

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1216-01  
Bill No.: HB 560  
Subject: Education, Elementary and Secondary; Revenue Dept.; Taxation and Revenue -  
 General and Income  
Type: Original  
Date: May 15, 2001

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$1,960,693 to \$30,000,000)	(\$1,283,772 to \$30,000,000)	(\$1,288,437 to \$30,000,000)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$1,960,693 to \$30,000,000)</b>	<b>(\$1,283,772 to \$30,000,000)</b>	<b>(\$1,288,437 to \$30,000,000)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

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**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** feels the Department of Elementary and Secondary Education is better suited to respond to this proposal.

Officials of the **Department of Elementary and Secondary Education (DES)** assume the proposal creates state income tax credits for taxpayers with pre-first grade children who score at least 70% on an educational readiness test and for taxpayers who purchase educational readiness materials.

FOR THE READINESS TESTING:

60,000 students @ \$15 per test = \$900,000

Design and validation = \$700,000

Administration for 2 supervisor FTEs and 1 administrative assistance FTE.

DES assumes the \$700,000 design and validation would be a one-time cost in the first year of implementation.

FOR THE READINESS MATERIALS LISTING: \$200,000

The same FTE above could collaborate to create and disseminate these materials.

Administratively, groups representing all school levels (primary-elementary-middle-secondary) would be brought in to help compile the listing of resources. There would be significant printing costs to provide copies to all parents of children K-12 and to all libraries. There would be mailing costs to get the information to the school districts for dissemination to the parents.

In addition, DES assumes the local districts would likely see a minimal administrative impact as a result of this proposal.

Officials of the **Department of Higher Education (CBH)** assume this proposal would not have an impact on CBH, apart from the indirect impact that a reduction in state revenue due to a new tax credit program may have on all agency budgets.

In a similar proposal, **Department of Revenue (DOR)** officials state this legislation creates a tax credit for a taxpayer whose dependent is pre-first-grade and scores at least 70% on an educational readiness test. The tax credit is refundable, but may not be carried forward or back to another tax year. The credit will not be allowed for a taxpayer who fails to file a timely income tax return. In order to claim the credit, the taxpayer must have the dependent tested.

ASSUMPTION (continued)

The DOR is unable to determine the number of taxpayers who will qualify for the tax credit. Therefore, the administrative impact is unknown at this time. Although workload measures were stated by DOR, staffing needs were estimated as unknown.

DOR assumes this legislation will require modifications, including edits to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor, at a cost of \$46,170. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center implementation costs will be \$9,007.

**Oversight** assumes the DOR will require certification of eligibility for the tax credit by those applying for the credit. Failure to verify eligibility could result in costs beyond amounts estimated. The revenue loss from this credit is shown as a range from zero to \$30 million (60,000 x \$500, eligible children times maximum amount of credit).

Officials from the **Office of the Secretary of State (SOS)** assume this bill creates a tax credit for taxpayers with pre-first-grade children who score at least 70% on an educational readiness test and for taxpayers who purchase educational readiness materials. DES shall promulgate rules to implement this bill. These rules will be published in both the *Missouri Register* and the *Code of State Regulations*. Based on experience with other divisions, the rules, regulations and forms issued by DES could require as many as 8 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* in the Code because cost statements, fiscal notes and the like are not repeated in the Code. The estimated cost of a page in the *Missouri Register* is \$23. The estimated cost of a page in the *Code of State Regulations* is \$27. These costs are estimated at \$492. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

**This proposal would result in a decrease in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
<b>GENERAL REVENUE FUND</b>			
<u>Cost - Dept. of Revenue</u>			
Programming costs	(\$55,177)	\$0	\$0
<u>Cost - Dept. of Elem. &amp; Sec. Education</u>			
Personal Service (3 FTE)	(\$103,392)	(\$127,172)	(\$130,351)
Fringe Benefits	(\$34,461)	(\$42,386)	(\$43,446)
Expense and Equipment	(\$22,840)	(\$14,214)	(\$14,640)
Readiness Testing & Materials	<u>(\$1,800,000)</u>	<u>(\$1,100,000)</u>	<u>(\$1,100,000)</u>
Total costs to DES	(\$1,960,693)	(\$1,283,772)	(\$1,288,437)
<u>Loss to General Revenue</u>			
	\$0 to	\$0 to	\$0 to
Tax credit for kindergarten readiness	(\$18,000,000)	(\$18,000,000)	(\$18,000,000)
	\$0 to	\$0 to	\$0 to
Tax credit for educational materials	<u>(\$12,000,000)</u>	<u>(\$12,000,000)</u>	<u>(\$12,000,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDS</b>	<b><u>(\$1,960,693 to \$30,000,000)</u></b>	<b><u>(\$1,283,772 to \$30,000,000)</u></b>	<b><u>(\$1,288,437 to \$30,000,000)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Certain small businesses may benefit from the educational readiness material purchases encouraged by this tax credit.

DESCRIPTION

Beginning January 1, 2001, this bill provides two types of refundable tax credits relating to educational preparedness. The first provides a credit of \$300 for any taxpayer whose dependent enrolls in first grade and scores 70% or higher on an approved test measuring educational readiness. The Department of Elementary and Secondary Education will develop the test to meet

DESCRIPTION (continued)

stated standards and administer it at sites throughout the state during the summer. The second provides a credit of \$200 for any taxpayer whose dependent is enrolled in first through twelfth grade and who purchases approved readiness materials. The department will create a list of these materials. Procedures for claiming the credits are outlined in the bill, and the department is given authority to promulgate rules to implement 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

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



Jeanne Jarrett, CPA  
Director

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