

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4718-01
Bill No.: HB 1446
Subject: Education, Higher; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: March 7, 2012

Bill Summary: This proposal would provide an income tax deduction for 100% of tuition and fees paid for up to the last nine or 18 hours required to complete an associate or bachelor degree from a public two-year or four-year college. In addition, the proposal would provide an income tax deduction for all tuition paid by a taxpayer.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
Total Estimated Net Effect on General Revenue Fund	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue			
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 2013	FY 2014	FY 2015
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS 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 **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Elementary and Secondary Education** assume this proposal would have an unknown negative impact on the General Revenue Fund.

Officials from the **Department of Higher Education** assume this proposal would have no fiscal impact on their organization.

Officials from the **University of Missouri** assume this proposal would have a positive fiscal impact on their organization by increasing degree completions.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would create a deduction for tuition costs for taxable years beginning on or after January 1, 2013. A taxpayer would be allowed a deduction of 100% of the taxpayer's tuition costs.

DOR would create procedures for implementation and confer with public 2-year or 4-year higher education institutions to develop those procedures. The provisions would sunset on December 31, six years after the effective date unless reauthorized by the General Assembly. DOR would also need to make form changes, and DOR and ITSD-DOR would need to make programming changes to various tax systems.

DOR officials assume that Personal Tax would require two additional Temporary Tax Employees for key entry, one additional FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 manually reviewed returns, one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. In addition, Collections & Tax Assistance would require one additional FTE Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contacts annually on the non-delinquent tax line with CARES equipment and agent licenses, one additional FTE Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contacts annually on the delinquent tax line with CARES equipment and agent licenses, and one additional FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually in the field with CARES equipment and agent licenses for the Jefferson City Tax Assist Office.

DOR officials provided an estimate of the administrative cost to implement this proposal including five additional employees with related benefits, equipment, and expense totaling \$214,685 for FY 2013, \$218,847 for FY 2014, and \$221,140 for FY 2015.

Oversight assumes this proposal would require only the addition of a line for the deduction on DOR forms, would involve a limited number of taxpayers, and could be implemented with existing resources. If unanticipated costs are incurred or if multiple proposals are implement which increase the DOR workload, resources could be requested through the budget process.

ASSUMPTION (continued)

Fiscal impact

DOR officials assume, based on information received from the Department of Higher Education, the average tuition paid to a public institution per 18 hours for a bachelor degree is \$4,355 and the average paid for 9 hours for an associate degree is \$1,166. Using a 6 percent tax rate, the average tax impact on \$4,355 would be \$261 and the average tax impact on \$1,166 would be \$70.

DOR officials also noted that in 2010 more than 20,000 students received their bachelor degrees from public institutions and more than 9,900 students received associates degrees from public institutions. DOR has no way to determine how many students who received bachelors or associates degrees would be subject to the Missouri income tax, would be residents of the state of Missouri, or would not have been enrolled as a full-time student for at least four consecutive calendar years before the degree program was resumed. DOR officials assumes the population of graduates that would meet each of those qualifications would be less than 10 percent. If 10 percent of the students were eligible for the deductions, it would result in a reduction of general revenue of approximately \$600,000.

IT Cost

DOR officials also provided an estimate of the IT cost to implement the proposal. The estimate of cost for ITSD-DOR was \$13,356 on 504 programming hours to make changes to the individual income tax processing system (MINITS).

Oversight assumes ITSD-DOR is provided with core funding to handle a certain amount of activity each year. Oversight also assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no additional cost or savings to their organization as a result this proposal.

BAP officials noted that this proposal would provide an income tax deduction for qualifying taxpayers - state residents, paying resident tuition, who have not been enrolled for the prior four years, who graduate from a public institution for the tuition costs for the last nine or eighteen hours of the taxpayers' tuition and fees, depending on the degree program.

ASSUMPTION (continued)

In addition, BAP officials stated that information available on the Department of Higher Education (DHE) website shows that 20,120 bachelors' degrees and 9,603 associates' degrees were awarded in FY 2010. DHE data would also imply that tuition and fees for the final hours of degree programs are an estimated \$4,355 for a bachelor's degree, and \$1,166 for an associate degree. However, there is no data available that suggests how many of the graduating students are residents that have returned after four years of absence, as required by the proposal.

BAP officials noted that this proposal would reduce General and Total State Revenues by an unknown amount.

Oversight notes that this proposal would allow a deduction for tuition and fees paid by a taxpayer for the last nine or eighteen hours needed to complete an associate's or bachelor's degree after a four year absence; it would also allow a deduction for all tuition paid by a taxpayer. The proposal would appear to define a taxpayer for the tuition deduction in the same way as a taxpayer is defined for the tuition and fee deduction; the taxpayer would have to return to a public educational institutional and finish a degree program after a four year absence. This restrictive definition would substantially limit the number of persons who could qualify for either deduction.

Oversight has calculated a \$106 million estimate of the maximum amount of tuition and fees which could be deducted under these provisions assuming all graduates would qualify for the deduction. Oversight notes that the revenue reduction for the additional \$106 million in deductions would be $(\$106,000,000 \times 6\%) = \$6,360,000$. The number of graduates who could actually qualify for the deduction based on the proposed definitions is unknown. However, if one hundred graduates qualified for the deduction for the last eighteen credit hours to earn a bachelor's degree, the revenue reduction would be $(100 \times \$4.355 \times 6\%) = \$26,130$.

For fiscal note purposes, Oversight will indicate a revenue reduction for the General Revenue Fund less than \$100,000 for this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
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GENERAL REVENUE FUND

<u>Revenue reduction - additional income tax deductions</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

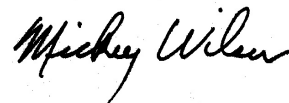
FISCAL DESCRIPTION

This proposal would provide an income tax deduction under certain conditions, for 100% of tuition and fees paid for up to the last nine or 18 hours required to complete an associate or bachelor degree from a public two-year or four-year college. In addition, the proposal would provide an income tax deduction for tuition paid by a qualifying taxpayer.

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
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Higher Education
Department of Revenue
University of Missouri



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Director
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