

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: SB 612

52nd Legislature, 1st Session, 2015

Tracking Number: .200400.1

Short Title: Teacher School Supply Purchase Tax Deduction

Sponsor(s): Senator Craig W. Brandt, Representative Jason C. Harper, and Others

Analyst: Ian Kleats

Date: March 9, 2015 (revised)

Bill Summary:

Applicable to taxable years beginning on or after January 1, 2015, SB 612 adds a new section to the *Income Tax Act* to provide a deduction from net income to licensed public school teachers for school supplies purchased for use in the classroom for educational purposes.

The amount of the deduction shall not exceed:

- \$500 for taxable years beginning on January 1, 2015 and prior to January 1, 2016; and
- \$1,000 for taxable years beginning on or after January 1, 2016.

Fiscal Impact:

SB 612 does not contain an appropriation.

Fiscal Issues:

The Taxation and Revenue Department (TRD) estimates a General Fund revenue impact of \$440,000 for FY 16 and \$880,000 for FY 17 and subsequent fiscal years, assuming:

- 22,000 public school teachers fully utilize the deduction; and
- an average personal income tax rate of 4.0 percent.

However, the appropriate tax rate for considering the benefits and costs of an income tax deduction is the top marginal rate, not the average tax rate; based on statutory minimum salaries for teachers at any licensure level, the top marginal rate paid by public school teachers would, in most instances, be the top statutory marginal income tax rate of 4.9 percent. Based on this tax rate, Legislative Education Study Committee (LESC) staff estimate foregone General Fund revenue of \$539,000 for FY 16 and approximately \$1.08 million for FY 17 and subsequent fiscal years.

The FY 15 Executive Budget Recommendation included \$2.3 million for teacher supplies, to be allocated in \$100 debit cards for each teacher. If SB 612 were enacted, it appears that, given the proposed method of allocating this recommended funding, teachers would be able to claim the deduction for funds expended through those debit cards on school supplies.

Technical Issues:

As noted in the TRD bill analysis, the provisions of SB 612 could potentially allow for the duplication of federal deductions allowed for the same expenses. The *Income Tax Act* borrows from the federal calculation of adjusted gross income, and any allowable deductions under federal law will already be reflected in state income tax liability. Examples of federal deductions of which teachers purchasing school supplies may already avail themselves include:

- miscellaneous itemized deductions for unreimbursed employee expenses¹; and
- the federal Educator Expense Deduction of \$250 per qualified taxpayer, which had been extended through the end of the 2014 tax year but has since expired.

The sponsor may wish to consider an amendment limiting the deduction to purchases for which any potential federal deduction has not already been claimed.

Substantive Issues:

In order to place the tax benefit proposed by SB 612 into context, assuming an annual expense of \$1,000 for school supplies and a top marginal income tax rate of 4.9 percent, a teacher would:

- reduce his or her income tax liability by \$49; but
- pay roughly \$70 in gross receipts taxes to purchase those materials.

This illustration suggests that an income tax deduction may be one of the weakest forms of tax preference with which to mitigate the economic loss to teachers who purchase school supplies. Consequently, an income tax credit or a gross receipts tax deduction tied to those same purchases would afford greater benefit to the teacher.

The *Instructional Material Law* provides that an amount not to exceed 50 percent of the instructional material allocations attributed to each school district or state institution may be used for instructional material not included on a multiple list approved by the Public Education Department (PED), and up to one quarter of this amount (or up to 12.5 percent of the total allocation) may be used for other classroom materials, which includes those items SB 612 defines as “school supplies.”

According to the Instructional Material Bureau of PED, approximately \$16.9 million has been initially allocated for instructional materials to school districts and charter schools for FY 15. Assuming that the full 12.5 percent of this allocation were used for school supplies, the average student would receive only \$6.37 for classroom materials over the entire year.

Committee Referrals:

SEC/SCORC/SFC

Related Bills:

SB 225 *Instructional Material Definitions & Changes*
HB 146 *Instructional Material Definitions & Changes*

¹ Miscellaneous itemized deductions are subject to a two-percent floor; a taxpayer will benefit only to the extent that the aggregate of such deductions exceed two percent of the taxpayer's adjusted gross income.