

## BILL SUMMARY

1<sup>st</sup> Session of the 59<sup>th</sup> Legislature

<b>Bill No.:</b>	<b>HB 1935</b>
<b>Version:</b>	<b>Floor Amendment 3 (FA3)</b>
<b>Request Number:</b>	<b>7610</b>
<b>Author:</b>	<b>Speaker McCall</b>
<b>Date:</b>	<b>2/22/2023</b>
<b>Impact:</b>	<b>Revenue Impact Income Tax: OTC est. \$271,180,000/yr OTC Administrative Impact: see analysis below</b>

### Research Analysis

The Floor Substitute for HB 1935 creates the Oklahoma Parental Choice Tax Credit Act which provides an income tax credit to a student's parent or guardian for qualified educational expenses. This credit can also be claimed by grandparents, aunts and uncles in addition to parents. Qualified expenses include tuition to a private school or nonpublic online learning program, academic tutoring services, instructional materials, college admission tests, and tuition and fees for concurrent enrollment. Any student who is eligible to enroll in a public school can qualify for the tax credit, but the student may not be enrolled in a public, charter or magnet school full-time and receive a tax credit.

The credit for students attending private school is capped at \$5,000 per student, per year. It is capped at \$2,500 per student, per year, for those educated by other means. The parent or guardian must retain all receipts of qualified expenses.

The Oklahoma Tax Commission will create forms for claiming such credits. A parent or guardian can request the credit amount be advanced in two installments of up to \$2,500. If approved for the advance, the parent will be paid within 60 days. If the credit exceeds the parent or guardian's income tax, they could receive a refund.

Eligible students may accept a scholarship from the Lindsey Nicole Henry Scholarships for Students with Disabilities Program while participating in the Oklahoma Parental Choice Tax Credit Program.

The Tax Commission will work with the State Department of Education to verify student eligibility, and the Commission may recapture any credits it finds a person has improperly received. Protections are built in to the legislation to ensure only one person claims the tax credit.

Any year the amount of money appropriated for the financial support of public schools falls below the amount of money appropriated Fiscal Year 2024, the tax credits shall be suspended until the appropriations exceed those in FY2024. In the event of a revenue failure, the tax credits will be reduced proportionately.

Lastly, the measure includes an anti-severability clause.

### CHANGES BETWEEN COMMITTEE SUBSTITUTE AND FLOOR SUBSTITUTE

- Modifies the \$2,500 tax credit to apply to those “educated by other means”

- Removes the following as a qualified expense: services contracted for and provided by a public school district, public charter school, or magnet school including, but not limited to, classes and extracurricular activities and programs
- Clarifies tutoring must academic

Prepared By: Emily Byrne

**Fiscal Analysis**

Adoption of FA3 would not change the fiscal impact as provided on the Committee Substitute for HB 1935, which reads as follows:

HB 1935 in its current form creates the Oklahoma Parental Choice Tax Credit Act and the Oklahoma Parental Choice Tax Credit Program. The measure provides a refundable income tax credit for taxpayers on behalf of eligible students. The credit is capped at \$5,000/student/year for expenses related to private schooling, and \$2,500/student/year. Such tax credit would directly impact income tax collections. The Oklahoma Tax commission analysis and estimate for HB 1935 is as follows:

**Revenue Impact:**

According to the Private School Review, there are 207 private schools in Oklahoma serving 37,688 students for the 2023 school year.<sup>2</sup> The average private tuition is \$6,576 for elementary schools and \$7,620 for high schools. It is expected that the maximum \$5,000 qualified expenses credit will be claimed for each private school student.

Information published by the United States Census Bureau further indicates that an additional 33,096 qualifying students learned on their own using materials that were not provided by their school during the period December 9 – 19, 2022.<sup>3</sup> For this analysis, qualified expenses incurred by a family are assumed to be approximately \$2,500 per homeschooled student per year.

Using the available information, estimated credit amounts for qualifying educational expenses were calculated as follows:

Institution	Students	Credit Amt	Estimated Credit Amount
Private School	37,688	\$ 5,000	\$ 188,440,000
Homeschool	33,096	2,500	82,740,000
<i>Totals</i>			<u>\$ 271,180,000</u>

Based on these estimates, the potential revenue impact of the proposal is a decrease in income tax revenue of approximately \$271.2 million for FY 23.<sup>4</sup>

**OTC Administrative Impact:**

Due to the expected volume of advance payment requests recurring each semester, the OTC anticipates a significant increase in administrative expense to verify student eligibility and to process advance payments within the required 60-day period. Additional costs are expected to recapture advance payments claimed for students not enrolled in a private school, and advance payments to taxpayers who owe an income tax liability at year-end.

The extent to which existing system modifications, form revisions and personnel additions will be required for the OTC to administer the provisions of this measure and the associated costs thereof are under determination.

Additional funds related to OTC administration of the program, are anticipated to be requested through the appropriations process.

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**Other Considerations**

None.