

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1705-01  
Bill No.: HB 647  
Subject: Cities, Towns and Villages: Education, Higher; Revenue Dept; Taxation and Revenue - Income  
Type: Original  
Date: March 8, 2005

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(\$3,262,500 to Unknown)	(\$3,262,500 to Unknown)	(\$3,262,500 to Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$3,262,500 to Unknown)</b>	<b>(\$3,262,500 to Unknown)</b>	<b>(\$3,262,500 to Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
<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.  
This fiscal note contains 5 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</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 LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Coordinating Board for Higher Education** and the **Department of Economic Development - Division of Finance** indicate there will be no fiscal impact to their respective agencies.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state there should be no added cost to the BAP as a result of this proposal.

BAP notes that this proposal would allow taxpayers to make deductible contributions to qualifying higher education savings plans similar to the MOST program yet sponsored by other states. BAP does not have the required data to estimate the number of participants or the amount they might contribute to these programs, and is therefore unable to estimate the revenue impact. However, this program will negatively, and perhaps significantly, impact general and total state revenues.

Officials from the **Department of Revenue - Division of Taxation** assume documentation will have to be attached to the tax return indicating that deduction is from a 529 plan and provide the amount qualifying for the deduction. With the Tax Season Temporaries verifying this information it is estimated that 2 Tax Season Temps will be needed for every 32,000 returns filed using the deduction, one Tax Processing Tech for every 19,000 additional errors, and one Tax

ASSUMPTION (continued)

Processing Tech for every 2,400 pieces of correspondence generated by this legislation.

The Division of Taxation will have internal costs estimated to be \$61,554 and 2 FTE associated with the implement of this legislation; however, the division believes it can manage these costs at current appropriation levels unless there is a material change in the division's other responsibilities.

Officials with the **Office of State Treasurer (STO)** assume this proposal would expand the state's MOST program by extending income tax deductions to Missouri citizens placing investments in any 529 college savings plans offered by state or any political subdivision of any state. Currently, this deduction is allowed only to investors in Missouri's MOST plan.

STO estimates that there are currently 86,000 MOST accounts qualifying for the state income tax deduction, and that approximately 29,000 Missouri residents currently invest in out-of-state plans that would become eligible for the tax deduction as a result of this proposal. STO assumes that the average annual investment in such plans ranges from \$2,500 to \$8,000 (the maximum allowed by law). 29,000 Missouri taxpayers deducting the investment amounts from income at an average marginal tax rate of 4.5% would result in a loss to General Revenue of \$3.26 million to \$13.92 million per year.

STO notes that such estimates fail to consider potential impact from any increase in the number of total investors in such savings plans. Due to the uncertainly of consumer investment behavior, STO cannot predict the rate at which investments (either the number of investors or the amount they invest) would increase as a result of this act.

Officials from the **Office of Secretary of State (SOS)** did not respond to a request for fiscal note; however, **Oversight** assumes the SOS could absorb the costs of any printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

**This proposal would result in a decrease in total state revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
<b>GENERAL REVENUE</b>			
<u>Loss - Reduced Income Tax Receipts</u>	(\$3,262,500 to Unknown)	(\$3,262,500 to Unknown)	(\$3,262,500 to Unknown)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(\$3,262,500 to Unknown)</u></b>	<b><u>(\$3,262,500 to Unknown)</u></b>	<b><u>(\$3,262,500 to Unknown)</u></b>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2006 (10 Mo.)	 FY 2007	 FY 2008
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

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


DESCRIPTION

This proposal authorizes, beginning January 1, 2005, a state tax deduction for contributions to other state or political subdivision educational savings programs.

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  
    Division of Taxation  
Coordinating Board for Higher Education  
Department of Economic Development  
    Division of Finance  
Office of Administration  
    Division of Budget and Planning  
Office of State Treasurer



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