



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill # HB0433

Title: Providing a tuition tax credit for K-12 education

Primary Sponsor: Berglee, Seth

Status: As Amended in House Committee

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$14,300	\$62,885	\$60,858	\$61,828
Revenue:				
General Fund	\$0	(\$719,598)	(\$1,997,000)	(\$6,699,000)
Net Impact-General Fund Balance:	<u>(\$14,300)</u>	<u>(\$782,483)</u>	<u>(\$2,057,858)</u>	<u>(\$6,760,828)</u>

Description of fiscal impact: HB 433, as amended, would allow parents, grandparents, or siblings of students in a private school or an out-of-district public school to take an income tax credit for tuition and fees paid for the student. Through tax year 2018, the credit would be limited to the lower of \$1,000 or the increase in tuition and fees paid for the student since 2015. Credits would increase from \$0.7 million in FY 2017 to \$6.7 million in FY 2019. Beginning in tax year 2019, credits would no longer be limited to the amount of tuition increase, and could increase to \$42.0 million per year.

FISCAL ANALYSIS

Assumptions:

1. This bill would allow taxpayers a credit of up to \$1,000 for paying tuition and fees for a child, grandchild, or sibling to attend a private school or a public school in another district. For tax years 2016 through 2018, the credit would be limited to the increase in tuition and fee payments from 2015. For tax years after 2018, the credit would be for the full amount, up to \$1,000 per taxpayer. (See Technical Note 1)
2. The credit would be nonrefundable, but unused credits could be carried forward for up to five years. However, taxpayers who claim the credit are likely to be paying tuition and claiming the credit every year for a number of years in a row. Because of this, the carryover provision is likely to have a relatively small effect on the dollar amount of credits claimed.

3. Tuition and fees a taxpayer paid could increase from the previous year for several reasons. The student may attend a private school for the first time, the student may move to a more expensive school, or the student's school may increase tuition and fees.
4. Estimates of private school enrollment and tuition are available from several sources. The estimates in this fiscal note are based on information from the Office of Public Instruction and two online directories of private schools, privateschoolreview.com and educationbug.org. Based on this information, there are approximately 6,800 tuition paying in-state students in private schools in Montana. Credits may be claimed for these students. Average tuition for these students is approximately \$5,700. There are approximately 1,200 other students in private schools that either are entirely supported by donations or draw their student populations primarily from out of state. No credits will be claimed for these students.
5. Through 2018, credits claimed for students who enrolled before 2016 would be limited to increases in tuition while credits claimed for students who first enrolled after 2015 could be up to the full amount of tuition. The availability of the credit would lower the net price of attending private school which would increase the number of families wanting to enroll a child. However, on average, full tuition covers only about two-thirds of the per-student cost. The remainder is covered by donations, support from a sponsoring organization such as a church, or other sources. To accommodate additional students, private schools would need to cover the difference between per-student cost and tuition for the additional students. After 2019, when credits of up to the full amount of tuition could be claimed for all students, private schools could do this by raising tuition for all students and capturing part of the value of the credits. Before 2019, schools would be in the position of asking families of continuing students to pay higher tuition to subsidize new students, with the promise of a tax credit the next year to reimburse them for the increase. Since the credit is non-refundable, some families would not be able to claim a credit equal to the full tuition increase and would see a net price increase. It is not clear what schools would do in this situation, and it is likely that schools would choose a range of options from not trying to increase enrollment to trying to attract as many new students as possible at the risk of losing some continuing students.
6. For this fiscal note, it is assumed that schools will not begin raising tuition to capture revenue from the credit until after families have received credits the first time. Thus, for 2016, credits for continuing students will be for normal increases in tuition, which is assumed to increase by half the rate of inflation assumed in HJ2, or 1.1%. This gives an average increase of \$75 per year. The number of students beginning a private school for the first time is estimated to be the number entering first grade plus one-tenth of the total, or 1,333.
7. Some taxpayers would not be able to use the credit because they have no tax liability, some would not be able to use the full credit because their tax liability was less than their credit, and some would have tax liability greater than their credit and be able to use the full credit. This fiscal note assumes that the proportions of taxpayers who would be in each situation each year are the same as the proportions of resident taxpayers with dependents who were in each situation in 2013.
8. The proportion of taxpayers with partial credits for was estimated from 2013 returns assuming maximum credits of \$75 for continuing students and \$1,000 for new students. On 2013 resident tax returns, 14.5 % of dependents were reported on a return with zero tax liability, 6.8% were reported on a return with tax liability between \$1 and \$75, 24.5% were reported on a return with tax liability between \$76 and \$1,000, and 54.1% were reported on a return with tax liability of more than \$1,000. Average tax liability for returns with liability between \$1 and \$75 was \$17.
9. On 2013 resident tax returns, taxpayers who claimed at least one dependent claimed 1.86 dependents on average. It is assumed that this proportion will continue to hold in the future.
10. Based on Assumptions 4 – 9, the following table shows credits that would be claimed by parents of private school students for tax year 2016.

	Students	Parents with No Tax Liability		Parents with Credits Limited by Tax Liability		Parents with Credits Limited to Tuition Increase		Parents with Full Credit		Total - All Eligible Parents	
		number	credits	number	credits	number	credits	number	credits	number	credits
New Students	1,333	104	\$ -	225	\$ 45,714	0	\$ -	388	\$ 388,326	717	\$ 434,040
Continuing Students	5,467	427	\$ -	200	\$ 3,482	2,314	\$ 173,565	0	\$ -	2,942	\$ 177,047
Total	6,800	532	\$ -	425	\$ 49,196	2,314	\$ 173,565	388	\$ 388,326	3,659	\$ 611,088

11. In some families, grandparents or siblings would make tuition payments in order to claim credits. It is likely that most families of private school students would eventually make such arrangements after the caps on individual credits are removed in 2019. With the credit being new and the small size of the credits available for continuing students in 2016, not all families are likely to make these arrangements. Additional credits claimed by grandparents and siblings for 2016 are assumed to be one-fourth of the credits parents claim for new students, or \$108,510.
12. It is assumed that schools will raise tuition by the amount that will cover their costs of meeting one-third of the potential enrollment increase for 2017, two-thirds for 2018, and the full amount for 2019. Calculation of enrollment increases and total credits is documented in the Long-Term Impacts section. Total credits claimed per student enrolled since 2015 are assumed to be one-third of average tuition, or \$1,900, for 2017 and two-thirds, or \$3,800, for 2018. Students enrolled since 2015 are assumed to be 15% of the total for 2017 and 25% of the total for 2018. The increase in enrollment would be 61 in 2017 and 202 in 2018. Total credits would be \$1.997 million for 2017 and \$6.699 million for 2018.
13. Credits for 2016 through 2018 will be claimed when taxpayers file their tax returns for these tax years, in FY 2017 through FY 2019. The total reduction in general fund revenue would be \$719,598 in FY 2017, \$1,997,000 in FY 2018, and \$6,699,000 in FY 2019.
14. The Department of Revenue would need to develop new forms and build the new credit into its data processing systems in FY 2016. The department would need an additional 1.00 FTE to process, verify, and audit credit claims, beginning in FY 2017. There would be one-time costs to set up a new employee in FY 2017.

	FY 2016	FY 2017	FY 2018	FY 2019
<u>Fiscal Impact:</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Expenditures:</u>				
Personal Services	\$0	\$53,202	\$54,053	\$54,921
Operating Expenses	\$14,300	\$6,385	\$6,805	\$6,907
Equipment	\$0	\$3,298	\$0	\$0
TOTAL Expenditures	\$14,300	\$62,885	\$60,858	\$61,828
<u>Funding of Expenditures:</u>				
General Fund (01)	\$14,300	\$62,885	\$60,858	\$61,828
TOTAL Funding of Exp.	\$14,300	\$62,885	\$60,858	\$61,828
<u>Revenues:</u>				
General Fund (01)	\$0	(\$719,598)	(\$1,997,000)	(\$6,699,000)
TOTAL Revenues	\$0	(\$719,598)	(\$1,997,000)	(\$6,699,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$14,300)	(\$782,483)	(\$2,057,858)	(\$6,760,828)

Long-Term Impacts:

1. Beginning with 2019, each taxpayer paying part or all of the tuition and fees for a student would be able to claim the full credit of \$1,000.
2. The change in private school enrollment that could result if schools increased tuition to capture part of the credits was calculated using the following formulas describing the tuition-setting actions of affected private schools, and enrollment decisions of families of current and potential private school students:

$$tuition = \frac{total\ expenditures - nontuition\ revenue}{students}$$

$$\frac{additional\ students}{2014\ students} = -0.2 \frac{change\ in\ net\ price}{2014\ tuition}$$

$$change\ in\ net\ price = tuition\ increase - average\ credits\ per\ student$$

3. If schools raise tuition to the point where the number of additional students wanting to enroll equals the number of additional students whose costs would be covered by their own tuition and the increased tuition from existing students, the average tuition increase would be \$577, and the number of in-state, tuition-paying private school students would be increased by 1,133, to 7,372. Total credits would be the amount of credits per student, \$5,700 multiplied by 7,372 students, or \$42.0 million.

Technical Notes:

1. The wording of Section 1(2) is not clear as to whether the \$1,000 limit on the credit is per student, per taxpayer, or per student per taxpayer. This fiscal note assumes that the meaning is per student, which would allow parents, grandparents, and any siblings with taxable income to all claim credits for paying tuition for the same student. The language should be clarified.
2. The term “elementary or secondary education” is not defined in the bill or in Title 15. This fiscal note assumes that the term includes kindergarten through 12th grade and does not include pre-school or pre-kindergarten programs. If kindergarten were not included, the number of credits would be about 10% lower. If pre-school and pre-kindergarten programs were included, the number of credits claimed could be 10% to 15% higher. In both cases, the change in the dollar amount of credits would be smaller than the change in the number of credits because fees for part-time pre-school and kindergarten programs generally are lower than tuition for full-time grade 1 through 12 programs.

Sponsor’s Initials

Date

Budget Director’s Initials

Date