

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1179H.011
 Bill No.: HB 496
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Tax Credits;
 Revenue, Department of; Education, Elementary and Secondary
 Type: Original
 Date: March 8, 2021

Bill Summary: This proposal would authorize a tax credit for parents of students attending school outside of their school district.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund	\$0	Up to (\$1,215,924,333)	Up to (\$1,215,904,576)
Total Estimated Net Effect on General Revenue	\$0	Up to (\$1,215,924,333)	Up to (\$1,215,904,576)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund – DOR	0 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0 FTE	2 FTE	2 FTE

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

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.1132 – Tax Credit For Parents of Dependents Attending Private School Or Public School Outside Of Resident District

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation creates a tax credit, beginning in Tax Year 2022, for tuition expenses incurred by a taxpayer in a given tax year at one (1) or more eligible public schools or private schools. A taxpayer shall be allowed to claim a credit against their income tax liability. The credit is **refundable** but shall not be assigned, transferred, sold, or otherwise conveyed.

B&P notes there is no cap on the tax credit program created.

B&P states total K-12 enrollment for the 2019-20 school year is 879,845 but that only takes into account enrollment in public schools. Based on information published by the Census Bureau, there were 127,399 students in K-12 that attended either private school or were homeschooled during the 2019-20 school year. B&P notes that the data provided did not break out the total between private school and homeschool. According to the [Private School Review](#), there are 123,314 private school students in Missouri. Therefore, B&P estimates that of the 127,399 total, 4,085 are homeschooled.

The Private School Review shows the average private school tuition in Missouri is \$8,183 for elementary and \$12,181 for secondary.

Assuming 20% is reduced for scholarships or other financial assistance, the total average cost of elementary (less assistance) is \$574,682,270 and \$346,213,254 for secondary. Therefore, assuming **all** parents of students currently enrolled in private school took advantage of this tax credit, the cost to General Revenue (GR) could be up to \$920,895,525.

B&P does not have data on the number of public school students that might switch to private schools as a result of this proposed legislation. Depending on the number of students that switch, the cost of this program could increase significantly.

Oversight assumes B&P has reduced the average private school tuition recognized in Missouri, for both elementary and secondary students, by twenty percent (20%).

Oversight assumes B&P's analysis **does not include** public school students who currently attend a public school outside the student's resident district.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation, beginning on or after January 1, 2022, will allow a taxpayer to claim a tax credit in an amount equal to the taxpayer's Qualifying Amount. The Qualifying Amount is the amount spent by the taxpayer on eligible tuition expenses incurred for a given school year. This tuition can be paid to either a private school or a public school in a district outside the school district the student resides in. This tax credit is refundable and does not have an annual cap.

DOR pulled data on the annual tuition costs of several private schools in the state:

High School	Location	Tuition
Rockhurst High School	Kansas City	\$14,900
Barstow K-12	Kansas City	\$18,800 (K-5)/\$21,615 (6-9)/\$22,385
Helias High School	Jefferson City	\$3,000
Sacred Heart Elementary	Sedalia	\$4,500
Springfield Catholic	Springfield	\$5,885 (K-8)/\$9,047 (9-12)
Vianney High School	St. Louis	\$16,000
St. Louis University High School	St. Louis	\$18,000

Private School Review, an organization dedicated to helping families find private schools, indicates there are 715 private schools in Missouri serving 123,314 students. The Department of Elementary and Secondary Education notes there are 123,314 private school students with 87,553 in elementary school and 35,761 in secondary school in Missouri.

DOR has calculated this fiscal note based on the 123,314 private school students **all** qualifying for this credit. DOR is unable to determine how many students attend a public school other than the one in their district and pay tuition and might be eligible for this tax credit also. Therefore any fiscal impact could be underestimated.

As noted above, the cost of tuition varies greatly in Missouri. The average amount of the schools listed above is \$12,437. The Private School Review which maintains a list of private schools and their tuition costs estimates the average elementary school at \$8,813 and the secondary schools at \$12,181. For the purpose of the fiscal note, DOR will use these averages for the potential amount of the credit.

	Number of Students	Tuition Amount	Total Tax Credit
Elementary	87,553	\$8,813	\$771,604,589
Secondary	35,761	\$12,181	\$435,604,741
Total			\$1,207,209,330

This is a **refundable** tax credit and is estimated to cost more than \$1,207,209,330 annually. Since this proposed legislation begins on January 1, 2022, the first tax returns filed that would report this credit would begin in January 2023 (Fiscal Year 2023).

Fiscal Year	Loss to General Revenue
2022	\$0
2023	(\$1,207,209,330)
2024	(\$1,207,209,330)

DOR assumes one (1) FTE Associate Customer Service Representative would be required for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative would be needed for every 7,600 errors/correspondence generated and additional expense funding for a one time update to forms and programming.

For purposes of this fiscal note, since the estimated number of tax credit claimants exceed DOR's threshold(s) for additional FTE, Oversight will include DOR's administrative cost(s), as reported by DOR.

However, Oversight notes the first tax year in which taxpayers would qualify for the tax credit created is Tax Year 2022. Oversight notes individuals would not file their Tax Year 2022 tax returns until after January 1, 2023 (6 months **after** the beginning of Fiscal Year 2023).

Therefore, Oversight will report DOR's administrative cost(s) beginning in Fiscal Year 2023 assuming DOR can hire and train such FTE(s) within the first six (6) months of Fiscal Year 2023; before Tax Year 2022 tax returns would begin to be filed claiming the tax credit created.

Oversight assumes DOR's analysis **does not include** public school students who currently attend a public school outside the student's resident district.

Oversight notes, per information provided by the Missouri Department of Elementary and Secondary Education, the following number of students attended public school outside of the student's resident district during the 2020 school year and paid "out-of-pocket" tuition for such attendance:

Grade Level	Parent Paid Tuition - Student Count	
K	34	
1	26	
2	28	
3	28	
4	30	Total Elementary:
5	30	176
6	28	
7	37	
8	30	
9	389	
10	27	
11	34	Total Secondary
12	34	579

For purposes of this fiscal note, Oversight has modified the calculation reported by DOR to increase the number of qualifying students by the number of public school students attending public school outside of the student’s resident district who pay out-of-pocket tuition, to estimate the fiscal impact of this proposed legislation:

	Number of Private School Students	Number of Public School Students Paying Tuition To Attend Public School Outside Student's Resident District	Total Number of Students	Tuition Amount	Estimated Total Tax Credit Amount
Elementary	87,553	176	87,729	\$8,813	\$773,155,677
Secondary	35,761	579	36,340	\$12,181	\$442,657,540
				Total:	\$1,215,813,217

Oversight notes a “Dependent Child” is defined as “any individual who: is eligible to attend the system of free public schools in this state..., qualifies as a dependent of the taxpayer... and is the natural or adopted child of the taxpayer or is an individual for whom the taxpayer has been court-appointed as a legal guardian or custodian”.

Oversight assumes the majority of the children in this state, if not all, are eligible to attend the system of free public schools in the state. Therefore, Oversight assumes the amount(s) estimated above accurately reflect the **maximum** impact of this proposed legislation.

Therefore, for purposes of this fiscal note, **Oversight** will report a revenue reduction to GR equal an amount “Up to” \$1,215,813,217 beginning in Fiscal Year 2023.

Oversight notes the provisions of this proposed legislation would sunset December 31st six (6) years after the effective date of this proposed legislation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 SOS for administrative rules is less than \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, SOS also recognizes 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 SOS can sustain with SOS's core budget. Therefore, SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Oversight assumes JCAR will be able to administer any rules from this proposed legislation with existing resources.

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

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Revenue Reduction – Section 135.1132 – Tax Credit For Parents Of Dependents Attending Private School Or Public School Outside Student’s Resident District</u>	\$0	Up to (\$1,215,813,217)	Up to (\$1,215,813,217)
<u>Cost – DOR – Section 135.1132 – Administration of Tax Credit Program</u>			
Personnel Services	\$0	(\$49,207)	(\$49,699)
Fringe Benefits	\$0	(\$40,487)	(\$40,653)
Equipment & Expense	\$0	(\$21,422)	(\$1,007)
Total Cost – DOR	\$0	(\$111,116)	(\$91,359)
FTE Change – DOR	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	Up to (\$1,215,924,333)	Up to (\$1,215,904,576)
<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	\$0	\$0	\$0

FISCAL IMPACT – Small Business

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

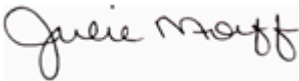
FISCAL DESCRIPTION

For all tax years beginning on or after January 1, 2022, a taxpayer may claim a refundable income tax credit in an amount equal to the full cost of tuition paid by a taxpayer in a given tax year for the attendance of one or more of the taxpayer's dependent children at one or more eligible public schools or eligible private schools in a given tax year. The provisions of this bill sunset on December 31st, six years after the effective date of the bill.

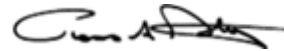
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Elementary and Secondary Education
Missouri Department of Revenue
Missouri Secretary of State's Office
Joint Committee on Administrative Rules



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March 8, 2021



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