

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0936H.011
 Bill No.: HB 478
 Subject: Treasurer, State; Health and Senior Services, Department of; Education, Higher
 Type: Original
 Date: February 2, 2021

Bill Summary: This proposal changes provisions relating to state education savings programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
General Revenue	Could exceed (\$7,060,449)	Could exceed (\$21,658,615)	Could exceed (\$22,528,129)	Could exceed (\$5,856,916)
Total Estimated Net Effect on General Revenue	Could exceed (\$7,060,449)	Could exceed (\$21,658,615)	Could exceed (\$22,528,129)	Could exceed (\$5,856,916)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Total Estimated Net Effect on FTE	0	0	0	\$0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 166.400 – Missouri Education Savings Program

Oversight notes this section changes the name of the Missouri Education Savings Program to the Missouri Education Program.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation renames the “Missouri Education Savings Program” to the “Missouri Education Program.”

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation changes the name of the Missouri Education Savings Program to the Missouri Education Program.

Section 166.410 – Missouri Education Savings Program - Definitions

Officials from **B&P** state this proposed legislation changes the definition of “eligible education institution” from those specified in Sections 529(e)(5), 529(c)(7), and 529(e)(3) to all references in Section 529. B&P notes that this would allow individuals to use the savings account program for student loan repayment.

Based on research, B&P determined that the average student loan in Missouri was between [\\$29,613](#) and [\\$35,400](#). Assuming individuals use a 10-year repayment plan the average annual repayment amount would be between \$2,961.30 and \$3,540. In Tax Year 2018, the most recent complete tax year data available, there were 255,000 tax filers that claimed the federal tax deduction for student loan interest. Therefore, B&P estimates that approximately \$755,134,461 to \$902,700,000 in deductions could be claimed under this provision.

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 \(2014\)](#).

	Current Law	Future Top Tax Rates		
Tax Rate	5.4%	5.3%	5.2%	5.1%
GR Loss - Low	(\$40,777,261)	(\$40,022,126)	(\$39,266,992)	(\$38,511,858)
GR Loss - High	(\$48,745,800)	(\$47,843,100)	(\$46,940,400)	(\$46,037,700)

B&P notes that this provision would take effect August 28, 2021; allowing individuals to use the savings account plan for four (4) months of Tax Year 2021. Therefore, B&P estimates that this proposed legislation will reduce Total State Revenue (TSR) and General Revenue (GR) by \$13,592,420 to \$16,248,600 in Fiscal Year 2022. Once SB 509 (2014) has fully implemented, this proposal could reduce TSR and GR by \$38,511,858 to \$46,037,700 annually.

Oversight notes B&P has estimated the impact(s) of individuals first contributing/depositing their (re)payment of student loan principle or interest into a 529 savings account, permitting them to recognize tax savings.

Oversight notes B&P's analysis suggests individuals will be on a ten (10) year repayment plan. After conducting independent research, Oversight assumes the average term of repayment of student loan(s) totals anywhere between [twenty \(20\)](#) and twenty-five (25) years (Oversight estimate).

Furthermore, **Oversight** notes individuals would **not** be able to deduct the average total student loan amount on their Missouri taxes. This proposed legislation caps the amount that is permitted to be (re)paid through a student's 529 savings account at \$10,000.

Thus, Oversight anticipates the impact(s) of this section will increase for several years post implementation, and then decrease and flatten out afterwards.

Officials from the **Missouri State Treasurer's Office (STO)** state this section expands the MOST 529 Education Plan Program to allow for the repayment of student loans up to \$10,000 per beneficiary.

STO anticipates this section will reduce state revenues by:

- \$1,409,653 in Fiscal Year 2022
- \$3,623,683 in Fiscal Year 2023
- \$4,286,929 in Fiscal Year 2024
- \$4,346,834 in Fiscal Year 2025 and Fiscal Year 2026
- \$2,895,764 in Fiscal Year 2027
- \$1,444,695 in Fiscal Year 2028
- \$1,081,927 in Fiscal Year 2029 and each year thereafter.

Oversight notes STO anticipates a 4.13% participation rate among beneficiaries who will (re)pay their student loans through MOST 529 Education Savings accounts. Furthermore, Oversight assumes STO anticipates taxpayers will receive full benefit (\$10,000) within 2.25 years.

Oversight assumes, based on independent research, that taxpayers with student loan debt would experience tax savings for a total of seven (7) tax years as a result of the \$10,000 cap placed on the total amount permitted to be contributed/deposited into MOST 529 Education Savings accounts and used for such (re)payment.

Furthermore, Oversight assumes the participation rate of individuals who will first contribute/deposit their (re)payment of student loans, before actual payment is required, could be significantly higher.

Officials from **DOR** state this proposed legislation would change the qualified higher education expenses definition under the MOST program and the MO Education Deposit Program. This change in definition would allow for the repayment of principal and interest on student loans as an allowable expense. Therefore, a taxpayer would be allowed to run their student loan payment through their Missouri Education Savings Program Account (MOST account) and do it tax free.

Based on information posted by the organization LENEDU, which provides basic information and statistics on the different types of student loans available, Missouri ranks 28th in average student loan debt. Here's how LENEDU ranks in-state institutions based on average debt:

1. Lincoln University: \$30,827
2. Westminster College: \$29,691
3. Maryville University: \$28,361
4. Southeast Missouri State University: \$27,318
5. University of Missouri-Columbia: \$27,146
6. Missouri State University: \$25,196
7. University of Missouri-St. Louis: \$25,110
8. Truman State University: \$24,938
9. Washington University: \$22,555
10. Columbia College: \$22,159

AVERAGE = \$26,330 - \$219 per month (10 year repayment)

Assuming an annual tax rate of 5.3% (which is estimated for the next three fiscal years), and based on the number of Missouri filers who claim the student loan interest deduction (255,000) this would result in over \$35,000,000 loss to GR annually.

\$26,330 student loan amount = \$219 per month payment
X 5.3% tax rate
\$11.61 monthly tax loss
X 12 months
\$139.32 total tax loss per person per year
X 255,000
\$35,526,600 loss to state

DOR notes this proposal would become effective August 28, 2021 and therefore only four (4) months of payments would be claimed in Fiscal Year 2022. The first full year of loss would occur in Fiscal Year 2023. DOR estimates the following decrease to GR per fiscal year:

Fiscal Year 2022	\$11,842,200
Fiscal Year 2023	\$35,526,600
Fiscal Year 2024	\$35,526,600

DOR notes this proposed legislation places a cap of \$10,000 on the amount that can be run through these programs annually.

Oversight notes DOR’s analysis suggests individuals will be on a ten (10) year repayment plan. After conducting independent research, Oversight assumes the average term of repayment of student loan(s) totals anywhere between twenty (20) and twenty-five (25) years.

Oversight notes this section modifies the definition of “Eligible Educational Institution”

The current definition is “an institution of post-secondary education as defined in Section 529 (e)(5) of the Internal Revenue Code, and institutions of elementary and secondary education as provide din Section 529 (c)(7) and 529 (e)(3) of the Internal Revenue Code”.

This section modifies the definition to define an “Eligible Educational Institution” as “an eligible educational institution as defined in Section 529 of the Internal Revenue Code”.

Oversight notes this section modifies the definition of “Qualified Higher Education Expenses or Qualified Education Expenses”.

The current definition is “the qualified costs of tuition and fees and other expenses for attendance at an eligible educational institution, as defined in Section 529 (e)(3) of the Internal Revenue Code.

This section modifies the definition to define “Qualified Higher Education Expenses” or “Qualified Education Expenses” as “the qualified costs of tuition and fees and other expenses for attendance at an eligible educational institution, as defined in Section 529 of the Internal Revenue Code.

Oversight assumes the changes in this section would allow individuals to first deposit/contribute the amount(s) of principal or interest applicable for qualified education loan (re)payment into established Missouri Educational Savings accounts (MOST accounts/529 accounts) prior to actual (re)payment of such loan. Such repayment would then be paid with the funds initially deposited/contributed into the participating individual’s MOST account.

Oversight assumes this would permit such individuals to recognize Missouri tax savings while completing the obligations/terms of their qualified educational loan(s).

Per Section 166.435, amount(s) deposited/contributed to MOST accounts may be subtracted from the individual's Federal Adjusted Gross Income to determine the individual's Missouri Adjusted Gross Income. The maximum annual amount that may be subtracted cannot exceed \$8,000 per taxpayer.

Oversight notes pre-tax subtraction from income do not reduce revenue(s) on a dollar-for-dollar basis. The estimated amount of deduction must be multiplied by the applicable tax rate to estimate the impact to state revenue(s).

Oversight assumes this section would become effective August 28, 2021 (Fiscal Year 2022). Therefore, Oversight assumes Fiscal Year 2022 would be impacted by this section for four (4) months.

Upon completing an independent analysis, Oversight assumes this section would reduce GR by the following amount(s):

Fiscal Year	Cost to GR
2022	\$ 7,060,449
2023	\$ 21,658,615
2024	\$ 22,528,129
2025	\$ 23,397,644
2026	\$ 24,267,158
2027	\$ 25,136,672
2028	\$ 26,006,186
2029	\$ 5,856,916
2030	\$ 5,856,916

For purposes of this fiscal note, since B&P and DOR used what appears to be a term of repayment (10 years) less than what other sources suggest (20 – 25 years), and since STO's impacts are calculated using what appears to be a significantly low participation rate, Oversight will report the fiscal impact(s) of this section in amounts that "Could exceed" the impacts estimated by Oversight.

Legislation As A Whole

Officials from the **Missouri Department of Elementary and Secondary Education**, the **Missouri Department of Higher Education** do not anticipate this proposed legislation will have a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, for purposes of this fiscal note, Oversight will not report a fiscal impact for these organizations.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2029)
GENERAL REVENUE FUND				
<u>Revenue Reduction – Section(s) 166.410 & 166.435 – Subtraction From Federal Adjusted Gross Income For Contributions/Deposits Into 529/MOST Savings Accounts</u>	<u>Could exceed (\$7,060,449)</u>	<u>Could exceed (\$21,658,615)</u>	<u>Could exceed (\$22,528,129)</u>	<u>Could exceed (\$5,856,916)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Could exceed (\$7,060,449)</u>	<u>Could exceed (\$21,658,615)</u>	<u>Could exceed (\$22,528,129)</u>	<u>Could exceed (\$5,856,916)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2029)
	<u>\$0</u>	<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 proposed legislation modifies the definition of an "eligible education institution" and changes the Missouri Education Savings Program to the "Missouri Education Program".

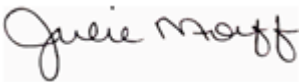
This proposed legislation modifies the definition of "eligible education institution" to include all eligible educational institutions, rather than just institutions of postsecondary education.

This proposed legislation modifies the definition of "qualified higher education expenses or qualified education expenses". This modification will allow individuals to first deposit/contribute the amount(s) of principal and/or interest applicable for qualified education loan (re)payment into established Missouri Educational Savings accounts (MOST accounts/529 accounts) prior to actual (re)payment of such loan.

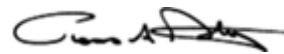
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Elementary and Secondary Education
Missouri Department of Higher Education and Workforce Development
Missouri Department of Revenue
Missouri State Treasurer's Office



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