

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1417S.01I  
 Bill No.: SB 195  
 Subject: Tax Credits; Taxation and Revenue - Income; Education, Elementary and Secondary Education  
 Type: Original  
 Date: February 17, 2025

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue Fund*	\$0	Less than (\$928,180,353) or Could Exceed (\$1,200,863,073)	Less than (\$927,100,645) or Could Exceed (\$1,199,783,365)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>Less than (\$928,180,353) or Could Exceed (\$1,200,863,073)</b>	<b>Less than (\$927,100,645) or Could Exceed (\$1,199,783,365)</b>

\*Oversight will reflect a range in education expense tax credits, which does not have any maximum cap, and additionally show 91 DOR FTEs to comply with the implementation and process specified by the proposal, effective FY 2027.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
<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 2026</b>	<b>FY 2027</b>	<b>FY 2028</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 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>
General Revenue Fund	0 FTE	91 FTE	91 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>0 FTE</b>	<b>91 FTE</b>	<b>91 FTE</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 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 135.721 – Education Expense Tax Credit**

Officials from the **Office of Administration – Budget & Planning (B&P)** assumes that beginning with tax year 2026, this proposal would grant a tax credit for qualifying private school and homeschooling expenses. The tax credit shall be equal to 100% of the expenses incurred, up to the state adequacy target amount. The credit shall be refundable, but may not be transferred, sold, or otherwise assigned. Unless reauthorized, this tax credit will sunset on August 28, 2031.

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 be \$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 859,355 students enrolled in public K-12 schools. Based on data published by the Private School Review there are 124,042 students enrolled in private K-12 schools within Missouri. Of the 124,042 private school students, B&P estimates that 88,304 are enrolled in elementary school and 35,738 are enrolled in secondary school.

The Private School Review shows the average private school tuition in Missouri is \$11,290 for elementary and \$13,686 for secondary. Assuming 20% is reduced for scholarships or other financial assistance, the total average cost of elementary is \$9,032 and \$10,949 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. (<http://www.privateschoolreview.com/missouri>)

Therefore, B&P estimates that this provision could reduce GR by \$886,280,090 (124,042 private school students x \$7,145 credit limit FY26) annually beginning in 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 15,725 children (999,122 children – 859,355 public school – 124,042 private school) homeschooled in 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 \$7,000 (upper average range < \$7,145 state adequacy target).

Therefore, B&P estimates that this provision could reduce GR by \$6,290,000 (15,725 students x \$400 cost) to \$110,075,000 (15,725 students x \$7,000 cost) annually.

Summary

B&P estimates that this proposal could reduce TSR and GR by \$892,570,090 (\$886,280,090 private school + \$6,290,000 homeschool) up to \$996,355,090 (\$886,280,090 private school + \$110,075,000 homeschool) annually beginning in FY27.

Officials from the **Department of Revenue (DOR)** assume that for all tax years starting on or after January 1, 2026, this program would allow a qualified taxpayer to claim a refundable credit for educating each child at a private school or home school. The tax credit is equal to the qualified expenses or the state adequacy target whichever is less. Qualified expenses include tuition and fees, textbooks, educational therapies, tutoring services and more. A taxpayer cannot receive this tax credit if the child participates in the MO Empowerment Scholarship Program. DOR checked the tuition price of some of the private schools across the state:

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

2024-2025 tuition prices	
Rockhurst High School – Kansas City -	\$17,550
Barstow K-12- Kansas City - \$19,500 K-5, \$25,500 5 <sup>th</sup> – 9 <sup>th</sup> and \$29,500 10 <sup>th</sup> -12 <sup>th</sup>	\$25,500
Helias High School – Jefferson City –	\$3,250
Springfield Catholic – Springfield – \$6,654 K-5 <sup>th</sup> , \$7,315 6 <sup>th</sup> - 8 <sup>th</sup> and \$10,229 9 <sup>th</sup> - 12 <sup>th</sup>	\$7,315
Vianney High School – St. Louis -	\$18,950
St. Louis University High School –St. Louis -	\$23,300

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

Curriculums	\$ 500.00
Curriculum with tutor enhancements	\$ 7,000.00
Material	\$ 300.00

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, DOR will use the \$7,145 current amount for all fiscal years.

#### The State Adequacy Target History

School Year	State Adequacy Target Amount
2025-2026	\$7,145
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 DOR will assume that all the taxpayers with students in private school will qualify for the current \$7,145 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. DOR will 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 859,638 of the 1,026,656 kids reported by the U.S. Census Bureau between the ages of 5 and 18 enrolled in public schools. Which leaves about 167,018 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 124,042 kids enrolled in MO private schools. Therefore, DOR will assume the remaining 42,976 may be homeschooled.

Assuming that all of the 124,042 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 \$886,280,090 ( $\$7,145 * 124,042$ ) in credits being claimed. Assuming that all of the 42,976 homeschool kids apply for the credit, this could result in another \$34,380,800 (based on \$800 in expenses) to \$307,063,520 (based on expenses equaling the state adequacy target) being claimed.

This credit is refundable credit and therefore the state could see a reduction in general revenue of \$920,660,890 to \$1,193,343,610 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. However, they are refundable.

This tax credit is to begin on January 1, 2026, and requires the credit be claimed on their tax return. The 2026 tax year individual income tax returns are not filed until January 2027 (FY 2027) and so should not impact general revenue until FY 2027. However, since this is a refundable credit, taxpayers may file their return early in FY 2026 and then file an amended return in FY 2027. DOR is unable to determine if any taxpayers would do this, and for fiscal note purposes DOR will show 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 (\$2,200), updates to the website and changes to the individual income tax computer system (\$1,832). These changes are estimated to cost \$4,032. In order to process the individual qualified expenses, DOR assumes the need for a new form (\$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, the Department 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 DOR is not able to use temporary staff to help with processing these returns.

DOR will need one Associate Customer Service Representative (\$37,020) for every 3,000 returns to handle the verification, authorization and issuance of the credit. Given the number of participants expected in this program of 124,042 private school kids, DOR will need 41 FTE to handle the administration of this credit for private school kids and depending on the number of homeschooled students (estimated at 42,976 currently) DOR would expect the need of an additional 15 FTE for those returns.

Additionally, DOR will need one Associate Customer Service Representative (\$37,020) for every 5,000 returns to handle the redemption of the credit, which is 33 FTE. DOR will also need one Auditor for (\$60,960). DOR will also need one Lead Customer Service Representative (\$40,572) to supervise all the new FTE.

**Oversight** notes the officials from Department of Elementary and Secondary Education (DESE), through additional conversation via e-mail, 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 [Private School Review - Tuition Statistics](#) the average tuition in Missouri private school cost \$12,326 per pupil.

**Oversight** notes that according to [responsible homeschooling](#) there were 34,802 home schooled pupils in MO in 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 purposes of this fiscal note, will accept the DOR’s finding as to how many children there are in homeschool or private school settings.

Cost up to State Adeq. Target	Pupils in homeschool	Total tax credit potential
\$800- \$7,145	42,976	\$34,380,800 - \$307,063,520
State Adeq. Target	Pupils in private schools	Total tax credit potential
\$7,145	124,042	\$886,280,090

Therefore, **Oversight** will reflect a reduction in general revenue of \$920,660,890 to \$1,193,343,610 annually, effective FY 2027.

**Oversight** provides detailed breakdown of DOR estimated FTE below:

Type of Schooling	Pupil Total	Items per FTE	Total FTE Needed	Staff Assignment
Private School	124,042	3000 per FTE	41	verification, authorization, and issuance
Home School	42,976	3000 per FTE	15	verification, authorization, and issuance
Private School	124,042	5000 per FTE	25	redemption of the tax credit
Home School	42,976	5000 per FTE	8	redemption of the tax credit
<b>Total</b>			<b>89 FTE</b>	

**Oversight** notes DOR assumes the need for at least (89) additional FTE Associate Customer Service Rep at a salary of \$37,020, (1) Lead Customer Service Rep at a salary of \$40,572, to supervise and assure compliance with this proposal and lastly, (1) Auditor for (\$60,960). Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR’s FTE costs in the fiscal note, beginning FY 2027.

Officials from the **Department of Elementary and Secondary Education (DESE)** 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 for DESE.

Officials from the **Oversight Division** state they are responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, they can absorb the cost with the current budget authority.

#### 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 2026 (10 Mo.)	FY 2027	FY 2028
<b>GENERAL REVENUE</b>			
<u>Revenue Loss</u> – 135.721 Educational Tax Credit p.7	\$0	Less than (\$920,660,890) or Could Exceed (\$1,193,343,610)	Less than (\$920,660,890) or Could Exceed (\$1,193,343,610)
<u>Costs</u> – Sections 135.721 & 144.701(p.7)			
Personnel Service	\$0	(\$3,464,238)	(\$3,533,523)
Fringe Benefits	\$0	(\$2,825,539)	(\$2,853,308)
Expense & Equipment	\$0	(\$1,229,686)	(\$52,924)
<b>Total Costs - DOR</b>	<b>\$0</b>	<b>(\$7,519,463)</b>	<b>(\$6,439,755)</b>
FTE Change	\$0	91 FTE	91 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>\$0</b>	<b>Less than (\$928,180,353) or Could Exceed (\$1,200,863,073)</b>	<b>Less than (\$927,100,645) or Could Exceed (\$1,199,783,365)</b>
Estimated Net FTE Change on General Revenue	0 FTE	91 FTE	91 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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 in a private school or home school, 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 have enrolled a qualified student in a private school or home school during the tax year and 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.

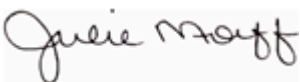
Tax credits authorized by the act shall be claimed by the taxpayer at the time such taxpayer files a return.

This act shall sunset on August 28, 2030, 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

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



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