

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0972-01
Bill No.: HB 364
Subject: Tax Incentives; Taxation and Revenue - General; Taxation and Revenue -Income; Department of Elementary and Secondary Education; Department of Higher Education
Type: Original
Date: January 24, 2019

Bill Summary: This proposal modifies provisions relating to a tax deduction for educator expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0	(\$939,293) to (\$1,841,750)	(\$921,570) to (\$1,807,000)
Total Estimated Net Effect on General Revenue	\$0	(\$939,293) to (\$1,841,750)	(\$921,570) to (\$1,807,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on Other 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 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume there are multiple reference changes throughout Section 143.121. These changes will not impact Total State Revenue, General Revenue, or the calculation under Article X, Section 18(e).

Section 143.121.3(11) creates a tax deduction of up to \$500 for qualifying educator expenses beginning in tax year 2020. The deduction would only be granted for educators and expenses that qualify for the current federal tax deduction. B&P notes that while the deduction will become available in tax year 2020, the impact to Total State Revenue will not occur until taxpayers file their annual return in FY 2021.

In tax year 2016, the most recent complete tax year data available, there were 69,500 tax filers that claimed the federal tax deduction for a total claim amount of \$17.7 million, for an average claim amount of approximately \$255. Therefore, for the purpose of this fiscal note B&P will show a range in potential revenue loss between the average of \$255 in tax year 2016 and the cap of \$500 set forth in this proposal. However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014).

Tax Year	Current Law	TY20*	TY21*	TY22*
Tax Rate	5.4%	5.3%	5.2%	5.1%
Low Estimate	\$958,000	\$940,000	\$923,000	\$905,000
High Estimate	\$1,877,000	\$1,842,000	\$1,807,000	\$1,772,000

*Assumes each SB 509 (2014) trigger is reached for rate reduction

Therefore, B&P estimates that this proposal could reduce Total State Revenue and General Revenue by \$958,000 to \$1,877,000 or by \$940,000 to \$1,842,000 in FY 2021. Once SB 509 (2014) has fully implemented, this proposal could reduce Total State Revenue and General Revenue by \$905,000 to \$1,772,000 annually.

This change will impact the calculation under Article X, Section 18(e).

Officials at the **Department of Revenue (DOR)** assume this proposed legislation could potentially decrease Total State Revenue, specific to General Revenue, by an estimated \$1,876,500 beginning in Fiscal Year 2021. Based on Federal IRS information, there were 69,500 individuals with a Missouri address that filed a Federal Form 1040 claiming Educator Expenses. If each individual qualifies for a \$500 subtraction from Federal Adjusted Gross Income in order

ASSUMPTION (continued)

to compute Missouri Adjusted Gross Income, the total subtraction amount could amount to \$34,750,000. This subtraction is pretax; subsequently, the Department has multiplied the total amount of subtraction(s) by the highest tax rate (applicable for 2019 tax year) of 5.4%. The Department estimates a total decrease to General Revenue in the amount of \$1,876,500 (69,500 x \$500 x 5.4%) each fiscal year.

Officials at the **Department of Elementary and Secondary Education** stated this proposal has no fiscal impact on the Department. Additionally, they were unable to provide Oversight with information on the number of teachers that may be impacted.

Oversight reviewed the data supplied by the B&P and DOR regarding this program. Oversight will use the number supplied by DOR as it takes into account that this proposal would allow all the taxpayers to claim the full \$500 deduction.

Oversight notes the IRS allows educators to deduct certain eligible educator expenses up to \$250 annually. This proposal would allow for a state deduction up to \$500 of eligible educator expenses.

Oversight notes that according to the Department of Elementary and Secondary Education in 2017 - 2018 there are 69,082 classroom teachers plus 16,481 Administrative and Supervisory persons (total of 85,563) in Missouri.

Oversight notes the changes in this proposal would be effective beginning with the tax year starting January 1, 2020, and the first income tax returns would be filed reflecting these changes in January, 2021 (FY 2021).

Oversight will assume the tax rate changes from SBs 509 & 496 (2014) and HB 2540 (2018) will be implemented, resulting in a tax rate of 5.3% for calendar year 2020 (FY 2021 filing) and 5.2% for 2021 (FY 2022 filing). Oversight will range the fiscal impact from the average for calendar year range the fiscal impact from the average federal deduction for educator expenses (\$255) to the cap placed on the Missouri deduction within this bill (\$500), each multiplied by 69,500 tax filers that claimed the federal tax deduction in 2016.

Calendar Year	Fiscal Year	Tax Rate	Total deductions @ 69,500 x \$255	Missouri Tax impact	Total deductions @ 69,500 x \$500	Missouri Tax impact
2020	2021	5.3%	\$17,722,500	\$939,293	\$34,750,000	\$1,841,750
2021	2022	5.2%	\$17,722,500	\$921,570	\$34,750,000	\$1,807,000

ASSUMPTION (continued)

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Revenue Reduction</u> - DOR - tax deduction for eligible educator expenses up to \$500 per person §143.121.3(11)	\$0	<u>(\$939,293) to (\$1,841,750)</u>	<u>(\$921,570) to (\$1,807,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>(\$939,293) to (\$1,841,750)</u>	<u>(\$921,570) to (\$1,807,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
	<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

For all tax years beginning on or after January 1, 2020, this bill establishes a tax deduction in the amount of 100% of un-reimbursed educator expenses incurred by an eligible educator, not to exceed \$500. An eligible educator is defined as an individual who is a K-12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year. Educator expenses are expenses incurred as a result of the participation by the educator in professional development courses related to the curriculum in which the educator provides instruction, and expenses in connection with books, supplies, computer equipment and other equipment, and supplementary materials used by the eligible educator in the classroom.

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



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January 24, 2019

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January 24, 2019