

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3823-01
Bill No.: SB 583
Subject: Taxation and Revenue - Income; Education
Type: Original
Date: January 10, 2020

Bill Summary: This proposal allows for an income tax deduction for educator expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
General Revenue	\$0	(\$1,017,734 to \$1,935,588)	(\$986,678 to \$1,887,214)	(\$970,405 to \$1,853,623)
Total Estimated Net Effect on General Revenue	\$0	(\$1,017,734 to \$1,935,588)	(\$986,678 to \$1,887,214)	(\$970,405 to \$1,853,623)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$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 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
General Revenue	0	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0	2 FTE	2 FTE	2 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.121 - Educator expense tax deduction

Officials from the **Office of Administration - Division of Budget & Planning (B&P)** note there are multiple reference changes throughout Section 143.121. These changes will not impact Total State Revenue (TSR), General Revenue (GR), or the calculation under Article X, Section 18(e).

Section 143.121.3(12) creates a tax deduction, up to \$500, for qualifying educator expenses beginning in tax year 2021. The deduction would only be granted for educators and expenses that qualify for the current federal tax deduction. B&P notes that while the deduction will become available in tax year 2021, the impact to TSR will not occur until taxpayers file their annual return in FY 2022.

In tax year 2017, the most recent complete tax year data available, there were 66,430 tax filers that claimed the federal tax deduction for a total claim amount of \$17.0M, or an average claim amount of approximately \$257. For the purpose of this fiscal note, B&P will show a range in the potential revenue loss between the average of \$257 actually claimed in tax year 2017 and the cap of \$500 set forth in this proposal. However, deductions do not reduce revenues on a dollar-for-dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014).

Tax Year	Current Law	TY21* / FY22	TY22* / FY23	TY23* / FY24
Tax Rate	5.4%	5.3%	5.2%	5.1%
Low Estimate	\$920,430	\$903,385	\$886,340	\$869,295
High Estimate	\$1,793,610	\$1,760,395	\$1,727,180	\$1,693,965

*Assumes each SB 509 (2014) trigger is reached for rate reduction

B&P estimates this proposal could reduce TSR and GR by \$903,385 to \$1,760,395 (top tax rate 5.3%) in FY22 and by \$886,340 to \$1,727,180 (top tax rate 5.2%) in FY23. Once SB 509 (2014) has fully implemented, this proposal could reduce TSR and GR by \$869,295 to \$1,693,965 annually.

Officials from the **Missouri Department of Revenue (DOR)** assume this proposal would allow a deduction, beginning January 1, 2021, up to one hundred percent (100%) of all unreimbursed educator expenses, up to \$500, incurred by an eligible educator during the tax year. Using IRS 2017 data, DOR recognized 66,430 filers claimed the federal educator expense deduction and

ASSUMPTION (continued)

calculated the average amount of federal educator expenses deducted to be \$257 per educator. DOR calculated a high/low range showing the potential revenue impact if individuals claimed at the \$257 current average versus the \$500 deduction cap.

Tax Year	Current Law	TY21*	TY22*	TY23*
Tax Rate	5.4%	5.3%	5.2%	5.1%
Low Estimate	\$920,430	\$903,385	\$886,340	\$869,295
High Estimate	\$1,793,610	\$1,760,395	\$1,727,180	\$1,693,965

*assumes each SB 509 (2014) trigger is reached

DOR notes this proposal is effective January 1, 2021 and would affect tax returns filed after January 1, 2022 (FY 2022). DOR assumes the following impact to General Revenue and Total State Revenue per Fiscal Year:

Fiscal Year	FY 2021*	FY 2022*	FY 2023*	FY 2024*
Low Estimate	\$0	\$900,000	\$890,000	\$870,000
High Estimate	\$0	\$1,760,000	\$1,730,000	\$1,695,000

DOR states one (1) Revenue Processing Technician I is required for every 14,700 errors, one (1) Revenue Processing Technician I is required for every 5,700 pieces of correspondence and one (1) part-time employee is required for the new line item on Form MO-1040 (and all other forms deemed necessary).

Oversight assumes DOR will need the requested FTE(s) based on the number of taxpayers claiming the educator expense(s) deduction at the federal level.

Oversight notes that Section 143.121.3(12) establishes a deduction in an amount equal to the lesser of one hundred percent of unreimbursed educator expenses or \$500 of unreimbursed educator expenses.

Oversight notes the Internal Revenue Service (IRS) publishes Individual Income Tax Data, by state, and by size of adjusted gross income. Based on the information reported, there were approximately 66,430 individuals who filed a federal tax return with a Missouri address claiming educator expenses for Tax Year 2017. The amount of educator expenses claimed for Tax Year 2017 totaled \$17,045,000. Therefore, Oversight estimates the average amount of educator expenses claimed per filer amounts to \$257 ($\$17,045,000 / 66,430$).

ASSUMPTION (continued)

Oversight also notes the Missouri Department of Elementary and Secondary Education (DESE) publishes data reporting the number of teacher FTE equivalents per school district on their website. Per the 2017 information published, there were approximately 68,726 teacher FTE reported throughout Missouri school districts.

Oversight assumes the information published by the IRS is specific to filers who file with a Missouri address. In addition, the IRS data would not capture and report information for any individual with a Missouri address that may qualify for this deduction but did not file a federal tax return. Therefore, Oversight will provide estimates using the number of teacher FTE reported by DESE.

Oversight estimates the average amount of educator expenses claimed by each individual on Federal Income Tax returns for Tax Year 2017 to equal \$257. Based on the aforementioned data, if each teacher FTE were to qualify for and claim the deduction equal to \$257, then the total amount of the deduction is estimated to be \$17,662,582 (68,726 x \$257).

Oversight notes the maximum deduction pursuant to this proposed legislation is \$500. Based on the aforementioned data, if each teacher FTE were to qualify for and claim the maximum \$500 deduction, the total amount of the deduction is estimated to be \$34,363,000 (68,726 x \$500) pre-tax. The estimated amount of the total deduction does not reduce revenues on a dollar-by-dollar basis; the total estimated deduction must be multiplied by the (top) individual income tax rate applicable for each year to produce true dollar estimates of the reduction in GR.

Oversight notes the following applicable tax rates, per tax year:

Tax Year	Top Ind. Income Tax Rate
TY 19	5.40%
TY 20	5.40%
TY 21	5.3%*
TY 22	5.2%*
TY 23	5.1%*

*Assumes the triggers pursuant to SB 509 (2014) are reached each applicable year for a .1% reduction in the top individual income tax rate

Oversight notes this proposed legislation would allow eligible educators to claim the deduction proposed in this legislation beginning in Tax Year 2021. Eligible educators would not file Tax Year 2021 return(s) claiming the proposed deduction until after January 1, 2022, or Fiscal Year 2022, which would be the first year in which revenue reductions applicable to this proposed legislation could be recognized.

ASSUMPTION (continued)

Oversight will assume the tax rate changes allowable pursuant to SB 509 & 496 will occur for Tax Year(s) 2021, 2022, and 2023.

Oversight estimates the range (Low and High) of the fiscal impact (revenue reduction) beginning with the average educator expenses calculated from the Tax Year 2017 IRS data (\$257 per claimant) and ending with the maximum (\$500 per claimant) allowable, for each fiscal year until fully implemented.

Oversight estimates the following impact (range) to Total State Revenue, specific to General Revenue, pursuant to this proposed legislation:

Tax Year	Top Ind. Income Tax Rate	Impact General Revenue		
		Fiscal Year	Low	High
TY 21	5.3%*	FY 2022	(\$936,117)	(\$1,821,239)
TY 22	5.2%*	FY 2023	(\$918,454)	(\$1,786,876)
TY 23	5.1%*	FY 2024	(\$900,792)	(\$1,752,513)

*Assumes the triggers pursuant to SB 509 (2014) are reached each applicable year for a .1% reduction in the top individual income tax rate.

For purposes of this fiscal note, Oversight will show the impacts assuming the triggers in SB 509 (2014) have been reached resulting in a reduction of the top individual income tax rate by one tenth of one percent as well as show a range with the lowest estimated impact to General Revenue and Total State Revenue (DOR/BAP) to the highest estimated impact to General Revenue and Total State Revenue (Oversight), which uses DESE's reported teacher FTE.

FISCAL IMPACT -
State Government

Fully
 Implemented
 (FY 2024)

**GENERAL
 REVENUE FUND**

Revenue Reduction
 (Section 143.121.3) -
 Tax deduction for
 eligible educator
 expenses up to \$500

	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2024)
	\$0	<u>(\$903,385 to \$1,821,239)</u>	<u>(\$886,340 to \$1,786,876)</u>	<u>(\$869,295 to \$1,752,513)</u>

Cost - DOR (Section
 143.121.3)

Personal Service	\$0	(\$57,453)	(\$58,027)	(\$58,607)
Fringe Benefits	\$0	(\$42,120)	(\$42,311)	(\$42,503)
Equipment and Expense	<u>\$0</u>	<u>(\$14,776)</u>	<u>\$0</u>	<u>\$0</u>
Total Cost - DOR	<u>\$0</u>	<u>(\$114,349)</u>	<u>(\$100,338)</u>	<u>(\$101,110)</u>
FTE Change - DOR	0 FTE	2 FTE	2 FTE	2 FTE

**ESTIMATED NET
 EFFECT ON
 GENERAL
 REVENUE FUND**

	<u>\$0</u>	<u>(\$1,017,734 to \$1,935,588)</u>	<u>(\$986,678 to \$1,887,214)</u>	<u>(\$970,405 to \$1,853,623)</u>
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Estimated Net FTE
 Change on General
 Revenue Fund

	0 FTE	2 FTE	2 FTE	2 FTE
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FISCAL IMPACT -
Local Government

Fully
 Implemented
 (FY 2024)

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>Fully Implemented (FY 2024)</u>
	<u>\$0</u>	<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

For all tax years beginning on or after January 1, 2021, this act establishes a tax deduction in the amount of 100% of unreimbursed educator expenses incurred by an eligible educator, not to exceed \$500.

An eligible educator is defined as an individual who is a kindergarten through grade twelve teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

Educator expenses are defined as expenses incurred as a result of the participation by the educator in professional development courses related to the curriculum in which the educator provides instruction, and expenses in connection with books, supplies, computer equipment and other equipment, and supplementary materials used by the eligible educator in the classroom. (Section 143.121)

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 Administration - Division of Budget & Planning
Missouri Department of Revenue



Julie Morff
Director
January 10, 2020



Ross Strope
Assistant Director
January 10, 2020