

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 78** SLS 20RS 130

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 4, 2020	12:47 PM	Author: FOIL
Dept./Agy.: Office of Student Financial Assistance (OSFA)		Analyst: Jodi Mauroner
Subject: START Accounts		

STUDENTS EG DECREASE GF RV See Note Page 1 of 2
Provides relative to disbursement of funds from START savings accounts. (8/1/20)

The **Student Tuition Assistance and Revenue Trust (START) Program** established in 1995 allows for deposits into savings accounts established to pay for certain expenses associated with enrollment in an institution of higher education. Taxpayers are allowed to deduct deposits up to \$2,400 for single and \$4,800 for joint filers from state taxable income. The state provides an enhanced earning contribution between 2% and 14% depending upon the adjusted gross income of the taxpayer contributing to the account. The **Student Tuition Assistance and Revenue Trust Kindergarten through Grade 12 (START K12) Program** was established in 2018 to provide for expenses of enrollment in grades K-12. There are no state tax deductions on deposits into these accounts, nor are there enhanced earnings contributions to these accounts made by the state.

Proposed law allows for \$10,000 to be withdrawn annually from the **START** account for enrollment expenses of students in grades K-12. Effective August 1, 2020

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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>	<u>\$0</u>
Annual Total						

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

There will be an increase in the expenditures of the Office of Student Financial to address the likely increase in the number of new accounts and volume of withdrawals from START accounts. OSFA anticipates one time costs of \$14,096 as follows: \$18,000 for programming and website upgrades, \$10,000 for rulemaking and publications to inform the public of the changes; \$66,525 for the salary and related benefits of an additional analyst, annual operating expenses of \$2,475; and \$4,096 in start up costs (computer and supplies) for this position.

In addition, there will be an indeterminable increase in state general fund need to meet the enhanced earnings contribution on new START accounts established to take advantage of the \$10,000 annual withdrawal for K-12 tuition costs. The contribution rate ranges from 2% to 14% depending upon the income of the individual making the deposit so any increase is indeterminable at this time. The total estimated state contribution for enhanced earnings for FY 20 is approximately \$3 M for approximately 69,450 accounts. The increase will depend upon the number of new accounts and the amount of annual deposits into those accounts.

REVENUE EXPLANATION

There will be a reduction in revenue collections of the state as a result of tax filers' ability to annually withdraw funds from the START account for expenses that are otherwise prohibited and would otherwise be paid from the START K-12 account, as these expenses are eligible for certain tax deductions. Potential reductions are indeterminable at this time but could be significant.

LA.R.S. 17:3095 allows for maximum state tax deductions of \$2,400 (single filer) or \$4,800 (joint filer) for contributions made to START accounts. **LA. R.S. 47:297.10** allows for a maximum state tax deduction of \$5,000 **per child** for nonpublic school and public lab school tuition expenses. The Department of Revenue reported a total of 75,200 returns claiming these deductions in 2018. Of these, 4,407 returns filed for contributions to START accounts and also claimed the \$5,000 tax deduction for tuition payments. This bill would have no impact on these filers.

For the same time frame, 10,275 filers contributed to START accounts but did not claim the \$5,000 tax deduction for tuition expenses. These filers could potentially exercise the authority in the proposed legislation to withdraw up to \$10,000 per year for K-12 tuition expenses. This would also make these filers eligible for the \$5,000 tax deduction authorized under 47:297.10.

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|--|----------------------------|---|
| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H} | | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H} | | <input checked="" type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

Evan Brasseaux
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Staff Director

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CONTINUED EXPLANATION from page one:

Revenue Explanation Continued from page one

An additional 60,518 filers currently claim the \$5,000 tax deduction for tuition expenses, but do not have a START account. The proposed legislation could provide an incentive for these filers to establish a START account and use up to \$10,000 of these funds for K-12 tuition. These filers would be able to claim the \$4,800 deduction authorized under 17:3095. These accounts would also be eligible for the 2%-14% earnings enhancement contribution funded with state general fund. While the proposed legislation prohibits the withdrawal of these enhanced earnings for K-12 tuition, the accounts would still be eligible for the state contribution which would continue to accrue to the fund.

In order to illustrate potential impact, the LFO calculated a range of the reductions in state revenue collections based on a maximum exposure to one where only a subset of filers would avail themselves of the additional tax benefit. Furthermore, the impact would vary depending upon the tax rate paid by those filers. These numbers are illustrative only and are subject to normal fluctuations in the number of claimants for each tax deduction. Note that these represent deductions for only one dependent, although a significant portion of current filers claim multiple dependents.

<u>Potential Maximum Exposure</u>	<u># Filers</u>	<u>Potential Deductions</u>
Claims \$4,800 START deduction AND \$5,000 tuition deduction	10,275	\$ 51,375,000
Claims \$5,000 tuition AND \$4,800 START deduction	<u>60,518</u>	<u>\$290,486,400</u>
TOTAL	70,793	\$341,861,400

Potential SGF Revenue Loss by tax rate	2%	(\$6,837,228)
	4%	(\$13,674,456)
	6%	(\$20,511,684)

<u>Potential Exposure ONLY filers with AGI of \$100K or more</u>	<u># Filers</u>	<u>Potential Deductions</u>
Claims \$4,800 START deduction AND \$5,000 tuition deduction	7,247	\$ 36,235,000
Claims \$5,000 tuition AND \$4,800 START deduction	<u>26,213</u>	<u>\$125,822,400</u>
TOTAL	33,460	\$162,057,400

Potential SGF Revenue Loss by tax rate	2%	(\$3,241,148)
	4%	(\$6,482,296)
	6%	(\$9,723,444)

<u>Potential Exposure ONLY 25% of all possible filers</u>	<u># Filers</u>	<u>Potential Deductions</u>
Claims \$4,800 START deduction AND \$5,000 tuition deduction	2,569	\$12,843,750
Claims \$5,000 tuition AND \$4,800 START deduction	<u>15,130</u>	<u>\$72,621,600</u>
TOTAL	17,699	\$85,464,600

Potential SGF Revenue Loss by tax rate	2%	(\$1,709,307)
	4%	(\$3,418,614)
	6%	(\$5,127,921)

Initially, utilization of these new provisions will likely be small. However, as taxpayers and their financial advisers become aware of the available benefits, the usage of START accounts and the associated deductions is likely to grow.

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}

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