

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0528-01
Bill No.: SB 115
Subject: Education, Elementary and Secondary; Revenue Dept.; Taxation and Revenue-
 General-Income
Type: Original
Date: January 10, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0	(\$7,008,960)	(\$7,008,960)
Total Estimated Net Effect on <u>All</u> State Funds	\$0	(\$7,008,960)	(\$7,008,960)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 3 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation allows a state income tax deduction for tuition, attendance fees, supplies and transportation costs, paid by individual and corporate taxpayers, for each dependent or pupil in grades nine through twelve. This deduction is not to exceed \$2,500 for each dependent or pupil and will become effective January 1, 2002.

ADMINISTRATIVE IMPACT:

The number of taxpayers eligible for this deduction is unknown at this time. The Division of Taxation is estimating a 5% impact to the income tax process and will need one temporary tax season employee (\$8.00 an hour) for every 75,000 returns filed with this deduction and one Tax Processing Tech I for every 4,000 pieces of correspondence received regarding the subtraction. The Division of Taxation would also need one Tax Processing Tech I (6 months) for every 30,000 income tax errors and one Tax Processing Tech I for every 12,000 corporate tax errors generated by this legislation.

This legislation would require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, would require 1,470 hours of overtime at a cost of \$50,970. Modifications to the income tax returns and schedules would be completed with existing resources. State Data Center charges would increase due to the additional storage and fields to be captured. Funding in the amount of \$6,188 is requested for implementation costs.

Oversight assumes that the tax deduction would be a modification to the Missouri Income Tax Return and that DOR could handle this proposal with their current resources.

Officials of the **Department of Elementary and Secondary Education (DES)** state this proposal would not fiscally impact their agency or school districts.

Officials of the **Office of Administration (COA) - Division of Budget and Planning (BAP)** state there are 20,380 students in private secondary schools in Missouri. The average tuition for private secondary schools is \$4,577 as stated in the 1999 Digest of Education Statistics. Therefore, it is assumed that all of these students would take the full \$2,500 deduction. There are 263,464 students in public secondary schools in Missouri. It is assumed that these students have school and transportation expenses of \$250 annually. A 6% marginal tax rate was assumed. The estimate is the maximum cost, and there is no way to break down how much will come from individual or corporate taxpayers.

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
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Educational Expense Income Tax Deduction	\$0	(\$7,008,960)	(\$7,008,960)
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$7,008,960)</u>	<u>(\$7,008,960)</u>
<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 authorizes a state income tax deduction, for both individuals and corporate taxpayers, for the costs of school tuition, attendance fees, school supplies or transportation costs for students in grades nine through twelve. The deduction is capped at \$2,500 per dependent.

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



Jeanne Jarrett, CPA
Director
January 10, 2001