

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4470H.03C
Bill No.: HCS for HB 1981
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Education,
Elementary and Secondary; Teachers; Department of Revenue
Type: Original
Date: February 23, 2022

Bill Summary: This proposal establishes a tax deduction for educator expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	\$0	(\$946,535 - \$1,856,740)	(\$931,582 - \$1,824,912)
Total Estimated Net Effect on General Revenue	\$0	(\$946,535 - \$1,856,740)	(\$931,582 - \$1,824,912)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
FTE Changes - DOR	0 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0 FTE	2 FTE	2 FTE

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal will impact the calculation under Article X, Section 18(e).

Section 143.111 Deduction for Educator Expenses

Officials from the **Department of Revenue (DOR)** note this proposal states for all tax years beginning on or after January 1, 2023, one hundred percent (100%) of all unreimbursed educator expenses incurred by an eligible educator during the taxable year, not to exceed five hundred dollars, is eligible to be deducted from a taxpayer’s Missouri adjusted gross income. An eligible educator is defined as one who qualifies under 26 U.S.C. Section 62, which are teachers.

Per the Department of Elementary and Secondary Education there are 70,631 public school teachers in this state. However, this proposal is open to all teachers, not just public school teachers who have qualifying expenses. The federal government has a similar program in which an eligible teacher can qualify for up to \$250 if single and \$500 if married filing joint of eligible expenses. The federal deduction is reported on the Schedule 1 of the 1040.

Since this proposal requires that you be eligible for the federal program, DOR will use the number of participants at the federal level for this fiscal note. DOR used IRS 2019 data for determining those who qualify under 26 U.S.C. Section 62 (they have a similar program):

- Number of Filers: 65,410
- Amount: \$16,875,000
- Average Claimed: \$258

The previous version of this proposal allowed for a \$500 Missouri deduction while the current average amount claimed on federal tax returns is approximately \$258. Using the 65,410 number of federal filers, DOR calculated a high/low range showing the potential revenue impact if all individuals claimed at the \$258 current average amount versus all individuals claiming the proposed \$500 deduction. DOR notes that this is a deduction and therefore is not a dollar for dollar loss. The impact for the teachers under 26 U.S.C Section 62:

Tax Year	Current Law TY 22	TY23*	TY24*	TY25*
Tax Rate	5.3%	5.3%	5.2%	5.1%
Low Estimate	\$894,375	\$894,375	\$877,500	\$860,625
High Estimate	\$1,733,365	\$1,733,365	\$1,700,660	\$1,667,955

*assumes each SB 509 (2014) trigger is reached

However, this version of the proposal will require the amount actually claimed on the federal tax return be subtracted from the state deduction. This will ensure that the education expenses are not being claimed twice. Subtracting the average \$258 claimed at the federal level would leave at a minimum \$242 (\$500-\$258) to the full \$500 could be claimed on the Missouri return.

Therefore applying the tax rate will result in loss to general revenue of:

	Current Law TY 2022	TY 2023*	TY 2024	TY 2025
Tax Rate	5.3%	5.3%	5.2%	5.1%
Low \$242	\$838,948	\$838,948	\$823,119	\$807,290
High \$500	\$1,733,365	\$1,733,365	\$1,700,660	\$1,667,955

DOR notes this proposal begin January 1, 2023 and the tax returns claiming the deduction would be filed starting in FY 2024. This is estimated to be a loss to General Revenue.

This version of the proposal places this as a deduction on the tax return. This assumes that a new line on the MO-1040 would be created and therefore it is estimate that it will costs \$8,386 in form and computer programming changes. Additionally, this would require FTE as this is a new deduction.

- 1 FTE Revenue Processing Technician for every 14,700 errors created
- 1 FTE Revenue Processing Technician for every 5,700 pieces of correspondence generated
- 1 temporary employee for new line item

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs for computer upgrades related to this proposal. However, given the number of returns which might be affected Oversight will show the abovementioned FTE for purposes of this fiscal note starting in FY 2024.

The Department notes that to claim the deduction at the federal level, proof is required there. If a person claimed the federal deduction, DOR would receive a copy of the federal return and may not need additional documentation to claim this deduction. However, if a person does not claim the federal deduction but wants to claim the state deduction they would be required to provide additional documentation in order to receive the deduction.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section creates a tax deduction of up to \$500, less the amount deducted on a taxpayer's federal income tax return, for qualifying educator expenses beginning in tax year 2023. 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 2023, the impact to TSR will not occur until taxpayers file their annual return in FY 2024.

In tax year 2019, the most recent complete tax year data available, there were 65,410 tax filers that claimed the federal tax deduction for a total claim amount of \$16.9M, for an average claim amount of approximately \$258.

For the purpose of this fiscal note, B&P will show a range in potential revenue loss between \$242 (\$500 - \$258 average federal deduction) 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) and SB 153 (2021).

	Tax Year (Fiscal Year)					
Tax Rate	2023 (FY24)		2024 (FY25)		2025 (FY26)	
	Low	High	Low	High	Low	High
5.30%	\$838,990	\$1,733,365				
5.20%	\$823,160	\$1,700,660	\$823,160	\$1,700,660	\$823,160	\$1,700,660
5.10%			\$807,330	\$1,667,955	\$807,330	\$1,667,955
5.00%					\$791,500	\$1,635,250
4.90%						
4.80%						

	Tax Year (Fiscal Year) cont.					
Tax Rate	2026 (FY27)		2027 (FY28)		2028 (FY29)	
	Low	High	Low	High	Low	High
5.30%						
5.20%	\$823,160	\$1,700,660	\$823,160	\$1,700,660	\$823,160	\$1,700,660
5.10%	\$807,330	\$1,667,955	\$807,330	\$1,667,955	\$807,330	\$1,667,955
5.00%	\$791,500	\$1,635,250	\$791,500	\$1,635,250	\$791,500	\$1,635,250
4.90%	\$775,670	\$1,602,545	\$775,670	\$1,602,545	\$775,670	\$1,602,545
4.80%			\$759,840	\$1,569,840	\$759,840	\$1,569,840

Therefore, B&P estimates that this proposal could reduce TSR and GR by \$838,990 to \$1,733,365 (top tax rate 5.3%) or by \$823,160 to \$1,845,662 (top tax rate 5.2%) in FY24. Once SB 509 (2014) and SB 153 (2021) have fully implemented, this proposal could reduce TSR and GR by \$759,840 to \$1,569,840 annually.

Oversight will use B&P's projected fiscal estimated impacts of this proposal throughout the implementation of the tax rate reductions from SB 509 (2014) and SB 153 (2021) to show the minimum low and maximum high impact of the proposal.

Oversight notes this proposal begins January 1, 2023 and the tax returns claiming the deduction would be filed starting in FY 2024.

Oversight notes that B&P uses a 42% in first fiscal year and 58% split in the second year to convert the income tax numbers from tax year to fiscal year.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Oversight assumes JCAR will be able to administer any rules from this proposed legislation with existing resources.

Officials from the **Office of the Secretary of State (SOS)** note 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 SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with its core budget. Therefore, the SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Revenue Reduction</u> – §143.111 – Tax Deduction For Eligible Educator Expenses Up To \$500	\$0	(\$823,160 - \$1,733,365)	(\$807,330 - \$1,700,660)
<u>Costs</u> – DOR §143.121			
Personal Service	\$0	(\$61,738)	(\$62,355)
Fringe Benefits	\$0	(\$60,164)	(\$60,388)
Equipment and Expense	\$0	(\$1,473)	(\$1,509)
Total Costs - DOR	\$0	(\$123,375)	(\$124,252)
FTE Changes DOR	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	(\$946,535 - \$1,856,740)	(\$931,582 - \$1,824,912)

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	\$0	\$0	\$0

FISCAL IMPACT – Small Business

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

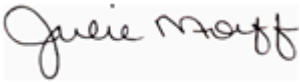
FISCAL DESCRIPTION

The proposed legislation establishes a tax deduction for educator expenses.

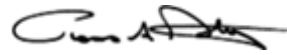
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Administrative Rules
Office of the Secretary of State
Office of Administration - Budget and Planning
Department of Revenue



Julie Morff
Director
February 23, 2022



Ross Strobe
Assistant Director
February 23, 2022