

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3471S.07I
 Bill No.: SB 729
 Subject: Tax Credits; Taxation and Revenue - Income; Department of Elementary and Secondary Education
 Type: Original
 Date: January 10, 2024

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund*	Less than (\$877,311,437) or Could Exceed (\$1,537,744,997)	Less than (\$877,258,337) or Could Exceed (\$1,537,691,897)	Less than (\$877,290,438) or Could Exceed (\$1,537,723,998)
Total Estimated Net Effect on General Revenue	Less than (\$877,311,437) or Could Exceed (\$1,537,744,997)	Less than (\$877,258,337) or Could Exceed (\$1,537,691,897)	Less than (\$877,290,438) or Could Exceed (\$1,537,723,998)

*Oversight will reflect a range in education expense tax credits, that does not have any maximum cap, and additionally show 32 DOR FTE's to comply with the implementation and process within the proposal.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
School District Trust Fund*	Less than or \$875,154,520 Could Exceed \$1,535,588,080	Less than or \$875,154,520 Could Exceed \$1,535,588,080	Less than or \$875,154,520 Could Exceed \$1,535,588,080
Total Estimated Net Effect on <u>Other</u> State Funds	Less than or \$875,154,520 Could Exceed \$1,535,588,080	Less than or \$875,154,520 Could Exceed \$1,535,588,080	Less than or \$875,154,520 Could Exceed \$1,535,588,080

*Per subsection 135.721.4, an amount equal to the aggregate amount of tax credits claimed shall be reduced from payments to school districts.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds			

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund – DOR FTE	32 FTE	32 FTE	32 FTE
Total Estimated Net Effect on FTE	32 FTE	32 FTE	32 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 2025	FY 2026	FY 2027
Local Government*	Less than (\$875,154,520) or Could Exceed (\$1,535,588,080)	Less than (\$875,154,520) or Could Exceed (\$1,535,588,080)	Less than (\$875,154,520) or Could Exceed (\$1,535,588,080)

*Oversight notes Section 144,701. 2. reduction of the revenue by the amount of the tax credit claimed annually.

FISCAL ANALYSIS

ASSUMPTION

Section 135.721- Missouri Parental Choice Tax Credit Act

Officials from the **Department of Revenue (DOR) note:**

For all tax years starting on or after January 1, 2025, this program would allow an individual taxpayer to claim a refundable credit against income tax in an amount equal to 100% of qualified expenses for educating each child at a private school or home school. Qualified expenses include tuition and fees, textbooks, educational therapies, tutoring services and more.

DOR checked the tuition price of some of the private schools across the state:

2023-2024 tuition prices	
Rockhurst High School – Kansas City -	15,300
Barstow K-12- Kansas City - \$18,980 K-5, \$22,940 5 th – 9 th and \$27,930 10 th - 12 th	22,940
Helias High School – Jefferson City –	3,000
Sacred Heart Elementary – Sedalia -	8,775
Springfield Catholic – Springfield – \$7,102 K-8 th , and \$9,931 9 th - 12 th	9,931
Vianney High School – St. Louis -	18,150
St. Louis University High School –St. Louis -	19,750

DOR notes the prices for items used by home school students:

Curriculum	\$500
Curriculum with tutor enhancements	\$7,000
Materials	\$300

This program does not have a cap but does limit each taxpayer’s credit to no more than the current state adequacy target amount. It should be noted that the state adequacy target is set by the General Assembly and for several years was frozen at \$6,375. Additionally, the state adequacy target is set on a school year basis (July 1 – June 30), while the tax year is set on a calendar year (January 1 – December 31) basis. It is unclear which adequacy amount DOR would use for a tax year if the amount were changed mid-year for the new school year. For the fiscal note purposes only, they used the \$6,760 current amount for all fiscal years.

The State Adequacy Target History

School Year	State Adequacy Target Amount
2025-2026	\$7,145 (projected)
2024-2025	\$6,760

2023-2024	\$6,375
2022-2023	\$6,375
2021-2022	\$6,735
2020-2021	\$6,735
2019-2020	\$6,313

From the information gathered by DOR, tuition costs at most private schools in Missouri exceed the state adequacy target amount and so for fiscal note purposes they assumed that all the taxpayers with students in private school will qualify for the current \$6,760 as their tax credit amount. Students that are homeschooled could potentially reach the state adequacy target amount depending on the program and services they use. They show the impact as if all have a minimum of \$800 (curriculum & supplies) up to all qualifying for the state adequacy target amount.

The Department of Elementary and Secondary Education said there were 861,494 of the 1,088,652 kids reported by the U.S. Census Bureau between the ages of 5 and 18 enrolled in public schools. Which leaves about 227,158 children either in private school or being home schooled. The Private School Review, an organization aimed at helping parents find private schools right for their children noted there are 116,347 kids enrolled in MO private schools. Therefore, they assume the remaining 110,811 may be homeschooled.

Assuming that all of the 116,347 private school kids will have parents that apply for the credit and can claim the full credit amount for each child, this will result in \$786,505,720 (116,347 x \$6,760) in credits being claimed. Assuming that all of the 110,811 homeschool kids apply for the credit, this could result in another \$88,648,800 (based on \$800 in expenses) to \$749,082,360 (based on expenses equaling the state adequacy target) being claimed.

This credit is a refundable credit and therefore the state could see a reduction in general revenue of \$875,154,520 (\$786,505,720 + \$88,648,800) to \$1,535,588,080 (\$786,505,720 + \$749,082,360) annually if every non-public school child claims the credit. DOR notes this program could encourage more students to switch from public school to private school. Depending on the number of additional students that may switch, the cost of this program could significantly increase over the estimated amount.

DOR notes that these credits cannot be transferred, sold, or assigned and they do contain a sunset.

This tax credit is to begin on January 1, 2025, and requires the credit be claimed on their tax return. The 2025 tax year individual income tax returns are not filed until January 2026 (FY 2026) and so should not impact general revenue until FY 2026. However, since this is a refundable credit, taxpayers may file their return early in FY 2025 and then file an amended return in FY 2026. DOR is unable to determine if any taxpayers would do this, and for fiscal note purposes only they showed the entire impact in FY 2026.

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC (\$7,138), updates to their website and changes to their individual income tax computer system (\$1,785). These changes are estimated to cost \$8,923. In order to process the individual qualified expenses, DOR assumes the need for a new form. This is estimated to cost \$10,000.

Verifying expenses and whether a student is enrolled in a certain school is outside the normal course of business for DOR. It would more appropriately be done by DESE who has access to the records needed to handle this quicker for the taxpayer. Since this bill is requiring DOR to administer this program, DOR will need additional FTE to verify the qualification of the credits.

DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed, they are not able to use temporary staff to help with processing these returns. DOR will need one Associate Customer Service Representative for every 7,000 returns applying for the credit. Given the number of participants expected in this program of 116,347 private school kids, DOR will need 16 FTE to handle the administration of this credit for private school kids and depending on the number of homeschooled students (estimated at 110,811 currently) DOR would expect the need of an additional 15 FTE for those returns.

This proposal would require at least 31 additional FTE Associate Customer Service Rep at a salary of \$35,880 and 1 Lead Customer Service Rep at a salary of \$40,704 to supervise.

Section 135.721.4 School District Trust Fund

Section 144.071 allows that 1% of the state sales tax collected (4.225%) be deposited into the School District Trust Fund for local school use. This proposal requires that the amount distributed to the School District Trust under Section 144.701 be reduced by the amount of tax credits claimed.

Officials from the **Office of Administration – Budget & Planning (B&P) note:**

Section 135.721 – Education Expense Tax Credit

Beginning with tax year 2025, this proposal would grant a tax credit for qualifying private school and homeschooling expenses. The tax credit shall be equal to 100% of the incurred expenses, up to the state adequacy target amount. The credit shall be refundable, but may not be transferred, sold, or otherwise assigned.

Section 135.721.4 states that revenues distributed to a school district under Section 144.701 shall be reduced by the amount of tax credits granted under this section. B&P notes that Section 144.701 contains the distribution for the 1% education sales tax that is deposited into the School District Trust Fund (SDTF).

B&P notes that the state adequacy target is set on a school year basis (July 1 – June 30), while the tax year is generally set on a calendar year (January 1 – December 31) basis. It is unclear which adequacy amount should be used for a tax year if the amount is changed mid-year for the new school year.

B&P does not know what the adequacy target will be in future years; for the purpose of this fiscal note, B&P will use the current amount. B&P notes that the current state adequacy target will \$6,760 for FY25 and \$7,145 beginning FY26. B&P further notes that the tax credit limit is per taxpayer, regardless of number of qualified students that taxpayer may claim as a dependent.

Private School

Based on information published by DESE, there are 862,185 students enrolled in public K-12 schools. Based on data published by the Private School Review¹ there are 116,347 students enrolled in private K-12 schools within Missouri. Of the 116,347 private school students, B&P estimates that 82,826 are enrolled in elementary school and 33,521 are enrolled in secondary school.

The Private School Review shows the average private school tuition in Missouri is \$10,067 for elementary and \$12,384 for secondary. Assuming 20% is reduced for scholarships or other financial assistance, the total average cost of elementary is \$8,054 and \$9,907 for secondary. B&P notes that both elementary and private school tuition exceed the state adequacy target / tax credit limit. Therefore, B&P will reflect the loss from this provision as at the maximum credit limit.

Therefore, B&P estimates that this provision could reduce GR by \$786,505,720 (116,347 private school students x \$6,760 FY25 credit limit) in FY26. This provision could reduce GR by \$831,299,315 (116,347 private school students x \$7,145 FY26 credit limit) annually beginning FY27.

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

Home School

Using the information above, B&P estimates that there are approximately 11,695 children (990,227 children – 862,185 public school – 116,347 private school) homeschooled in Missouri.

¹ <http://www.privateschoolreview.com/missouri>

Based on numerous websites, the average cost to homeschool a child is between \$400 (cheapest online option) and \$7,000 (homeschooling with additional tutoring). For the purpose of this fiscal note, B&P will reflect the potential cost of \$400 (lowest cost) to \$6,760 (state adequacy target) for 2025. Beginning with 2026, B&P will reflect the potential cost of \$400 (lowest cost) to \$7,000 (upper average range < \$7,145 state adequacy target).

Therefore, B&P estimates that this provision could reduce GR by \$4,678,000 (11,695 students x \$400 cost) to \$79,058,200 (11,695 students x \$6,760 credit limit) annually beginning in FY26. Starting in FY27, this provision could reduce GR by \$4,678,000 (11,695 students x \$400 cost) to \$81,865,000 (11,695 students x \$7,000 cost) annually.

Summary

B&P estimates that this proposal could reduce TSR and GR by \$791,183,720 (\$786,505,720 private school + \$4,678,000 homeschool) up to \$865,563,920 (\$786,505,720 private school + \$79,058,200 homeschool) in FY26.

B&P estimates that this proposal could reduce TSR and GR by \$835,977,315 (\$831,299,315 private school + \$4,678,000 homeschool) up to \$913,164,315 (\$831,299,315 private school + \$81,865,000 homeschool) annually beginning in FY27.

Section 144.701 – School District Sales Tax Distribution

This provision requires revenues distributed to a school district under this section to be reduced by the amount of tax credits granted under this section. B&P notes that this section contains the distribution for the 1% education sales tax that is deposited into the School District Trust Fund (SDTF).

However, this proposal does not address what should happen with the funds that are no longer being distributed. It is unclear if the tax revenue should remain in the SDTF, if schools without tax credit claims should receive the excess funds, or if something else should occur with the tax revenue. B&P notes that funds in the SDTF can only be used for school district distributions. Funds cannot be used to offset the GR loss from the tax credits created under Section 135.721.

At the extreme if tax credits are claimed within every school district there will be a portion of money that cannot be distributed from the SDTF. Therefore, this proposal could reduce distributions to school districts by \$791,183,720 up to \$865,563,920 in FY25. This proposal could then reduce distributions to school districts by \$835,977,315 up to \$913,164,315 annually beginning FY26.

Oversight notes the officials from **Department of Elementary and Secondary Education (DESE)**, through additional conversation via e-mail (attached in MOLIS), provided statistics as follow:

DESE does not collect private school enrollment unless they are registered with their nonpublic data system, so their number would not be an accurate reflection. However, <https://www.privateschoolreview.com/> shows for the 23-24 school year there are 116,367 students being served in private schools. Another available website, <https://missouri.educationbug.org/private-schools/> shows there are 118,667 students in private schools.

Oversight notes that according to the [educationdata.org.](http://educationdata.org), the average tuition in Missouri private school cost \$10,472 per pupil.

Oversight notes that according to [responsible homeschooling](http://responsiblehomeschooling) there were 34,802 home schooled pupils in MO 2023.

Oversight notes that the average cost of homeschooling ranges from \$700 to \$1,800 per child per school year, according to Time4Learning.com.

Oversight, for purpose of this fiscal note, will accept the DOR's finding as to how many children there are in homeschool or private school settings.

State Adeq. Target	Children in homeschool	Total tax credit potential
\$800- \$6,760	110,811	\$88,648,800 - \$749,082,360
State Adeq. Target	Children in private schools	Total tax credit potential
\$6,760	116,347	\$786,505,720

Therefore, **Oversight** will reflect a reduction in general revenue of \$875,154,520 to \$1,535,588,080 annually as of FY 2025 annually begging FY 2026.

Oversight notes, currently, section 144.701 requires 1% of the state sales tax collected (4.225%) be deposited into the School District Trust Fund for distribution to school districts.

Oversight will reflect revenue reduction in Local School District revenues, as per section 144.701. 2, requiring reduction of their revenue by the amount of the tax credit claimed annually, beginning FY 2026.

Lastly, **Oversight** notes the DOR assume the need for at least 31 additional FTE Associate Customer Service Rep at a salary of \$35,880, and 1 Lead Customer Service Rep at a salary of \$40,704, to supervise and assure compliance with this proposal. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect DOR's FTEs costs in the fiscal note beginning FY 2025.

Officials from the **Oversight** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Rule Promulgation

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

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. The 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 the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the 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 the office can sustain with its core budget. Therefore, the 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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Revenue Loss</u> – 135.721 Educational Tax Credit	Less than (\$875,154,520) or Could Exceed (\$1,535,588,080)	Less than (\$875,154,520) or Could Exceed (\$1,535,588,080)	Less than (\$875,154,520) or Could Exceed (\$1,535,588,080)
<u>Costs</u> – Sections 135.721 & 144.701(p.6)			
Personnel Service	(\$960,820)	(\$1,176,044)	(\$1,199,565)
Fringe Benefits	(\$766,134)	(\$927,773)	(\$936,353)
Expense & Equipment	(\$429,963)	(\$0)	(\$0)
<u>Total Costs - DOR</u>	<u>(\$2,156,917)</u>	<u>(\$2,103,817)</u>	<u>(\$2,135,918)</u>
FTE Change	32 FTE	32 FTE	32 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	Less than (\$877,311,437) or Could Exceed (\$1,537,744,997)	Less than (\$877,258,337) or Could Exceed (\$1,537,691,897)	Less than (\$877,290,438) or Could Exceed (\$1,537,723,998)
Estimated Net FTE Change on General Revenue	32 FTE	32 FTE	32 FTE
SCHOOL DISTRICT TRUST FUND			
<u>Savings</u> – reduction of proceeds distributed to local school districts – equal to the tax credit	Less than or \$875,154,520 Could Exceed \$1,535,588,080	Less than or \$875,154,520 Could Exceed \$1,535,588,080	Less than or \$875,154,520 Could Exceed \$1,535,588,080
ESTIMATED NET EFFECT TO THE SCHOOL DISTRICT TRUST FUND	Less than or \$875,154,520 Could Exceed \$1,535,588,080	Less than or \$875,154,520 Could Exceed \$1,535,588,080	Less than or \$875,154,520 Could Exceed \$1,535,588,080

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL SCHOOL DISTRICTS			
Revenue Loss – Section 144.701. 2. Reduction of Funds	Less than or (\$875,154,520) Could Exceed (\$1,535,588,080)	Less than or (\$875,154,520) Could Exceed (\$1,535,588,080)	Less than or (\$875,154,520) Could Exceed (\$1,535,588,080)
ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS	Less than or (\$875,154,520) Could Exceed (\$1,535,588,080)	Less than or (\$875,154,520) Could Exceed (\$1,535,588,080)	Less than or (\$875,154,520) Could Exceed (\$1,535,588,080)

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, 2025, this act authorizes a taxpayer to claim a tax credit in an amount equal to one hundred percent of qualified expenses incurred during the tax year for educating a qualified student, as such terms are defined in the act, provided that no tax credit shall exceed the state adequacy target. Tax credits authorized by the act shall not be transferred, sold, or assigned, but are refundable.

To be eligible for a tax credit, a taxpayer shall not have enrolled a qualified student in the taxpayer's resident school district during the tax year for which the taxpayer is claiming a tax credit.

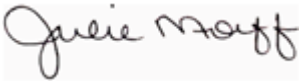
Tax credits authorized by the act shall be claimed by the taxpayer at the time such taxpayer files a return. The taxpayer shall submit to the Department of Revenue certification obtained after November 15th from the Department of Elementary and Secondary Education that the taxpayer did not enroll a qualified student in the taxpayer's resident school district during the tax year for which the taxpayer is claiming a tax credit.

The amount of revenue distributed to a school district from the School District Trust Fund shall be reduced by an amount equal to the aggregate amount of tax credits claimed pursuant to this act by taxpayers residing in the school district.

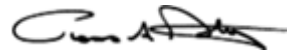
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration – Budget & Planning
Joint Committee on Administrative Rules
Office of the Secretary of State
Oversight Division



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January 10, 2024



Ross Strobe
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