

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4686-01
Bill No.: HB 1809
Subject: Tax Credits; Education, Higher
Type: Original
Date: February 25, 2014

Bill Summary: This proposal would create an income tax deduction for 100% of the tuition paid for up to the last 30 hours required to complete an associate or bachelor degree from a public two-year or four-year college.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0	(Less than \$100,000)	(Less than \$100,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(Less than \$100,000)	(Less than \$100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on FTE	0	0	0

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).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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 that this is a small amount and does not expect that 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 that 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 that 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 provide an income tax deduction for qualifying taxpayers for the cost of the last nine or eighteen hours of the taxpayers tuition and fees, depending on the degree program.

Qualifying taxpayers would be state residents, paying resident tuition, who have not been enrolled for the prior four years, who graduate from a public institution.

BAP officials noted that information available on the Department of Higher Education (DHE) website shows that 20,120 bachelor's degrees and 9,970 Associates degrees were awarded in FY 2010. DHE data also imply tuition and fees for the final hours of degree programs are an estimated \$5,480 for a bachelor's degree, and \$2,280 for an associate degree. However, BAP cannot identify how many of the graduating students are residents that would have returned after four years of absence, as required by the proposal.

BAP officials assume this proposal would reduce Total State Revenues. BAP notes the data above implies potential deductions for \$110 million of tuition for bachelor's degree students, and \$23 million of tuition of associate's degree students. Summing these, and applying the 6% tax rate would suggest an \$8 million cost. However, it is likely that only a small proportion of these students would meet the above qualifications.

ASSUMPTION (continued)

BAP officials assume this proposal would impact the calculation required under Article X, Section 18(e) of the Missouri Constitution.

Officials from the **Department of Revenue (DOR)** assume this proposal would, beginning January 1, 2015, allow a taxpayer to deduct tuition costs for the last hours, or equivalent, incurred by the taxpayer to complete a degree program, but not to exceed 30 credit hours.

Fiscal impact

DOR officials noted a report provided by the Missouri Department of Higher Education indicated the average tuition paid to a public institution per 30 hours for a bachelor degree in FY 2012 is \$7,450. The average tuition paid to public certificate and associate degree-granting institutions in FY 2012 was \$4,068. At a rate of 6 percent, the tax on these 30 hours for a four year public institution would be \$447 and \$244, respectively, for certificate and associate degree-granting institutions.

DOR officials stated the Department has no way to determine how many resident taxpayers would return to complete degree programs following a period of the three consecutive calendar years. DOR officials stated 29,222 degrees were awarded from public baccalaureate and higher-degree granting institutions in 2011, and 13,602 degrees were awarded from public certificate and associate degree-granting institutions. DOR officials assume the number of taxpayers that would qualify for the proposed deduction would be less than ten percent of students receiving degrees.

Administrative Impact

DOR officials assume Personal Tax would require two additional Temporary Tax Employees for key entry and two additional Revenue Processing Technicians I for error correction and correspondence. In addition, DOR officials assume Collections and Tax Assistance (CATA) would have additional contacts due to this legislation, and would require two additional Tax Collection Technicians I for the delinquent and non-delinquent tax lines and one (1) Revenue Processing Technician I for the field offices. Each technician would require CARES equipment and license.

ASSUMPTION (continued)

The DOR estimate of cost to implement this proposal included two additional temporary tax employees and five additional permanent employees. The total including salaries and wages, benefits, equipment, and expense, was \$223,738 for FY 2015, \$222,530 for FY 2016, and \$224,838 for FY 2017.

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 implemented which increase the DOR workload, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$13,759 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.

Officials from the **Department of Higher Education** did not respond to our request for information.

Oversight notes this proposal would allow a deduction for tuition and fees paid by a taxpayer for the hours needed to complete an associate's or bachelor's degree after a three year absence. The amount claimed would be limited to thirty hours and to the average tuition for the same number of hours at the University of Missouri.

ASSUMPTION (continued)

Oversight assumes the maximum amount of tuition which could qualify for the deduction would be as follows, based on the information provided by the Department of Revenue.

Bachelors' degree programs - (29,222 students x \$7,450 in tuition) = \$217,703,900.
 Associates' degree programs - (13,602 students x \$4,068 in tuition) = \$55,332,936.
 Total - (\$217,703,900 + \$55,332,936) = \$273,036,836.

Further, the tax on the maximum amount calculated above would be (\$273,036,836 x 6%) = \$14,582,210.

The number of graduates who could actually qualify for the deduction based on the proposed eligibility requirements is unknown; however, if one hundred taxpayers qualified for the deduction for the last thirty credit hours to earn a bachelor's degree, the revenue reduction would be (100 x \$7,450 x 6%) = \$44,700.

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, 2015 and assumes the impact would begin with 2015 tax returns filed in January of 2016 (FY 2016).

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Revenue reduction - DOR</u>			
Tuition and fee deductions Section 143.128	<u>\$0</u>	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<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

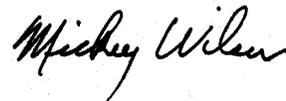
This proposal would create an income tax deduction for 100% of the tuition paid for up to the last 30 hours required to complete an associate or bachelor degree from a public two-year or four-year college.

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 Revenue

Not responding:
Department of Higher Education



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Director
February 25, 2014

Ross Strobe
Assistant Director
February 25, 2014