

BILL # HB 2660

TITLE: STO; increased contribution limit

SPONSOR: Biggs

STATUS: As Introduced

PREPARED BY: Steve Schimpp

FISCAL ANALYSIS

Description

The bill would increase the maximum tax credit-eligible contribution that individuals can make to a School Tuition Organization (STO) by allowing a credit of up to \$1,500 (versus \$500 currently) for a single individual or head of household and \$3,000 (versus \$1,000 currently) for a married couple filing jointly. It also would update the income tax credit review schedule.

Estimated Impact

The bill is estimated to decrease state General Fund revenues by approximately \$(25.7) million in FY 2011. If the bill results in the diversion of students from public to private schools, there would be an offsetting state savings from lower state K-12 costs. Under the \$(25.7) million estimate, approximately 4,750 students would have to be diverted from public schools in FY 2011 in order for the bill to have no net state fiscal impact for that year.

The Department of Revenue (DOR) does not have a fiscal impact estimate for this bill.

Analysis

The fiscal impact of the bill would depend on how it affected both state revenues and state expenditures. As discussed below, it could decrease state revenues by increasing the number of tax credits claimed by individuals and decrease state expenditures by reducing the number of pupils attending public schools.

State Revenues

DOR reports \$55.3 million in STO-related tax credits claimed by individuals for the most recent tax year (Tax Year 2008) (see Table 1). Given the recent trends that appear in Table 1, STO-related tax credits for individuals for FY 2011 (the first year of bill implementation) are estimated at roughly \$57 million.

Type of Credit	2008	2007	2006	2005	2004	2003	2002	2001
Individual	55,287,000	54,303,300	51,011,800	42,194,900	31,871,500	29,445,500	26,483,000	24,924,700
Corporate	(not available)	10,542,800	9,653,600	526,200	0	0	0	0
Total	(not available)	64,846,100	60,665,400	42,721,100	31,871,500	29,445,500	26,483,000	24,924,700

The assumed \$57 million level of STO-related tax credits for individuals for FY 2011 under current law could increase under the bill because it would triple the maximum allowable tax credit that individuals could receive for STO contributions. Theoretically, this could cause STO contributions from individuals to increase by 300%. An increase of that magnitude, however, is unlikely because many current STO contributors would not have 1) a large enough tax liability to benefit from a tripling their current STO contribution, and 2) the financial means to increase their current “out of pocket” STO contributions (which are not reimbursed until a filer receives their individual income tax refund later in the year).

(Continued)

DOR currently estimates an average tax liability of \$1,181 per individual income tax return for FY 2010. This amount exceeds by 68% the average STO-related tax credit (\$705) that individual filers claimed for FY 2009 (most recent data year). This suggests that the average STO contributor could increase their STO contribution by 68% under the bill and still be fully reimbursed through their individual income tax refund. As noted above, however, some filers may not have the financial means to increase their current “out of pocket” STO contribution. In addition, data in *Table 2* indicate that when contribution limits for STOs for married couples filing jointly were increased by 32% for FY 2005 (to \$825) and by another 21% for FY 2006 (to \$1,000), the average credit claimed increased by only 22% and 14%, respectively (about 2/3rds of the potential new increase). As a result, this analysis speculates that STO contributions would increase by roughly 2/3rds of 68% ratio described above under the bill, or by roughly 45%. This would result in a FY 2011 revenue decrease of approximately \$25.7 million (\$57 million “current law” estimate for STO tax credits for individuals for FY 2011 X 45% = \$25.7 million).

Fiscal Year	Contribution Limit *		STO Contributions		Number of Claims		Average Claim	
	\$	% increase	\$	% increase	\$	% increase	\$	% increase
FY 2004	625	NA	31,871,500	NA	63,830	NA	499	NA
FY 2005	825	32%	42,194,900	32%	69,239	9%	609	22%
FY 2006	1,000	21%	51,011,800	21%	73,617	6%	693	14%

* married filing jointly

State Expenditures

State costs for Basic State Aid currently change by approximately \$5,400 for every student added or subtracted from statewide public school enrollments. This implies that roughly 4,750 students would have to transfer from public to private schools under the bill in order for it to be cost neutral (\$25.7 million assumed revenue decrease / \$5,400 savings per public school transfer = 4,750 transfers required for cost neutrality).

DOR data indicate that the average scholarship awarded by STOs in FY 2009 from individual income tax contributions was approximately \$1,900. If donations increase by \$25.7 million, approximately 12,150 additional scholarships could be awarded under the bill if all additional monies were used for new scholarships (rather than increasing scholarship amounts for current recipients) (\$25.7 million X 90% spent on scholarships (minimum statutory requirement) = \$23.1 million in new scholarship monies; \$23.1 million / \$1,900 average scholarship per pupil = 12,150 new scholarships). To achieve the 12,150 student cost neutrality level, 40% of new scholarship dollars awarded under the bill would have to go to existing public school students or private school students who otherwise would have returned to public schools.

Local Government Impact

K-12 equalization funding to local school districts and charter schools would be lower under the bill than under current law because they would serve fewer pupils. The amount of funding loss would depend on the number of existing public school pupils receiving scholarships each year under the bill, which is unknown.