



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **SB 5** SLS 21RS 93
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 5, 2021 9:15 AM **Author:** FOIL
Dept./Agy.: Office of Student Financial Assistance (OSFA) **Analyst:** Tim Mathis
Subject: START K-12 Accounts

TAX/INCOME/PERSONAL EG DECREASE GF RV See Note Page 1 of 1
 Excludes amounts deposited into certain education savings accounts for tuition expenses for elementary and secondary schools from state income tax. (1/1/22)
 Excludes amounts deposited into certain education savings accounts for tuition expenses for elementary and secondary schools from state income taxes.

Proposed law provides for a tax deduction of deposits into a Student Assistance and Revenue Trust K-12 (START K-12) education savings account for a maximum \$1,200 per beneficiary per year for account owners filing single and a maximum \$2,400 per beneficiary per year for account owners filing jointly. This deduction will not be allowed on any deposit withdrawn in the same taxable year as the deposit.

Proposed law prohibits disbursements from a START K-12 account which are used to pay qualified expenditures from eligibility for the tax deduction for elementary and secondary school tuition, the tax deduction for educational expenses for home-schooled children, and the tax deduction for fees and other educational expenses for a quality public education.

Effective for tax years beginning on and after January 1, 2022.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$0	DECREASE	DECREASE	DECREASE	DECREASE	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0					\$0

EXPENDITURE EXPLANATION

The Department of Revenue will incur some IT staff-time cost (estimated at \$29,000) associated with system modification and testing to incorporate the bill's new deduction.

REVENUE EXPLANATION

There will be a decrease in general fund revenues related to the deduction of deposits into START K-12 accounts from a filer's taxable income. The deduction provided in proposed law would reduce taxable income for filers that elect to utilize the deduction, decreasing the amount received by the state from personal income tax payments.

Proposed law would provide for a tax deduction on deposits into a START K-12 education savings account for a maximum \$1,200 per beneficiary per year for account owners filing single, and a maximum \$2,400 per beneficiary per year for account owners filing jointly. In order to be eligible for the deduction, deposits made into a START K-12 account cannot be withdrawn within the same taxable year as the deposit. Disbursements made from a START K-12 account used for qualified expenditures will not be eligible for the elementary and secondary school tuition tax deduction (\$5,000 per student maximum, LA R.S. 47:297.10), home-school related expenses tax deduction (\$5,000 per student maximum, LA R.S. 47:297.11), or the fees and other educational expenses for a quality public education tax deduction (\$5,000 per student maximum, LA R.S. 47:297.12). According to the LA Department of Revenue, allowable expenditures paid by a filer in excess of the START K-12 disbursement would still be eligible for these existing K-12 deductions.

Based on data from the Office of Student Financial Assistance, approximately 1,070 START K-12 account owners made a total of \$4.4 M in deposits in 2020, for an average of \$4,100 per account. Assuming current deposit levels are maintained, it is likely that all START K-12 account owners would be eligible for the maximum amounts of income tax deduction under the proposed law. This would result in as much as \$2.6 M in additional deductions from income. Losses to state tax receipts would range up to \$103,000 to \$154,000 per year from marginal tax rates of 4% to 6% of the additional deduction amount. However, it is likely that an increasing number of filers will take advantage of these provisions going forward. Based on the actual experience of the START Program for higher education expenses, when Act 45 of 2000 implemented a similar \$2,400 income tax deduction, the number of account owners making deposits increased by 624% within five years, resulting in state revenue loss of \$568,000 by FY 05 (the fifth year; \$2.8 million as of FY19). If the START K-12 program experiences similar growth upon passage of the proposed law, the potential loss to state revenues would increase comparably from the baseline range discussed above. It is unknown how much, if any, offset may occur from fewer claims of the existing tax deductions for tuition and school expenses, although any offset may be small since the existing deductions are twice as large as the new deduction proposed by this bill.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Alan M. Boxberger
 Alan M. Boxberger
 Staff Director