

COMMITTEE ON LEGISLATIVE RESEARCH  
 OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0049-01  
Bill No.: SB 603  
Subject: Taxation and Revenue - Income; Education - Elementary and Secondary  
Type: Original  
Date: March 27, 2001

FISCAL SUMMARY

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$36,063,676)	(\$150,010,453)	(\$156,010,715)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$36,063,676)</b>	<b>(\$150,010,453)</b>	<b>(\$156,010,715)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
<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 LOCAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 4 pages.

FISCAL ANALYSIS

## ASSUMPTION

Officials of the **Department of Elementary and Secondary Education (DES)** assume this proposal exempts income of certain elementary and secondary school teachers from taxation. To compute the income on which Missouri tax is paid, DES assumes the federal adjusted gross income would be reduced by the amount of compensation received by a teacher. DES does not know this amount. Perhaps DOR can provide estimates. It appears this provision has the potential of significantly reducing state general revenue. During the 1999-2000 year the districts reported paying out in salaries to teachers \$2,447,556,533. The dollar value of Missouri income tax waived for a teacher is unknown by DES.

Officials of the **Department of Revenue (DOR)** state this legislation allows a taxpayer to subtract from federal adjusted gross income any income or compensation received by a certified public elementary or secondary school teacher.

The DOR estimates this subtraction will have a 20 second impact on processing. The Department will need one Tax Season Temporary Employee for every 75,000 returns claiming the deduction and one Tax Processing Technician for every 30,000 additional errors generated by this subtraction. One Tax Processing Technician will be needed for every 3,000 pieces of correspondence received. Customer Assistance anticipates an increase in telephone calls and will need one Tax Collection Technician for every 24,000 additional phone calls generated by this legislation.

According to the Department of Elementary and Secondary Education, there are approximately 61,000 public school teachers in Missouri. Therefore, the DOR will need one Tax Season Temporary Employee to process and verify this subtraction. The DOR anticipates an increase in errors, correspondence and telephone calls; however, the increase is unknown. At this time, the DOR will not request additional FTE for this purpose. Any additional FTE needed will be requested through the normal budget process.

DOR assumes this legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of \$46,170. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs.

Officials of the **Office of Administration, Budget and Planning (BAP)** have deferred to the Department of Elementary and Secondary Education.

## ASSUMPTION (continued)

Based on information provided by DES, **Oversight** estimates the revenue impact of this proposal as a loss to General Revenue of \$144 million annually. There are approximately 61,000 classroom teachers in Missouri, receiving a total of \$2.4 billion in annual salary. Using a marginal income tax rate of 6% and a 4% growth rate, this proposal would generate a loss of approximately \$150 million for FY03 and \$156 million for FY04.

In addition, Oversight estimates a loss to the General Revenue Fund of \$36 million for FY02 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2002. Oversight assumes 25% of Missouri teachers would adjust payments, however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of teachers' income in determining state income tax and their desire to adjust withholdings or estimated payments.

**This proposal would result in a decrease in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
<b>GENERAL REVENUE FUND</b>			
<u>Loss to General Revenue Fund</u>			
Exemption of income of teachers	(\$36,000,000)	(\$150,000,000)	(\$156,000,000)
<u>Costs - Department of Revenue</u>			
Temporary Tax Season Employee	(\$8,499)	(\$10,453)	(\$10,715)
Reprogramming costs	<u>(\$55,177)</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$36,063,676)</u></b>	<b><u>(\$150,010,453)</u></b>	<b><u>(\$156,010,715)</u></b>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2002 (6 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This act exempts from state income taxation the salaries of certified elementary and secondary school teachers who provide direct classroom instruction in a Missouri public school.

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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Director

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