

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 379** SLS 18RS 336

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: March 20, 2018 1:55 PM	Author: APPEL
Dept./Agy.: LOSFA	Analyst: Willis Brewer
Subject: Allows START distributions for K-12 expenses. (8/1/18)	

STUDENTS OR DECREASE GF RV See Note
Allows START distributions for K-12 expenses. (8/1/18)

Present law provides for the Louisiana Student Tuition Assistance and Revenue Trust Program (START Program) which provides for the establishment of education savings accounts to cover the future educational costs for higher education expenses of a designated beneficiary.

Proposed law conforms START Program provisions in present law to the recently enacted federal "TaxCuts and Jobs Act" which allows 529 College Saving Plan account distributions for K-12 tuition expenses.

Effective August 1, 2018.

EXPENDITURES	2018-19	2019-20	2020-21	2021-22	2022-23	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	2018-19	2019-20	2020-21	2021-22	2022-23	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

The proposed law could result in a significant increase in state expenditures and the expenditures of LOSFA due to the potential increase in the number of new accounts and deposits to the Student Tuition Assistance and Revenue Trust Program (START Program). While the number cannot be estimated, it can be expected there will be a significant number of these individuals/families that will either create a START account or make additional deposits into their existing START account.

The proposed legislation will increase SGF expenditures for the state contribution requirements on START accounts. Per 17:3095, the START program provides account holders earnings enhancements (EE) on the total deposits made by the account holder based on the account holder's adjusted gross income on the federal tax return for the taxable year. Account holders with a reported federal adjusted gross income less than \$30,000 receives an earnings enhancement rate of 14%, \$30,000 to \$44,4999 receives 12%, \$45,000 to \$59,999 receives 9%, \$60,000 to \$74,999 receives 6%, \$75,000 to \$99,999 receives 4%, and \$100,000 or more receives 2%. This EE is paid with SGF that is appropriated to the Board of Regents (BOR) and deposited into each of the accounts. Over the last five-years, the average EE amount paid by the state and allocated to the START accounts is \$2.1 M with an average amount of \$2,302.

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REVENUE EXPLANATION

The proposed law could result in a significant reduction in state revenues due to the potential increase in the number of tax payers claiming income tax deductions provided under 17:3095 and 47:297.10. These income tax deductions lower the allowable taxable income amount for these filers, which then lowers the amount of income tax received by the state from personal income tax payments.

Per 47:297.10, Louisiana allows a maximum \$5,000 deduction per child for nonpublic school and public lab school tuition expenses. Based on the 2016 tax returns, there were approximately 72,000 returns (with 128,000 dependents) that claimed \$391 M in K-12 tuition deductions from income that did not receive a START Program income tax deduction (17:3095). **For illustrative purposes**, assuming *all 72,000* of these filers establish one START account and claim the maximum deduction of \$4,800, the maximum amount of additional allowable deduction from income for these new START account owners would be \$245.6 M. It is unlikely that all will utilize this option, but if only five percent (3,600) of the filers establish a START account, it could generate \$17 M in additional allowable deductions from income. Losses to state tax receipts would likely range from 4% - 6% of the additional deduction amount, or \$691,000 to \$1 M, per year.

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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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Chief Economist

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CONTINUED EXPLANATION from page one:

Continued EXPENDITURE EXPLANATION from Page 1

Based on 2016 tax returns, there were 72,000 filers with 128,000 dependents that claimed a deduction from income for K-12 tuition expenses for a total of approximately \$391 M in deductions. **For illustrative purposes**, assuming all 72,000 of these filers establish only one START account and assuming the average deduction per gross income range (i.e., \$0-\$29,999, \$30,000 - \$44,999, etc) is deposited into the START account the estimated EE payments for all of these is \$11 M. It is unlikely that all will utilize this option, but if only five percent (3,600) of the filers establish a START account, it equates to \$550,000 in earning enhancement obligations of the state general fund.

The proposed legislation will increase the expenditures of the Louisiana Office of Student Financial Assistance (LOSFA) for one-time programming costs (\$115,000) and two additional staff and supplies (\$150,000). The estimated programming cost is based on LOSFA's hourly rate (\$120) with its IT programming provider (ThoughtSpan) for 958 hours. LOSFA will have to update the START website to include K-12 education including the ability to produce on-line documentation and to modify their system to allow for the disbursements to K-12 schools. LOSFA recently modified its system to include the Achieving a Better Life Experience (ABLE) savings account to its system and, to date, the implementation of this savings account has taken 1,075 hours and approximately \$129,000. The additional staff requirement is dependent upon the number of new accounts and additional withdrawals that may arise as a result of this legislation. To the extent the number of accounts and the volume of withdrawals is less, LOSFA may need less additional staff resources.

Continued REVENUE EXPLANATION from Page 1

Per 17:3095, START account owners that file single returns can receive a maximum \$2,400 and jointly filed returns can receive a maximum \$4,800 per account owner per taxable year for amounts deposited into the account during that year. Based on the 2016 tax returns, there were approximately 9,000 returns (with 10,000 dependents) that received \$30 M in START Program deductions from income that did not receive a K-12 income tax deduction (47:297.10). This legislation will allow these START participants to withdraw their START assets for K-12 tuition expenses.

To the extent these account users avail themselves of this option and use their START account to begin paying for nonpublic K-12 tuition, they would be eligible for the K-12 tuition income tax deduction. Assuming the 9,000 filers and the maximum allowable deduction (\$5,000), the maximum amount of additional allowable deductions from income would be \$45 M for these current START account owners. It is unlikely that all will utilize this option, but if only five percent (450) do utilize this option it could generate \$2.3 M in additional allowable deductions from income, and \$92,000 to \$138,000 per year of foregone state tax receipts.

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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