



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: SB 13 SLS 11RS 119
Bill Text Version: ENROLLED
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 17, 2011 4:33 PM
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Dept./Agy.: Revenue
Subject: School Tuition/Expense Tax Deduction
Analyst: Greg Albrecht

TAX/INCOME/PERSONAL EN -\$5,300,000 GF RV See Note Page 1 of 1
Removes the 50% cap on the deduction from taxable income of tuition and fees paid by a taxpayer for a dependent child to a nonpublic elementary or secondary school or to a public elementary or secondary lab school which is operated by a public

Current law provides an income tax deduction of 50% of nonpublic school tuition costs, up to \$5,000 per child, as well as for other specified expenses associated with nonpublic, public, and home-schooled children.
Proposed law removes the 50% limitation on the nonpublic school tuition, allowing a deduction up to \$5,000 per child.
Effective for all income tax years beginning on and after January 1, 2011.

Table with 7 columns: EXPENDITURES/REVENUES, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The bill effectively increases the amount of tuition deduction that is possible for taxpayer payers paying tuition between \$5,000 but less than \$10,000. In this, under current law, the tax deduction would be 50% of the tuition, which would necessarily be less than \$5,000. Under this bill a \$5,000 deduction would allowed.

Personal income tax returns for tax year 2009 indicated \$245 million of tuition deduction was claimed. The total amount of tax reduction realized in FY10 was \$9.4 million (which would primarily be from these 2009 tax year returns). That implies an effective tax rate for these particular filers of 3.8%. These returns also reflected an estimated number of dependents for which deduction was claimed of 76,900. Thus, the average amount of deduction claimed for each child is estimated at \$3,186. Assuming deductions of \$5,000 for each of these children would occur under this bill generates estimated additional aggregate deduction of \$139.5 million (\$5,000 - \$3,186 deduction difference x 76,900 children). This additional aggregate deduction would be subject to a 3.8% effective tax rate, generating an additional aggregate tax liability reduction of \$5.3 million.

This analysis, by itself, may overstate the impact of the bill somewhat since it is possible that not every child would have tuition over \$5,000, and thus be able to claim a full \$5,000 deduction. However, this analysis is based on data from the first year of this deduction's availability. Participation in the deduction is likely to be greater in the second and subsequent years as tax payers become aware of it and take the steps necessary to document their use of it. This normal growth in the deduction would not be attributable to this bill, but this bill's additional amount of deduction available to that normal growth would be attributable to this bill. Thus, the estimate above may not overstate the effect of the bill.

Senate Dual Referral Rules House
13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} 6.8(F)1 >= \$500,000 Annual Fiscal Cost {S}
6.8(F)2 >= \$100,000 Annual SGF Cost {H&S}
[X] 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}
H. Gordon Monk
Legislative Fiscal Officer