax year in which taxpayers would qualify for the tax credit created is Tax Year 2024. Oversight notes individuals would not file their Tax Year 2024 tax returns until after January 1, 2025 (6 months **after** the beginning of Fiscal Year 2025). Therefore, Oversight will report DOR’s administrative cost(s) beginning in Fiscal Year 2025 assuming DOR can hire and train such FTE(s) within the first six (6) months of Fiscal Year 2025.

Oversight assumes DOR’s analysis **does not include** public school students who currently attend a public school outside the student’s resident district.

Oversight notes, per information provided by the Missouri Department of Elementary and Secondary Education, the following number of students attended public school outside of the student’s resident district during the 2020 school year and paid “out-of-pocket” tuition for such attendance:

Grade Level	Parent Paid Tuition - Student Count	
K	34	
1	26	
2	28	
3	28	
4	30	Total Elementary:
5	30	176

6	28	
7	37	
8	30	
9	389	
10	27	
11	34	Total Secondary
12	34	579

For purposes of this fiscal note, **Oversight** has modified the calculation reported by DOR to increase the number of qualifying students by the number of public school

students attending public school outside of the student’s resident district who pay out-of-pocket tuition, to estimate the fiscal impact of this proposed legislation:

	Number of Private School Students	Number of Public School Students Paying Tuition To Attend Public School Outside Student's Resident District	Total Number of Students	Tuition Amount	Estimated Total Tax Credit Amount
Elementary	98,344	176	98,520	\$8,183	\$806,189,160
Secondary	40,169	579	40,748	\$12,181	\$496,351,388
				Total:	\$1,302,540,548

Oversight assumes the majority of the children in this state, if not all, are eligible to attend the system of free public schools in the state.

Therefore, for purposes of this fiscal note, **Oversight** will report a revenue reduction to GR equal an amount “Up to” \$1,302,540,548 beginning in Fiscal Year 2025 and annually thereafter.

Oversight notes the provisions of this proposed legislation would sunset December 31st six (6) years after the effective date of this proposed legislation.

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

In response to the similar proposal, HB 1916 -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 **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 –</u> <u>State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE FUND			
<u>Revenue Reduction –</u> Section 135.1132 – Tax Credit For Parents Of Dependents Attending Private School Or Public School Outside Student’s Resident District	\$0	Up to (\$1,302,540,548)	Up to (\$1,302,540,548)
<u>Cost – DOR – Section</u> 135.1132 – Administration of Tax Credit Program			
Personnel Services	\$0	(\$31,824)	(\$64,921)
Fringe Benefits	\$0	(\$27,196)	(\$54,855)
Equipment & Expense	\$0	(\$26,993)	(\$1,163)
Total Cost – DOR	\$0	(\$86,013)	(\$120,939)
FTE Change – DOR	0 FTE	2 FTE	2 FTE

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	<u>Up to</u> (\$1,302,626,561)	<u>Up to</u> (\$1,302,661,487)
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<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	\$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, 2024, this act authorizes a taxpayer to claim a tax credit in an amount equal to one hundred percent of tuition costs paid by the taxpayer in a tax year for the attendance of one or more of the taxpayer's dependent children at one or more private schools or public schools located outside of the school district in which the taxpayer resides.

The tax credit authorized by this act shall be refundable, but shall not be transferred, sold, or otherwise conveyed.

This act shall sunset on December 31, 2029, unless reauthorized by the General Assembly.

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

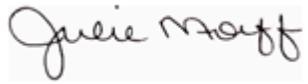
Office of Administration – Budget & Planning Division
 Missouri Department of Elementary and Secondary Education
 Missouri Department of Revenue
 Missouri Secretary of State’s Office
 Joint Committee on Administrative Rules

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A handwritten signature in cursive script that reads "Julie Morff". The signature is written in black ink on a light-colored background.

Julie Morff
Director
March 6, 2023

A handwritten signature in cursive script that reads "Ross Strobe". The signature is written in black ink on a light-colored background.

Ross Strobe
Assistant Director
March 6, 2023