



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0023 - Revise student scholarship organization and innovative education tax credits (Thane, Mark)

Status: As Introduced

- 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 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$2,424,000	\$3,384,000	\$4,536,000
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$2,424,000</u>	<u>\$3,384,000</u>	<u>\$4,536,000</u>

Description of fiscal impact: HB 23 as introduced reduces the maximum Innovative Education Program and Student Scholarship Organization credits from \$200,000 per taxpayer, per year, to \$2,000 starting in tax year 2023.

FISCAL ANALYSIS

Assumptions:**Department of Revenue**

- Under current law taxpayers can claim a personal income tax credit for qualified donations to a Student Scholarship Organization (SSO) or to an Innovative Educational Program (IEP). The maximum credit a taxpayer can claim is \$200,000. In TY 2023, a maximum value of credits that can be claimed is \$2 million, per program, that be claimed by all taxpayers. Starting TY 2024, the value of credits that can be claimed will increase by 20% if 80% of the maximum credit amount is claimed during the previous tax year. Households with two taxpayers can claim a maximum of \$400,000 in total credits during the tax year.
- Prior to current law, both credits were limited to \$150 per taxpayer, with a limit of \$300 for taxpayers who file a joint return through TY 2021. With HB 279 (2021) beginning in TY 2022 the credits per taxpayer increased to a maximum of \$200,000 per individual and \$400,000 for taxpayers with a joint return. Based on department experience in (utilization reached the credit limit very early in TY 2022, it is assumed this increased utilization pattern will continue in TY 2023.
- The HJ 2 Individual income tax model does not include IEP & SSO credit use in the micro-simulation model as the model uses TY 2021 return as the basis of the simulation model. HB 279 became present law in CY

- 2021 and first applies to TY 2022. Credits are a subtraction (negative revenue). Aggregate credit use is factored into HJ 2 in the conversion from simulation model individual income tax year liability to fiscal year revenue collections. The fiscal note for HB 279 (2021) serves as the present law baseline for this fiscal note
4. HB 23 changes the maximum value of credits each taxpayer can claim from the current maximum of \$200,000 to \$2,000. The change in the maximum credit amount applies starting TY 2023.
 5. In TY 2023, taxpayers will be able to claim \$200,000 in credits until HB 2023 is enacted. After the bill is enacted, taxpayers would be able to only claim up to \$2,000 in credits.
 6. It is assumed that all \$2,000,000 in credits for each program will be claimed in TY 2023, before HB 23 changes would apply.
 7. With the passage of HB 23, starting in TY 2024, the maximum credit per taxpayer would be limited to \$2,000 or \$4,000 for households with two taxpayers.
 8. The SSO program was used by an average of 68 tax units (households) each year during the TY 2016 through TY 2021 period. The average credit amount claimed on returns was \$191.61. This is about 64% of the two-taxpayer household credit limit.
 9. The IEP program was used by an average of 22 Tax units (households) in the TY 2016 through TY 2021, period The average credit claimed by the households was \$200.85. This is roughly 67% of the two-taxpayer household credit limit.
 10. The total number of credits claimed under current law are assumed to be \$2.4 million for each credit in TY 2024. This increases to \$2.88 million in TY 2025 and \$3.456 million in TY 2026. These are presented in the following table:

Present Law Utilization of Student Scholarship and Innovative Education Program					
Tax Credits and Number of Households Claiming Credits					
Program	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026
IEP	-\$1,000,000	-\$2,000,000	-\$2,400,000	-\$2,880,000	-\$3,456,000
SSO	-\$1,000,000	-\$2,000,000	-\$2,400,000	-\$2,880,000	-\$3,456,000
Total Value of Credits	-\$2,000,000	-\$4,000,000	-\$4,800,000	-\$5,760,000	-\$6,912,000

11. With a maximum credit of \$2,000, HB 23 credits are 13 times higher than credit available before TY 2022 (\$150) and one-tenth of the credits limit available in TY 2022 (and effectively TY 2023). Because of this, it is assumed that the number of taxpayers claiming credits will increase to 10 times the 2016-2021 average level, unless constrained by each program’s appropriated limit of available credits.
12. Those assumptions result in 680 tax units claiming the SSO credits in TY 2024 and 220 tax units claiming the IEP credit, usages expand by credit availability in subsequent years.
13. From 2016 through 2021, not all taxpayer households claimed the maximum SSO and IEP credit amount. It is assumed that the average household claiming one of the credits will claim 67% of the maximum credit amount for a two-person household. With a maximum credit of \$4,000 for a two-person household, the average credit claimed starting in TY 2024 is assumed to be \$2,640.
14. The result of assumptions # 10 through #13 are presented in the following table with the years and credits constrained by the appropriated caps are highlighted in gray:

HB 23 Utilization of Student Scholarship and Innovative Education Program Tax Credits and Number of Households Claiming Credits					
Program	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026
IEP	-\$1,000,000	-\$2,000,000	-\$580,800	-\$580,800	-\$580,800
SSO	-\$1,000,000	-\$2,000,000	-\$1,795,200	-\$1,795,200	-\$1,795,200
Total Value of Credits	-\$2,000,000	-\$4,000,000	-\$2,376,000	-\$2,376,000	-\$2,376,000
<i>Implied Average Credit by Household Making a Credit Claim</i>					
Average IEP credit	-\$45,455	-\$45,455	-\$2,640	-\$2,640	-\$2,640
Average SSO credit	-\$14,706	-\$14,706	-\$2,640	-\$2,640	-\$2,640
<i>Implied Number of Households Claiming Credits</i>					
IEP Credit Households	22	44	220	220	220
SSO Credit Households	68	136	680	680	680
Tax Units Claiming Credit:	90	180	900	900	900

15. Based on current law forecasts, and the estimated changes made by HB 23, the proposed bill will increase general fund revenue relative to preset law by \$2,424,000 in TY 2024 (FY 2025), \$3,384,000 in TY 2025 (FY 2026), and \$4,536,000 in TY 2026 (FY 2027). That is the difference between the total credits in assumption #10 and assumption #14. It is assumed that taxpayers will not change their withholding or estimated payments when claiming one of the credits.

Change from Present Law Revenue Due to HB 23 as Introduced					
Program	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026
Change IEP	\$0	\$0	\$1,819,200	2,299,200	2,875,200
Change SSO	\$0	\$0	\$604,800	\$1,084,800	\$1,660,800
Total Change in Revenue	\$0	\$0	\$2,424,000	\$3,384,000	\$4,536,000

16. The department does not expect to incur any additional costs as a result of HB 23.

Fiscal Note Request – As Introduced

(continued)

<u>Fiscal Impact:</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	\$0	\$2,424,000	\$3,384,000	\$4,536,000
TOTAL Revenues	\$0	\$2,424,000	\$3,384,000	\$4,536,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$2,424,000	\$3,384,000	\$4,536,000

Technical Notes:

1. The changes made by HB 23 apply retroactively to TY 2023. However, taxpayers can apply for the present law credits (up to \$200,000 per taxpayer) when the application portal opens on January 18, 2023. If this bill has not passed before the portal opens, it is unclear how many credits taxpayers will be able to claim.

 Sponsor's Initials

 Date

RO
 Budget Director's Initials

1-2-23
 Date