Legislative Analysis

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STUDENT LOAN TAX CREDIT

House Bill 4182
Sponsor: Rep. Andy Schor
1st House Committee: Tax Policy
2nd House Committee: Michigan Competitiveness

Complete to 4-29-13

A SUMMARY OF HOUSE BILL 4182 AS INTRODUCED 2-5-13

The bill would amend the Income Tax Act to provide income tax credits (1) for individuals who graduate with a bachelor's degree from a Michigan-based public or private college or university and who live and work in Michigan and (2) for businesses that employ such individuals for student loan payments they made on behalf of a qualified employee. This would apply on and after January 1, 2013.

Individual Credit
The credit for individuals would be equal to 50% of the amount paid on a qualified student loan by a qualified taxpayer during the tax year. However, a taxpayer could not claim a credit of more than 20% of the average yearly tuition for Michigan's public universities in any single tax year (currently this would be about $2,150). The credit would be refundable; that is, if the credit exceeded the taxpayer's tax liability, the excess amount would be refunded.

To be eligible for the credit, a taxpayer would have to provide the Department of Treasury of proof of residency and proof of employment.

Corporate Income Tax Credit
The credit against the corporate income tax (CIT) would be equal to 50% of the amount of qualified student loan payments made on behalf of a qualified employee during the tax year for which the credit is claimed or 20% of the average yearly tuition for Michigan's public universities per employee, whichever is less. The credit would not be refundable but any excess over tax liability could be carried forward to offset tax liability in subsequent tax years for up to 10 tax years or until used up, whichever happened first.

To be eligible for the credit, the CIT taxpayer would have to provide reasonable proof in support of student loan payments claimed to be paid on behalf of a qualified employee (i.e., one who received a bachelor's degree from an approved postsecondary educational institution and who is a resident of the state).

Definitions
A "qualified student loan" refers to any state or federal loans incurred to attend and receive a bachelor's degree from an approved postsecondary educational institution,

including, but not limited to, state loans authorized under the Higher Education Loan Authority Act and federal loans under the federal Higher Education Act of 1965.

An "approved postsecondary educational institution" would mean (1) a college, university, community college, or junior college described in Sections 4, 5, or 6 of Article VIII of the State Constitution or established under Section 7 of Article VIII; and (2) an independent nonprofit college or university located in Michigan.

FISCAL IMPACT:

House Bill 4182 would lower state income tax revenue by an estimated $240 to $420 million per year, based on a cost of $24 million to $42 million per year for each graduating class. This estimate is based on current student borrowing statistics. Immediate costs (for all eligible classes) may be somewhat lower as loans were utilized less in previous years, but could eventually exceed estimates if loans continue to increase as a college financing source.

Key factors that would determine the precise costs of the tax credit would be the percentage of graduates staying in the state and finding employment (which may vary over time depending on economic trends and other factors) and student loan interest rates (which are primarily determined by the U.S. Congress).

Based on current public university tuition and fee rates, the limit on the tax credit amount a taxpayer could claim per year would be roughly $2,150.

Assuming taxpayers do not adjust their withholding to account for the refundable tax credit, the reduced revenue would come entirely from General Fund/General Purpose revenue.

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