

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0717-01
Bill No.: HB 348
Subject: Taxation and Revenue - General; Education, Elementary and Secondary
Type: Corrected
Date: February 11, 2009
#Corrected bill number

Bill Summary: Would authorize a state income tax deduction for school supplies and books purchased for home schooling a child.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue *	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund *	(Unknown)	(Unknown)	(Unknown)

* The estimated impact ranged from (Less than \$100,000) to (Unknown).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** provided the following response.

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 \$2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume there would be no added cost to their organization if this proposal was implemented.

BAP officials stated that this proposal would provide an income tax deduction for school supplies purchased for home schooling. According to National Center for Education Statistics , there were approximately 1.5 million homeschooled students in the United States in 2007. BAP assumes that 1.9% of those children between the ages of 5 and 17 live in Missouri. Assuming that the number of homeschooled children is uniform across the U.S., there would be approximately 28,500 homeschooled children in Missouri. According to various sources, the estimated cost of books and supplies for a single home schooled student is between \$500 and \$1,000. Therefore BAP estimated that the total amount spent on home school supplies in Missouri would be between \$14.25 million and \$28.5 million. Using a 4.5% effective tax rate, this proposal could reduce general and total state revenues between \$640,000 and \$1.28 million.

Officials from the **Department of Elementary and Secondary Education** indicated that this proposal would have no fiscal impact to their organization and deferred to the Department of Revenue for an estimate of the fiscal impact to the state and to local governments.

ASSUMPTION (continued)

DESE officials provided information regarding home school students reported to public school districts. The number of home school students is included in a special education funding allocation process by DESE; reported home school students improves a district's finding allocation. Information reported as of January 1, 2008 indicated that 5,409 students were home schooled in Missouri. However, DESE officials also noted that parents and guardians are not required to report home school status to their local school district and that the number of home school students could be more than 5,409.

Oversight searched for information regarding the cost of home school books and supplies. One source sold integrated curriculum packages at a cost which ranged from \$228 for a first grade student to \$353 for a high school senior. The cost of books alone, for the number of students reported by DESE, could therefore range from $(\$228 \times 5,409) = \$1,233,252$ to $(\$353 \times 5,409) = \$1,909,377$ and the revenue reduction based on that estimate would range from $(\$1,233,252 \times 4.5\% \text{ average tax rate}) = \$55,496$ to more than $(\$1,909,377 \times 4.5\% \text{ average tax rate}) = \$85,922$. Allowable deductions for supplies could substantially increase the revenue reduction. We also found sources for used and recycled textbooks, which indicates that home school families could purchase used text books, or could use recycled public school textbooks at very little cost.

The proposal does not include any limit to the amount of books and supplies which could be deducted. Therefore, Oversight assumes that the impact of this proposal could range from the lowest amount we calculated, \$55,496, to the BAP high estimate of \$1.28 million. Oversight will indicate an unknown cost to the General Revenue Fund for fiscal note purposes.

Officials from the **Department of Revenue** (DOR) assume this proposal would allow a taxpayer to deduct the full amount expended on school supplies for tax years on or after January 1, 2009.

- * DOR would establish procedures and create rules by which the deductions can be claimed and for implementation.
- * Modifications to tax forms and MINITS system would be required.

Personal Tax would require two (2) Temporary Tax Employees for key entry; one (1) Revenue Processing Technician per 19,000 returns verified, and one (1) Revenue Processing Technician per 2,400 pieces of correspondence.

ASSUMPTION (continued)

DOR provided an estimated cost to implement this proposal including the two additional FTE and related equipment and expense totaling \$90,618 for FY 2010, \$98,721 for FY 2011, and \$101,683 for FY 2012.

In response to a similar proposal in the previous session (HB 2580 LR 5631-01, 2008) DOR officials stated that the proposal could be implemented by adding a line to the MO-A form allowing the additional deduction, with verification on an exception basis.

Oversight assumes that this proposal could be implemented with existing resources. If unanticipated costs are incurred or if multiple proposal are implemented which increase the DOR workload, resources could be requested through the budget process.

DOR officials also provided this estimate of the IT cost to implement the proposal:

Officials from the Office of Administration, Information Technology Services Division (ITSD/DOR) estimate that this proposal could be implemented utilizing 1 existing CIT III for 2 months for system modifications to MINITS at a total cost of \$8,882. ITSD/DOR officials assume the IT portion of this request could be accomplished with existing resources; however, if priorities shift, additional FTE or overtime could be needed.

Oversight assumes the IT portion of the proposal could be implemented with existing resources. If unanticipated costs are incurred or if multiple proposals are implementing which increase the ITSD workload, resources could be requested through the budget process.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
-----------------------------------------	---------------------	---------	---------

GENERAL REVENUE FUND

Revenue reduction - DOR

Deduction for home school costs *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
-----------------------------------	------------------	------------------	------------------

**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND ***

* The estimated impact ranged from
(Less than \$100,000) to (Unknown).

<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
------------------	------------------	------------------

FISCAL IMPACT - Local Government

FY 2010
(10 Mo.)

FY 2011

FY 2012

\$0

\$0

\$0

FISCAL IMPACT - Small Business

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

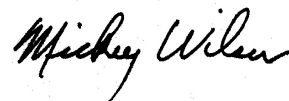
FISCAL DESCRIPTION

This proposal would authorize a state income tax deduction for school supplies and books purchased for home schooling a child.

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

Office of the Secretary of State
Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue



Mickey Wilson, CPA
Director
February 11, 2009