

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3046-01
Bill No.: SB 868
Subject: Taxation and Revenue - Income; Tax Credits; Education - Elementary and Secondary
Type: Original
Date: January 5, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$0	(\$17,400,420)	(\$17,678,177)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$17,400,420)	(\$17,678,177)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation authorizes a tax credit, up to \$250, for a teacher's expenditures for instructional materials. The tax credit will not be eligible to anyone not filing a timely return. The tax credit is non-refundable, and can be carried over to the next five succeeding tax years. The taxpayer must qualify as a teacher pursuant to Section 163.011(15), RSMo. The tax credit is effective for tax years on or after January 1, 2005.

DOR stated, in a similar prior fiscal note, the Department of Elementary and Secondary Education indicated there were approximately 61,000 classroom teachers eligible to claim the tax credit. In order to process the tax credit, DOR will need one Tax Processing Technician I for every 4,000 new credits claimed per year and one Tax Season Temporary for every 130,000 credits claimed per year. Also, one Tax Processing Technician I will be needed for every 3,000 pieces of correspondence generated from this legislation. Therefore, in order to maintain the current processing time for all tax returns, DOR will need 15 FTE to process and verify the tax credit.

DOR assumes this legislation will require modifications to the income tax system and credit application system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of \$46,170. Modifications to the income tax return and schedules will be completed with existing resources. State Data

ASSUMPTION (continued)

Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs.

Oversight has, for fiscal note purposes only, changed the starting salary for the fifteen Tax Procession Tech I positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Department of Elementary and Secondary Education (DES)** estimate the fiscal impact as follows:

1. Approximately 65,672 classroom teachers would be able to claim up to \$250 in expenses for instructional materials purchased and used in the course of their employment as a teacher.
2. 100% of teachers would incur expenses sufficient to claim the full amount of the credit.
3. The number of teachers would increase by 2.5% each year. This percentage is used to project the cost of this credit for FY 2004 at \$16,418,000, FY 2005 at \$16,828,450 and FY 2006 at \$17,249,161.

Oversight assumes since this legislation is effective for tax years beginning after January 1, 2005, the cost of this credit for FY 2004 and FY 2005 would be zero. The revenue loss for FY 2006 is estimated at \$16,828,450 and for FY 2007 at \$17,249,161.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume the Department of Elementary and Secondary Education would have the information to estimate the fiscal impact of this tax credit. BAP assumes this proposal would have a negative impact on Total State Revenue and General Revenue. The proposal would have no impact on BAP.

This legislation will reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Loss</u> - General Revenue Fund			
Instructional Materials Credit	\$0	(\$16,828,450)	(\$17,249,161)
<u>Cost</u> - Department of Revenue			
Personal Services (15 FTE)	\$0	(\$290,340)	(\$297,599)
Fringe Benefits	\$0	(\$120,201)	(\$123,206)
Expenses & Equipment	\$0	(\$106,252)	(\$8,211)
Reprogramming Costs	<u>\$0</u>	<u>(\$55,177)</u>	<u>\$0</u>
Total Costs - DOR	<u>\$0</u>	<u>(\$571,970)</u>	<u>(\$429,016)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$17,400,420)</u>	<u>(\$17,678,177)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<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.

DESCRIPTION

This bill authorizes an individual income tax credit of up to \$250 for instructional materials purchased by a teacher used in the course of employment as a teacher.

The credit will apply to tax year 2005 and thereafter.

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

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SOURCES OF INFORMATION

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

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large initial "M".

Mickey Wilson, CPA
Director
January 5, 2004