

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2699-01
Bill No.: SB 879
Subject: Taxation and Revenue - Income: Higher Education
Type: Original
Date: April 5, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Assembly Scholarship	\$23,551,909	\$34,861,870	\$19,804,717
Total Estimated Net Effect on Other State Funds	\$23,551,909	\$34,861,870	\$19,804,717

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 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 **Office of Administration - Division of Budget and Planning** stated that the proposal would not affect their agency, administratively. They noted that the proposal would increase Total State Revenue.

Officials of the **Department of Economic Development** and the **State Treasurer** stated the proposal would not affect their agencies.

Officials from the **Department of Revenue (DOR)** stated the Division of Taxation would process and collect the tax by either adding an apportionment schedule to the individual and corporate income tax returns or use a separate filing form and schedule for nonresident taxpayers. These options would require modifications to the individual and corporate tax systems. The Division of Taxation and Collections estimates these modifications, including programming changes, would require 1,384 hours of overtime at a cost of \$46,170 for the withholding tax system and 1,730 hours of overtime at a cost of \$57,713 for the income and corporate tax systems. In addition, State Data Center charges would increase due to the additional storage fields to be captured. Funding in the amount of \$11,258 would be requested for implementation costs and \$1,358 for ongoing costs.

ASSUMPTION (continued)

DOR officials stated there were approximately 250,000 nonresident income tax returns filed. About sixty-five percent (65%) of those returns are filed by paper from instead of electronically. Personal Tax would add a line to form Mo1040 for claiming the amount and program the Missouri Individual Income Tax System (MINITS) to allocate funds for cashiering into the correct funds. The Personal Tax Bureau would need two temporary tax season employees assuming current return volumes. Also, one Tax Processing Technician I would be required for every 20,000 additional income tax errors. If part-year non-residents were allowed to pro-rate their Missouri income, the administrative impact would be greater.

Business Tax would be required to process both the employer withholding returns and the corporate tax returns. Corporate tax area would need **two Tax Processing Techs** to handle key entry of the additional line on the return. Also, corporate would need **one Tax Processing Technician** for every 12,000 additional corporate tax errors received from the proposal. Withholding tax anticipates the need of **5 Tax processing Tech I's** to handle the processing, correspondence and registration of the businesses that need to file earnings tax on non-residents.

Customer Assistance would need **one Tax Collection Technician** for every 15,000 calls a year to 751-7200 regarding earnings tax. The Tax Assistance Centers throughout the state will also have an increase in walk-ins and telephone calls from employers; however, the amount is unknown. Tax Assistance Center Field Agent can answer 5,193 phone calls and assist 2,149 walk-ins per year.

Oversight has, for fiscal note purposes only, adjusted the salaries for requested personnel to correspond to the second step above minimum for comparable positions on 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. Oversight also assumed personnel would be needed for six months of FY 2005.

Officials from the **Coordinating Board For Higher Education (DHE)** used 2000-2001 ACT student profile records files to roughly estimate that 2,392 students with incomes under \$25,000 and 2,982 students with incomes between \$25,000 and \$35,000 would be eligible for this scholarship program. This estimate includes students' self-reported GPA and incomes. ACT's income ranges do not fall precisely within scholarship guidelines. DHE officials stated it is not possible to estimate the number of students with family income over \$35,000 who would be eligible due to large medical bills. Since the number is likely to be small, it is omitted from the calculations. The fiscal note is calculated assuming that all of the income-eligible students attend a four-year institution. This estimation method would yield the maximum liability to the state.

ASSUMPTION (continued)

For purposes of calculating this fiscal note, it is assumed for FY 2005 that the group of 2,392

students would receive scholarships of \$3,908 and the group of 2,982 would receive half scholarships of about \$1,9540 (average tuition and fees a public colleges and universities during FY 2002 was \$3,908.28). The effective date of the bill would be Jan. 1, 2005; therefore, scholarship costs are prorated for the six months remaining in FY 2005. Since Section 7 of the bill states that the state shall pay the scholarship costs of qualified students, it is assumed that any lag in receiving tax revenues would have to be made up from another source. It is also assumed that students would begin applying before the effective date in order to receive a second-semester scholarship and that tuition would increase by 3% per year. Using these assumptions, scholarship costs would be \$7,587,382 for FY 2005 (scholarship costs prorated for six months), \$31,258,150 for FY 2006, and \$48,296,754 for FY 2007.

In order to provide timely information about the scholarship program to students, \$25,000 would be necessary to print and distribute 100,000 brochures and letters about the program to secondary students and their parents. An additional \$3,000 would be necessary for application forms in FY 2005; these costs will increase substantially each year as more forms will be needed each year through the fourth year of the program. Postage costs, estimated at \$4,000 for FY 2005 to send out informational materials and application forms, would also increase substantially each year.

The Grant and Scholarship Program Administration staff is small and working to capacity on implementing several new scholarship programs. Since this bill would create a program with a funding level that is likely to be 50-75% of what is currently administered for grants and scholarships by DHE, a Senior Associate position at an estimated salary of \$50,000 plus associated expense and equipment would be needed in FY 2005. This Senior Associate would be responsible for working with the Board to determine need calculations, to coordinate publicity and data collection, to review waiver of eligibility requests, to work with participating institutions in order to distribute funds accurately and smoothly, and to coordinate and approve work study programs. In addition, about 80 to 100 hours of a programmer's time would be required to set up the database of potential scholarship recipients. At \$50 per hour in consulting fees, it would cost about \$4,000 in initial programming costs for this program. Subsequent maintenance of the new database could be accomplished with existing staff.

Other one-time data processing costs include \$2,000 for imaging of records and \$4,000 for storage of computer records.

Oversight notes that non-resident taxable income for tax year 1999 was \$5,514,408,000 (according to the statistics of individual income tax) and that individual income tax collections

ASSUMPTION (continued)

for the ten years from tax year 1991 to 2001 (according to the annual reports of the Department of Revenue) have been increasing by an average of about three percent (3%) per year. Assuming that non-resident taxable income increases by about three percent per year, earnings tax collections from individuals would be about \$65,844,920 for tax year 2005, \$67,820,260 for tax year 2006 and \$69,854,870 for tax year 2007.. Oversight assumes that ninety percent (90%) of taxes would be collected through withholding and that five months of withholding collections for each tax year would be made in the corresponding fiscal year.

Oversight also assumes that administrative costs for the program would be paid from the General Assembly Scholarship Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (6 Mo.)	FY 2006	FY 2007
GENERAL ASSEMBLY SCHOLARSHIP FUND			
<u>Income</u> - Earnings Tax	\$24,691,845	\$66,585,673	\$68,583,239
<u>Cost</u> - Department of Revenue (DOR)			
Personal Service (6, 12, 12 FTE)	(\$125,979)	(\$243,320)	(\$252,912)
Fringe Benefits	(\$52,155)	(\$100,734)	(\$104,705)
Expense and Equipment	<u>(\$195,658)</u>	<u>(\$7,204)</u>	<u>(\$7,380)</u>
Administrative Cost to DOR	(\$373,792)	(\$351,258)	(\$364,997)
<u>Cost</u> - Department of Higher Education (DHE)			
Personal Service (½, 1, 1 FTE)	(\$25,625)	(\$52,531)	(\$53,845)
Fringe Benefits	(\$10,608)	(\$21,748)	(\$22,292)
Expense and Equipment	(\$42,529)	(\$40,116)	(\$40,634)
Scholarships	<u>(\$7,587,382)</u>	<u>(\$31,258,150)</u>	<u>(\$48,296,754)</u>
Total Cost to DHE	(\$7,666,144)	(\$31,372,545)	(\$48,413,525)
ESTIMATED NET EFFECT ON GENERAL ASSEMBLY SCHOLARSHIP FUND	<u>\$23,551,909</u>	<u>\$34,861,870</u>	<u>\$19,804,717</u>

FISCAL IMPACT - Local Government

FY 2005
(10 Mo.)

FY 2006

FY 2007

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses would have the cost of complying with required earnings tax withholding on nonresident employee earnings.

DESCRIPTION

This proposal would establish the General Assembly Scholarship Program. The Program would help qualifying students pay fees at public colleges and universities in Missouri.

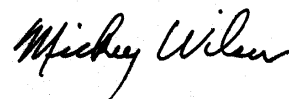
The scholarship program would be funded by a one percent (1%) earnings tax on income of nonresident income taxpayers and net profits of activities conducted by nonresidents.

Moneys from the earnings tax would be deposited into the General Assembly Scholarship Fund, which would be created by the proposal.

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

SOURCES OF INFORMATION

Department of Economic Development
Department of Elementary and Secondary Education
Department of Revenue
Office of Administration - Division of Budget and Planning
State Treasurer



Mickey Wilson, CPA

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