

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1388-01  
Bill No.: HB 628  
Subject: Education, Higher; Revenue Department; Taxation and Revenue - Income  
Type: Original  
Date: March 29, 2013

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$0	(Less than \$100,000)	(Less than \$100,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>(Less than \$100,000)</b>	<b>(Less than \$100,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<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 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</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 FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## FISCAL ANALYSIS

### ASSUMPTION

#### Section 143.129, RSMo. - Tuition and Fee Deduction

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 this is a small amount and does not expect 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 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 **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted this proposal would provide an income tax deduction for tuition and fees costs for the last nine or eighteen hours, depending on the program, to complete a degree program from a public institution of higher education in Missouri. The deduction would be available to state residents who paid resident tuition, and had not been enrolled for the previous four years.

In addition, BAP officials stated the Department of Higher Education (DHE) website indicates 20,120 bachelor's degrees and 9,603 Associates degrees were awarded in FY 2010. The DHE data 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, and have returned after four years of absence as required by the proposal.

ASSUMPTION (continued)

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

Officials from the **Department of Higher Education (DHE)** assume this tax deduction would have no direct impact on their organization but would reduce the amount of taxes certain citizens pay.

DHE officials stated the Department was unable to estimate the fiscal impact of this bill with any precision because it cannot predict the extent to which this tax credit would be utilized, the income levels of those who would take advantage of the credit, other deductions available to those persons, etc.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** stated that, if enacted, this proposal would authorize an income tax deduction for 100% of tuition and fees paid for the last nine hours required to complete an associate degree from a public two-year college or the last eighteen hours required to complete a bachelor degree from a public four year college. The proposal would require the taxpayer to be the degree earner.

EPARC officials noted their 2011 individual income tax data includes information on the federal Tuition and Fees Deduction, the federal American Opportunity Credit, and the federal Education Credit. This data would help us ascertain which taxpayers are paying for educational expenses; however, the data does not indicate whether the taxpayer is also the student as required by this proposal. Therefore, EPARC officials were not able to estimate the impact this proposal could have on state revenue.

Officials from the **Department of Revenue (DOR)** noted beginning January 1, 2014, a taxpayer would be allowed a deduction for tuition costs. The deduction would be 100% of the taxpayer's tuition costs. The Department would confer with public 2-year or 4-year higher education institutions and develop procedures to implement the proposal. The provisions would sunset on December 31, six years after the effective date unless re - authorized by the General Assembly.

ASSUMPTION (continued)

Fiscal impact

DOR officials assume this proposal would cause reduced state revenues.

Based on prior year information received from the Department of Higher Education, DOR officials assume the average tuition paid to a public institution for 18 hours in a bachelor degree program would be \$4,355 and for nine hours in an associate degree program the tuition would be \$1,166. Using a six percent tax rate, the average tax impact on \$4,355 would be \$261 and the average tax impact on \$1,166 would be \$70.

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. The Department has no way to determine how many students who received degrees were subject to the Missouri income tax, were residents of the state of Missouri, or were not enrolled as a full-time student for at least four consecutive calendar years before the degree program was resumed.

The Department assumes the population of qualifying graduates under each of those requirements would be less than ten percent. If ten percent of the students were eligible for the deductions, it would result in a revenue reduction of approximately \$600,000.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$13,633 based on 504 hours of programming to make changes to DOR systems.

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

ASSUMPTION (continued)

Administrative impact

DOR officials assume the Department would need to make form changes, and the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

DOR officials also assume Personal Tax would require two Temporary Tax Employees for key entry, one additional Revenue Processing Technician I (Range 10, Step L) per 19,000 returns manually reviewed, and one additional Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. In addition, Collections & Tax Assistance would require one additional 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 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 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.

The DOR cost estimate included two temporary tax employees and five additional full - time employees, and the total cost including the employees and the related benefits, equipment, and expense totaled \$217,043 for FY 2014, \$218,936 for FY 2015, and \$222,242 for FY 2016.

**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)

**Oversight** notes 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 education 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 \$99 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 the revenue reduction for the additional \$99 million in deductions would be  $(\$99,000,000 \times 6\%) = \$5,940,000$ . The number of graduates who could actually qualify for the deduction based on the proposed eligibility requirements 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. Oversight notes this proposal would allow the deduction beginning January 1, 2014 and assumes the impact would begin with 2014 tax returns filed in January of 2015 (FY 2015).

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
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**GENERAL REVENUE FUND**

Revenue reduction - DOR

Tuition and fee deductions Section 143.129	\$0	(Less than \$100,000)	(Less than \$100,000)
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<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b>(Less than <u>\$100,000</u>)</b>	<b>(Less than <u>\$100,000</u>)</b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

Beginning January 1, 2014, this bill would authorize an income tax deduction for 100% of the tuition and fees paid by a taxpayer for the last nine credit hours required to complete an associate degree or the last 18 hours required for a bachelor degree from a public two-year or four-year college in Missouri. The student must provide proof of graduation from the higher education institution, have not been enrolled as a full-time student for at least four consecutive years before the year in which the degree program is resumed, have been a resident of Missouri for at least one year before the year the deduction is claimed, and paid tuition at the resident rate at a higher education institution in this state.



FISCAL DESCRIPTION (continued)

The provisions in this proposal would expire December 31 six years after the effective date.

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 Higher Education  
Department of Revenue  
University of Missouri  
Economic and Policy Analysis Research Center



Ross Strobe  
Acting Director  
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