

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5386S.02I
 Bill No.: SB 1136
 Subject: Tax Credits; Education, Higher
 Type: Original
 Date: March 21, 2022

Bill Summary: The proposal authorizes a tax credits for employers providing educational assistance to employees.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund*	\$0	(Unknown – potentially substantial)	(Unknown – potentially substantial)
Total Estimated Net Effect on General Revenue	\$0	(Unknown - potentially substantial)	(Unknown – potentially substantial)

*Oversight notes this tax credit program does not have an annual cap. Oversight also notes that if only 48 taxpayers apply for the credit the sum would exceed the \$250,000 threshold (48 x \$5,250 = \$252,000); however, the total could potentially reach substantially higher.

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
Total Estimated Net Effect on FTE	0	0	0

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 & Planning** note:

Per Section 135.1690, starting January 1, 2023, a taxpayer shall be allowed to claim a tax credit equal to the amount paid to an employee for qualifying educational assistance payments. The amount of the credit per person is not allowed to exceed the amount established by federal law which is \$5,250. This proposal does not establish a cap for the program nor limit the number of people who can claim this credit. Information is not available for the number of people or the amount of this credit. Therefore, this will result in an unknown, could be significant, loss to general revenue starting in FY 2024 which is the first year this credit would be reported on the tax return.

Officials from the **Department of Revenue (DOR)** note:

Section 135.1690, Starting January 1, 2023, a taxpayer shall be allowed to claim a tax credit equal to the amount paid to an employee for qualifying educational assistance payments. The amount of the credit per person is not allowed to exceed the amount established by federal law which is \$5,250.

This proposal does not establish a cap for the program nor limit the number of people who can claim this credit. The Department is unable to receive information on the number of people or the amount of this credit that is claimed at the federal level. The Department notes it would only take 47 people to claim this credit to equal \$250,000 in credits.

This could result in a loss to general revenue of more than \$250,000 annually starting in FY 2024 the first year this credit is reported on the tax return.

This tax credit is not refundable, not transferrable but allows any unclaimed credits to be carried forward an unlimited number of years. Currently most tax credit programs allow for a carry forward of not more than 4 years. The Department is unable to determine if allowing an unlimited carry forward period would increase existing costs.

This is a new tax credit and would need to be added to the MO-TC form. This would also require website and form changes. These costs are estimated at \$3,596. The Department needs the following FTE should the number of returns equal the amounts listed below.

1 Associate Customer Service Representative for every 6,000 credits redeemed.

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the administrative costs related to this proposal.

If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Oversight notes the proposal defines taxpayer as “any sole proprietorship, partnership, limited liability company, or corporation that is subject to the tax imposed under chapter 143”, excluding the withholding tax and any charitable organizations. The taxpayer shall be allotted a credit against the tax otherwise due under Chapter 143 RSMo and the maximum amount of educational assistance that may be excluded from income for federal tax purposes by employees is currently \$5,250.

Oversight notes Department of Higher Education and Workforce Development Financial Report shows that there were on average 230,000 students enrolled in higher education, in 2016-2020 period as shown below:

Institution / FY	2016	2017	2018	2019	2020	Percent Change 2016-2020	Percent change 2019-2020
Independent Institutions	128,666	120,994	118,644	112,775	105,557	-18.00%	6.40%
Independent four year (not for profit)	127,758	120,994	118,644	112,775	105,557	-17.40%	-6.40%
Independent two year (not-for-profit)	908	Closed	Closed	Closed	Closed	Closed	Closed
Public Institution	246,999	237,420	231,679	225,721	212,929	-13.80%	-5.70%
Public Four Year	153,997	148,659	146,046	143,149	137,464	-10.70%	-4.00%
Public Two Year	93,002	88,761	85,633	82,572	75,465	-18.90%	-8.60%
Statewide Public instituion only	246,999	237,420	231,679	225,721	212,929	-14.47%	-6.10%
Avearge enrollment 2016-2020	230,950						

Source: <https://dhewd.mo.gov/about/documents/2021AR-StudentEnrollment.pdf>

Oversight notes that article published in the [National Center for Educational Statistics](#) (2018) named College Student Employment denotes:

In 2018, some 6 percent of full-time undergraduates were employed less than 10 hours per week, 7 percent were employed 10 to 19 hours per week, 17 percent were employed 20 to 34 hours per week, and 10 percent were employed 35 hours or more per week. There was no measurable difference between 2018 and 2000 in the percentages of full-time undergraduates employed 35 hours or more per week, but the percentages for all other categories of hours worked per week were lower in 2018 than in 2000 for full-time undergraduates who were employed.

Among undergraduates enrolled part time in 2018, 3 percent were employed less than 10 hours per week, 5 percent were employed 10 to 19 hours per week, 24 percent were employed 20 to 34 hours per week, and 47 percent were employed 35 hours or more per week. The percentage of

part-time undergraduates who were employed 20 to 34 hours per week was higher in 2018 than in 2000 (24 vs. 20 percent), but the percentage of part-time undergraduates who were employed 35 hours or more per week was lower in 2018 than in 2000 (47 vs. 57 percent).

Oversight notes that the numbers of enrolled student includes all non-residents and the Missouri residents alike. According to the [Society for Human Resource Management \(SHRM\).org](https://www.shrm.org) (2019) 56% of employers offer educational assistance benefits in U.S.A.

Oversight notes that if only 50% of the students from 230,000 were residents who file income tax returns, and from those 56% receive on average half of the \$5,250 in tax credit, the amount of tax credits would total \$169.1M (230,000 x 0.5 x 0.56 x \$2,625) annually.

Oversight notes as per DOR analysis if only 47 employers in Missouri received the maximum tax credit for one employee the amount would reach \$250,000. Therefore, Oversight assumes the proposal will have a direct fiscal impact on the general revenues. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect an Unknown negative impact in the fiscal note.

Oversight notes that any taxpayer filing for the tax credit will not be filing his tax return for FY 2023 until FY 2024. Therefore, **Oversight** will note the negative Unknown amount to the General Revenue in FY 2024 and FY 2025.

Officials from the **Higher Education and Workforce Development** and **University of Missouri System** both assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Cost – Section 135.1690 – Tuition Reimbursement tax credits (p.5)</u>	<u>\$0</u>	<u>(Unknown – potentially substantial)</u>	<u>(Unknown – potentially substantial)</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>\$0</u>	<u>(Unknown – potentially substantial)</u>	<u>(Unknown – potentially substantial)</u>

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

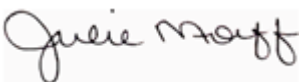
For all tax years beginning on or after January 1, 2023, this act authorizes a tax credit for taxpayers who provide educational assistance to employees who are residents of this state. Educational assistance, as defined in federal law, is defined as payment by the taxpayer of principal or interest on qualified education loans, as defined in federal law, incurred by the employee for the education of the employee.

The amount of the tax credit shall not exceed, per employee, the maximum amount of educational assistance that may be excluded from income for federal tax purposes by employees, which is currently \$5,250.

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 – Budget & Planning
Department of Revenue
Higher Education and Workforce Development
University of Missouri System



Julie Morff
Director
March 21, 2022



Ross Strobe
Assistant Director
March 21, 2022