



## DEPARTMENT OF AUDITS AND ACCOUNTS

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**Greg S. Griffin**  
STATE AUDITOR  
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March 3, 2017

Honorable Jay Powell  
Chairman, House Ways and Means  
133 Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 429 (LC 43 0602)

Dear Chairman Powell:

The bill would establish a tax credit for qualified education expenses. To qualify for the tax credit, funds must be expended on education expenses used for dependent children attending elementary or secondary public or private school or home study program. Total income tax credits are limited to 25% of up to \$1,000 of qualified education expenses per dependent child each tax year. This bill would become effective beginning January 1, 2018.

### Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would result in a FY 2019 state revenue reduction of \$175.3 million to \$194.9 million (Table 1). The reduction would be between \$202.8 million and \$226.5 million in FY 2022. Details of FRC's analysis are contained in the appendix.

**Table 1. Estimated Revenue Effects of LC 43 0602**

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High Credit Utilization Case	\$0	(\$194.9)	(\$220.4)	(\$223.4)	(\$226.5)
Low Credit Utilization Case	\$0	(\$175.3)	(\$198.0)	(\$200.3)	(\$202.8)

### Impact on Agency Costs

The Department of Revenue estimated that the tax credit for educational expenses will result in approximately \$602,500 in one-time costs and \$497,000 in annual costs. One-time costs include \$40,000 to update IT systems and approximately \$16,000 for training, updating forms, and other expenses. Annual costs include approximately \$500,000 for six additional auditor staff (five at \$80,000 each and one at \$98,000 including benefits).

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin". The signature is written in a cursive style with a horizontal line at the end.

Greg S. Griffin  
State Auditor

A handwritten signature in blue ink that reads "Teresa A. MacCartney". The signature is written in a cursive style with a large initial 'T'.

Teresa A. MacCartney, Director  
Office of Planning and Budget

GSG/TAM/jb

### **Analysis by the Fiscal Research Center**

Under HB 429 LC 43 0602, families with dependent children in public or private schools, or who are home schooled, qualify for tax credits based on their annual Qualified education expenses (QEE). As explained below, the QEE of primary interest for the analysis fall into four categories:

- tuition paid to private schools;
- curriculum expenses for home schooled children;
- services for students with disabilities; and
- test prep and tutor expenses.

Seven student population groups were estimated with each generating different expected levels of annual QEE:

- private school students without significant scholarship support (see discussion of Table 3 below for explanation);
- private school students with significant scholarship support and
  - without disability-related expenses;
  - with disability-related expenses;
- home school students
  - without disability-related expenses;
  - with disability-related expenses;
- public school students with and without disability related expenses.
  - without disability-related expenses;
  - with disability-related expenses;

The high and low estimated student counts for these groups are detailed in Table 2. The data sources and assumptions that are the basis for these counts are as follows:

- The Governor's Office of Planning and Budget (OPB) projects Georgia's age 5-18 population to grow by one half of one percent per year between 2016 and 2021.
- According to data from the Georgia Department of Education (DOE), cited by the Atlanta Journal Constitution ("Home schooling grows in Georgia", May 10, 2016), the number of home school students in Georgia was 59,831 in 2016. The same source indicated that the population of home schooled students had grown by 0.86 percent per year over the prior four years.
- Private school enrollment in Georgia was estimated at 150,360 as of the fall of 2013, according to the National Center for Education Statistics (NCES). Growth in private school enrollment has averaged 0.64 percent annual growth between 1999 and 2013.

- Thus, the student populations are expected to grow from the estimates above at 0.86 percent annually for home schools and 0.64 percent for private schools, with the balance of students in public schools growing at about 0.48 percent annually.
- Georgia Department of Education (DOE) data indicates that about 6.5 percent of Georgia’s public school students have a documented disability that would require therapy or other treatment services. These disabilities include: speech or language impairment, emotional disturbance, orthopedic impairment, specific learning disability, and autism. This 6.5 percent share was used to estimate the number of home, private, and public school students with and without a disability related expenses.
- The portion of private school students with and without significant scholarship support is based on data from the Georgia Department of Revenue (DOR) on the Qualified Education Tax Credit (QETC). There were approximately 13,600 scholarship recipients through the QETC program in 2015, with five percent estimated to receive sufficient scholarship support to reduce their QEE below \$4,000. The balance either receive no QETC scholarship or not enough of a scholarship to reduce their QEE below \$4,000, thus these students’ families are assumed to reach the maximum credit amount without consideration of expenses beyond tuition. It is possible that some of the students receiving no QETC scholarship receive financial assistance from another source, but no data are available from which to make further adjustments.
- Public school student counts were obtained from DOE using 1,757,000 in 2016 as the base year.

**Table 2. Student Population Estimates**

<i>(in thousands)</i>	<b>TY 2018</b>	<b>TY 2019</b>	<b>TY 2020</b>	<b>TY 2021</b>	<b>TY 2022</b>
<b><i>Private School</i></b>					
w/o significant scholarship support	153.61	154.60	155.61	156.62	157.64
w/ significant scholarship support, w/o disability-related expenses	0.64	0.65	0.65	0.65	0.66
w/ disability-related expenses	0.04	0.04	0.05	0.05	0.05
<b><i>Home School</i></b>					
w/o disability-related expenses	56.90	57.38	57.87	58.36	58.86
w/ disability-related expenses	3.96	3.99	4.02	4.06	4.09
<b><i>Public School</i></b>					
w/o disability-related expenses	1,658.84	1,667.14	1,675.47	1,683.85	1,692.27
w/ disability-related expenses	114.75	115.32	115.90	116.48	117.06

Each student population group’s estimated annual QEE for 2016 are detailed in Table 3. The data sources and assumptions that are the basis for these levels of QEE are as follows:

- The Philadelphia Federal Reserve Bank panel of economic forecasters expect consumer expenditure inflation to be 2.2 percent annually over the next ten years. Thus, all annual per-student expenses are assumed to grow at 2.2 percent annually after the base year estimates detailed in Table 3.

- Based on Consumer Expenditure Survey (CES) data, the average family with children spends between \$70 and \$100 dollars per child annually on test preparation and tutoring. These serve as the high and low estimates for 2016.
- The Medical Expenditure Panel Survey (MEPS) estimates that children requiring counseling or therapy have between \$450 and \$650 of annual out of pocket expenses related to their condition for doctor visits, therapy and prescription drugs. These represent the high and low estimates for disability related QEE for students with a disability.
- Private school qualified expenses include tuition, which for students not receiving large scholarships would be enough to earn the maximum credit. For these students, other expenses are not relevant. For students receiving scholarships large enough to push their net tuition cost below \$4,000 per year, tutor and test prep expenses are included as well. For those with large scholarships and disabilities, estimated out-of-pocket disability-related expenses are added.
  - Available data on QETC scholarships do not enable determination of the number of students receiving sufficiently large scholarships to result in net tuition below \$4,000, but based on variation across scholarship providers in the average size of scholarship awards, it is assumed that roughly 5 percent of scholarship recipients fall into this category and that the average after-scholarship tuition for these students was between \$1,908 and \$2,564 in 2015.
- Home school expenses are based on estimated curriculum, tutor, and test prep expenses and, in the case of students with disabilities, estimated out-of-pocket service costs.
  - According to the Home School Legal Defense Association (HSLDA), annual curriculum expenses vary widely based on the parents' preferences and resources. A middle level curriculum is expected to cost between \$300 and \$450 annually. These represent the high and low home school curriculum costs per student in 2016.
- For public school students in Georgia, estimated QEEs are comprised of tutor and test preparation fees, and out-of-pocket disability-related expenses for students with disabilities.

(See Next Page)

**Table 3. Per Student 2016 Qualified Education Expense Estimates**

Tuition		Curriculum		Tutor/Test Prep		Disability		Total	
High	Low	High	Low	High	Low	High	Low	High	Low
<b><i>Private School</i></b>									
Without significant scholarship support									
\$4,000	\$4,000	-	-	-	-	-	-	\$4,000	\$4,000
With significant scholarship support									
\$2,564	\$1,908	-	-	\$100	\$70	-	-	\$2,664	\$1,978
With significant scholarship support and disability-related expenses									
\$2,564	\$1,908	-	-	\$100	\$70	\$650	\$450	\$3,314	\$2,428
<b><i>Home School</i></b>									
Without disability-related expenses									
-	-	\$450	\$300	\$100	\$70	-	-	\$550	\$370
With disability-related expenses									
-	-	\$450	\$300	\$100	\$70	\$650	\$450	\$1,200	\$820
<b><i>Public High School</i></b>									
Without disability-related expenses									
-	-	-	-	\$100	\$70	-	-	\$100	\$70
With disability-related expenses									
-	-	-	-	\$100	\$70	\$650	\$450	\$750	\$520

The amount of credit cannot exceed the taxpayer's income tax liability, but can be carried forward one year. For the purpose of this estimate, it is assumed that 85 percent of credits will be utilized for the tax year in which they were earned, 10 percent will be utilized in the subsequent year, and 5 percent will remain unutilized. The high and low annual aggregate QEE, credits earned and fiscal year revenue estimates are detailed in Table 4. Credits utilized against each year's tax liabilities are assumed to impact collections at the time of filing of returns, in the fiscal year beginning July of the given tax year.

**Table 4. High and Low Qualified Education Expense Estimates**

<i>(\$ in Millions)</i>	TY 2018	TY 2019	TY 2020	TY 2021	TY 2022
<b><i>Total QEE</i></b>					
High	\$917.2	\$929.5	\$942.1	\$954.9	\$968.1
Low	\$824.8	\$834.6	\$844.6	\$854.8	\$865.1
<b><i>Credits Earned</i></b>					
High	\$229.3	\$232.4	\$235.5	\$238.7	\$242.0
Low	\$206.2	\$208.7	\$211.2	\$213.7	\$216.3