

# Fiscal Services Division Legislative Services Agency Fiscal Note

SF 2295 - Tuition Tax Credit (LSB 6013 SV.1)

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Fiscal Note Version – As amended by S-5366 and H-8553

## Description

The House amendment to SF 2295 (S-5366) as amended by the Senate amendment (H-8553) makes several changes impacting the revenue reductions and cost savings associated with the Bill as originally passed by the Senate. The amendments:

1. Decrease the percentage of a donation that can be claimed as a credit from 100.0% to 75.0%. This action will decrease donations and scholarship awards.
2. Increase the maximum donation from \$500/\$625 to \$700/\$825. This action will increase the amount of donations and scholarship awards.
3. Restrict scholarship awards to residents of Iowa. This could potentially increase the General Fund savings due to reduced public school enrollment.
4. Decrease the federal poverty level requirement from a factor of three to a factor of two as a preference item for scholarship awards. This action could potentially increase the General Fund savings due to reduced public school enrollment.

## Assumptions

1. Items one and two above together should generate a net decrease in program utilization compared to the original fiscal note assumptions. To account for this change the original fiscal note assumption of 80.0% of the Arizona plan size is reduced to 64%.
2. For the first fiscal year (FY 2006), Iowa participation is assumed to be 200% of the Arizona level, to account for the additional year of implementation time in the Iowa proposal. This is an adjustment to the original fiscal note.
3. The FY 2004 cost per pupil is reduced to correct an error in the original fiscal note. This error inflated the General Fund savings associated with reduced public school enrollment by approximately 23.0%. The error was caused by the inclusion of special education weighting in the original fiscal note cost.

## Fiscal Impact

The following table presents the State General Fund fiscal impact of Senate File 2295 as amended by the Senate and House.

### Private School Tuition Tax Credit

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Tax Credits Claimed (\$ mill)	\$3.6	\$8.8	\$11.3	\$15.9	\$16.8	\$17.6	\$18.5	\$19.1
Scholarship Funds (\$ mill)	\$0.3	\$1.5	\$8.7	\$10.3	\$12.8	\$15.9	\$17.6	\$19.1
Average Scholarship (\$)	\$514	\$638	\$885	\$893	\$1,031	\$1,140	\$1,186	\$1,216
Scholarships Funded	652	2,385	9,841	11,557	12,399	13,929	14,839	15,692
Public Student Transfers	215	787	3,248	3,814	4,092	4,597	4,897	5,178
State School Aid Savings (\$ mill)	\$0.0	\$0.9	\$3.6	\$15.1	\$18.1	\$19.9	\$23.0	\$25.1
Net GF Impact	<u><u>-\$3.6</u></u>	<u><u>-\$7.9</u></u>	<u><u>-\$7.7</u></u>	<u><u>-\$0.8</u></u>	<u><u>\$1.3</u></u>	<u><u>\$2.3</u></u>	<u><u>\$4.5</u></u>	<u><u>\$6.0</u></u>

Net General Fund (GF) impact equals the credits claimed in a year minus the school aid savings that year.

A tax credit that reduces the number of students in Iowa's public school system will also impact the local school finance system. How the changes impact the system will depend on the particular financial circumstances of the school districts losing students. Some of the financial considerations include:

1. A reduction in expenditures due to fewer students.
2. A reduction in local option income tax receipts due to reduced State income tax receipts. Use of the new tax credit by a taxpayer in a school district with a local option income tax will reduce the revenue raised by the local option tax.
3. A reduction in students in a particular district will cause a redistribution of local option sales tax revenues. Schools with reduced student populations will lose through the per-student tax distribution and those that do not lose students will gain.
4. A reduction in any federal funding distributed on a student population basis.
5. A reduction in State School Aid revenue to the public schools as provided above.
6. An increase in property taxes due to the action of the 101% budget guarantee component of the State School Aid Formula.

### **Sources**

Goldwater Policy Report, December 11, 2003 (No. 186)  
Iowa Department of Education student and financial information

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Dennis C Prouty

April 14, 2004

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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