

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0448-01  
Bill No.: SB 18  
Subject: Taxation and Revenue; Higher Education  
Type: Original  
Date: January 24, 2003

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$14,999,283) to (\$29,599,283)	(\$19,736,399) to (\$36,836,399)	(\$25,177,814) to (\$45,177,814)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$14,999,283) to (\$29,599,283)</b>	<b>(\$19,736,399) to (\$36,836,399)</b>	<b>(\$25,177,814) to (45,177,814)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<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>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

Officials from the **Office of the Governor** assume this proposal would not fiscally impact their agency.

Officials of the **Department of Revenue (DOR)** state that currently, the subtraction for the MOST program is limited to \$8,000 per person. This legislation expands the limit to \$8,000 per person or \$16,000 if married filing joint. Therefore, married taxpayers filing a combined return will be able to deduct up to \$16,000 worth of contributions, although only one spouse earns income. Also, this legislation expands the subtraction to allow any program qualified under section 529 of the IRC. DOR assumes this will include out of state programs.

DOR assumes Personal Tax will need to verify the documentation on each subtraction and handle additional correspondence. Personal Tax will need one Tax Processing Tech for every 30,000 additional deductions claimed and one Tax Processing Tech for every 3,000 additional pieces of correspondence received on this legislation.

DOR defers to the estimated revenue impact prepared by the State Treasurers Office.

ASSUMPTION (continued)

Officials of the **Office of Administration, Budget and Planning (BAP)** assume this proposal would make two changes in the law that governs contributions to federally qualified higher education savings programs. These are:

- Allows married couples filing a combined return to deduct up to \$16,000 even if the lower earning spouse makes no contribution to the account. Current law caps the contribution at \$8,000 per taxpayer.
- Allows a Missouri state individual income tax deduction for those who participate in higher education savings programs sponsored by other states.

BAP defers to the STO estimate. This proposal would have no impact on the BAP.

Officials of the **Department of Higher Education** assume this proposal would have no impact on their agency. However, significant reductions to General Revenue could result in reduced funding to higher education institutions.

Officials of the **State Treasurer's Office (STO)** assume the essential objective of this proposal is to extend a Missouri State income tax deduction to all 529 programs up to \$8,000 for an individual and up to \$16,000 for a combined return for total annual contributions made to any qualified savings programs. Current law limits the deduction up to \$8,000, without specifying treatment of combined returns and only for contributions to Missouri's 529 savings program (MOST).

STO assumes, with the passage of this proposal, broker-dealers throughout the state would be offering 529 plans from all states, and thus Missouri contributions to these programs would increase significantly. In addition to the growth in participation, STO assumes that brokers would market these 529 plans to individuals at higher income levels. Factors such as an increase in participation, an increase in the average level of contributions, and interest earnings that grow tax free at the state level, would result in a significant amount of revenue being shielded from state income tax.

STO fiscal note calculations are based upon projected contributions to the MOST program and estimated projections of participation in other 529 programs. While the STO can more accurately predict growth to the MOST program, estimations as to Missourians' participation in other 529 programs are provided in a range due to variable future economic and business factors. Projections and estimations have been extrapolated from historical data and actuarial predictions. STO noted that an advisor series program was launched by the Missouri Saving for Tuition Program a few weeks ago and at this time, it is impossible for STO to predict its impact.

ASSUMPTION (continued)

STO assumes it is impossible to predict the impact of expanding the Missouri tax deduction to all 529 plans with absolute certainty. Therefore, the STO has provided a range for estimating fiscal impact. The lower end of this range is based upon a very conservative number of broker-dealer customers investing in other 529 programs. The higher end of this range is based upon a higher number of broker-dealer customers investing rather moderately in other 529 programs. The STO anticipates the actual figure will be somewhere in-between, but nearer the higher end of the range.

STO estimates the revenue loss to the state of Missouri may be as little as \$12.8 million in **2004** but is likely to be much higher, as much as \$27.4 million. 529 program data is compiled based on tax years (calendar years) rather than fiscal years. As such, this worksheet shows figures based on calendar years.

2004 Estimated Calculations:

Lower Range

\$303.33 million in tax deductible contributions to other 529 plans will result in a \$18.2 million loss in state tax revenue.

[ $\$303.33 \text{ million} \times 6\% \text{ Missouri tax rate} = \$18.2 \text{ million tax loss.}$ ]

The MOST program anticipates about \$90.1 million in tax deductible contributions in 2004, which will result in a \$5.4 million loss in state revenue. [ $\$90.1 \text{ million} \times 6\% \text{ MO tax rate} = \$5.4 \text{ million tax loss.}$ ]

The resulting fiscal impact [ $\$18.2 \text{ million less } \$5.4 \text{ million} = \$12.8 \text{ million}$ ] will be a loss to General Revenue of approximately \$12.8 million.

Higher Range

\$546.66 million in tax deductible contributions to other 529 plans will result in a \$32.8 million loss in state tax revenue.

[ $\$546.66 \text{ million} \times 6\% \text{ Missouri tax rate} = \$32.8 \text{ million tax loss.}$ ]

The MOST program anticipates about \$90.1 million in tax deductible contributions in 2004, which will result in a \$5.4 million loss in state revenue. [ $\$90.1 \text{ million} \times 6\% \text{ MO tax rate} = \$5.4 \text{ million tax loss.}$ ]

The resulting fiscal impact [ $\$32.8 \text{ million less } \$5.4 \text{ million} = \$27.4 \text{ million}$ ] will be a loss to General Revenue of approximately \$27.4 million.

ASSUMPTION (continued)

STO estimates revenue loss to the state of Missouri may be as little as \$16.5 million in **2005** but is likely to be much higher, as much as \$33.6 million. 529 program data is compiled based on tax years (calendar years) rather than fiscal years. As such, this worksheet shows figures based on calendar years.

2005 Estimated Calculations:

Lower Range

\$386.66 million in tax deductible contributions to other 529 plans will result in a \$23.2 million loss in state tax revenue.

[\$386.66 million x 6% Missouri tax rate = \$23.2 million tax loss.]

The MOST program anticipates about \$111.66 million in tax deductible contributions in 2005, which will result in a \$6.7 million loss in state revenue. [\$111.66 million x 6% MO tax rate = \$6.7 million tax loss.]

The resulting fiscal impact [\$23.2 million less \$6.7 million = \$16.5 million] will be a loss to General Revenue of approximately \$16.5 million.

Higher Range

\$671.66 million in tax deductible contributions to other 529 plans will result in a \$40.3 million loss in state tax revenue.

[\$671.66 million x 6% Missouri tax rate = \$40.3 million tax loss.]

The MOST program anticipates about \$111.66 million in tax deductible contributions in 2005, which will result in a \$6.7 million loss in state revenue. [\$111.66 million x 6% MO tax rate = \$6.7 million tax loss.]

The resulting fiscal impact [\$40.3 million less \$6.7 million = \$33.6 million] will be a loss to General Revenue of approximately \$33.6 million.

STO assumes the revenue loss to the state of Missouri may be as little as \$21.2 million in **2006** but is likely to be much higher, as much as \$41.2 million. 529 program data is compiled based on tax years (calendar years) rather than fiscal years. As such, this worksheet shows figures based on calendar years.

ASSUMPTION (continued)

2006 Estimated Calculations:

Lower Range

\$491.66 million in tax deductible contributions to other 529 plans will result in a \$29.5 million loss in state tax revenue.

[ $\$491.66 \text{ million} \times 6\% \text{ Missouri tax rate} = \$29.5 \text{ million tax loss.}$ ]

The MOST program anticipates about \$138.33 million in tax deductible contributions in 2006, which will result in a \$8.3 million loss in state revenue. [ $\$138.33 \text{ million} \times 6\% \text{ MO tax rate} = \$8.3 \text{ million tax loss.}$ ]

The resulting fiscal impact [ $\$29.5 \text{ million less } \$8.3 \text{ million} = \$21.2 \text{ million}$ ] will be a loss to General Revenue of approximately \$21.2 million.

Higher Range

\$825 million in tax deductible contributions to other 529 plans will result in a \$49.5 million loss in state tax revenue.

[ $\$825 \text{ million} \times 6\% \text{ Missouri tax rate} = \$49.5 \text{ million tax loss.}$ ]

The MOST program anticipates about \$138.33 million in tax deductible contributions in 2006, which will result in a \$8.3 million loss in state revenue. [ $\$138.33 \text{ million} \times 6\% \text{ MO tax rate} = \$8.3 \text{ million tax loss.}$ ]

The resulting fiscal impact [ $\$49.5 \text{ million less } \$8.3 \text{ million} = \$41.2 \text{ million}$ ] will be a loss to General Revenue of approximately \$41.2 million.

In addition, STO assumes if the Missouri tax deduction limit is raised from \$8,000 per return, there would be some negative impact to General Revenue. Such loss is anticipated to be as follows:

For FY 2004-Estimated contributions currently non-deductible of  $\$35.7 \text{ million} \times 6\% = (\$2.14 \text{ million})$

For FY 2005-Estimated contributions currently non-deductible of  $\$53.1 \text{ million} \times 6\% = (\$3.18 \text{ million})$

For FY 2006-Estimated contributions currently non-deductible of  $\$65.25 \text{ million} \times 6\% = (\$3.92 \text{ million})$

These estimates will be reflected in the projected range for fiscal impact.

ASSUMPTION (continued)

**Oversight** has, for fiscal note purposes only, changed the starting salary for two Tax Processing Technicians 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.

According to the website for the College Savings Plans Network, all fifty states now offer Section 529 state college savings plans. Last year, the programs received federal tax exemption as part of the Economic Growth and Tax Relief Reconciliation Act of 2001. **Oversight** assumes with the significant tax incentives offered by the federal and state government, this program has the potential to attract more investors. However, **Oversight** has not been able to determine the percentage of growth and will rely on the estimate calculated by STO.

**This proposal will decrease Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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**GENERAL REVENUE FUND**

Loss - General Revenue

Increased contributions to higher ed savings progs.	(\$12,800,000) to (\$27,400,000)	(\$16,500,000) to (\$33,600,000)	(\$21,200,000) to (\$41,200,000)
Higher contribution limits to prog.	<u>(\$2,140,000)</u>	<u>(\$3,180,000)</u>	<u>(\$3,920,000)</u>
Total Loss - GR	(\$14,940,000) to (\$29,540,000)	(\$19,680,000) to (\$36,780,000)	(\$25,120,000) to (\$45,120,000)

Cost - Department of Revenue

Personal Service (2 FTE)	(\$32,042)	(\$39,411)	(\$40,396)
Fringe Benefits	(\$12,967)	(\$15,950)	(\$16,348)
Equipment and Expense	<u>(\$14,274)</u>	<u>(\$1,038)</u>	<u>(\$1,070)</u>
Total Costs - DOR	<u>(\$59,283)</u>	<u>(\$56,399)</u>	<u>(\$57,814)</u>

<b>TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(\$14,999,283)</u></b>	<b><u>(\$19,736,399)</u></b>	<b><u>(\$25,177,814)</u></b>
	<b><u>to</u></b>	<b><u>to</u></b>	<b><u>to</u></b>
	<b><u>(\$29,599,283)</u></b>	<b><u>(\$36,836,399)</u></b>	<b><u>(\$45,177,814)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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\$0

\$0

\$0

FISCAL IMPACT - Small Business

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

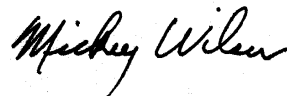
DESCRIPTION

This proposal enables an income tax deduction of up to \$8,000 for an individual and up to \$16,000 for a combined return for total annual contributions made to qualified savings programs and I.R.C. Section 529 plans. Current law only allows such deduction in the amount of \$8,000, without specifying treatment of combined returns, and limits the deduction to only qualified savings program contributions.

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  
    Budget and Planning  
Department of Higher Education  
State Treasurer  
Office of the Governor



Mickey Wilson, CPA  
Director  
January 24, 2003