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BILL ANALYSIS

Senate Bill 408 (Substitute S-1 as reported)
Sponsor: Senator Glenn S. Anderson
Committee: Finance

Date Completed: 8-28-14

RATIONALE

Across the nation, the cost of a college education and the amount of student debt continue to rise, while state support for higher education remains below the levels seen in the early years of the 21st century. In Michigan, between fiscal year (FY) 2001-02 and FY 2013-14, the average tuition at a public university for 30 credit hours increased from $4,945 to $11,142[1], or 125.3%, while the average tuition per credit at a community college rose from $53.95 to $94.30[2], or 74.8%. State appropriations for university operations in FY 2014-15 are 17.1% below the amount budgeted in FY 2001-02.[3] In terms of student debt, Michigan ranked 10th among the states for the Class of 2012, with average debt of $28,840, and ranked 12th for the percentage of students who graduated in debt, at 62%.[4] In addition, although the economy has been improving, the State's unemployment rate remains above the national average.

It has been pointed out that the costs of a higher education can discourage youths from attending college, and Michigan's economy can discourage college graduates from remaining in the State. Some have suggested that one way to address this situation would be to offer graduates an income tax credit for a portion of the student loans they repay, for a limited period of time after their graduation.

CONTENT

The bill would amend the Income Tax Act to allow an individual, for five years after the year he or she received a bachelor's degree from a college or university in Michigan, but not after 2022, to claim a credit against the income tax for up to 50% of the amount paid on State or Federal loans used to obtain the degree, if the taxpayer were an employed resident of Michigan.

Specifically, beginning on and after January 1, 2013, and each year through December 31, 2022, a qualified taxpayer could claim a credit against the income tax equal to 50% of the amount paid on a qualified student loan by the taxpayer during the tax year. A taxpayer could not claim a credit of more than 20% of the average yearly tuition for Michigan's public universities for any single tax year.

The bill would define "qualified taxpayer" as a taxpayer who received a bachelor's degree from an approved postsecondary educational institution after December 31, 2012, who is a resident of this State, and who is employed in Michigan.

[1] The State of Michigan's Higher Education Data Inventory Collection System
[2] The Michigan Community Colleges Activities Classification Structure
[3] The amount appropriated for university operations was $1,615,486,200 in FY 2001-02 and $1,339,958,200 in FY 2014-15, according to enacted budget legislation.
[4] "Student Debt and the Class of 2012", The Institute for College Access & Success, December 2013. The average tuition figure is based on tuition at four-year public and private nonprofit colleges.

A taxpayer could claim this credit only for the five consecutive years immediately after the year in which or he she received his or her bachelor's degree. The credit could not be claimed for more than five years. If the allowed credit exceeded the taxpayer's tax liability for the tax year, the excess portion could not be refunded.

To be eligible for the credit, a qualified taxpayer would have to give the Department of Treasury proof of residency and proof of employment in this State. The Department also could require reasonable proof from the taxpayer in support of payments claimed to be paid for a qualified student loan.

The bill would define "qualified student loan" as any State or Federal loans incurred to attend and receive a bachelor's degree from an approved postsecondary educational institution, including State loans authorized under the Higher Education Loan Authority Act and Federal loans authorized under the Higher Education Act of 1965.

"Approved postsecondary educational institution" would mean a college, university, community college, or junior college described in Section 4, 5, or 6, or established under Section 7, of Article VIII of the State Constitution; or an independent nonprofit college or university located in this State.

Proposed MCL 206.275

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

By giving recent college graduates a tax credit for part of their student loan payments, if they stayed and worked in Michigan, the bill would help address the growing student debt crisis as well as the "brain drain" that Michigan experiences when college graduates move out of State. The credit would provide a financial incentive for graduates to stay, and find employment, in Michigan. Once established with a job and ties to a community, these individuals then would be more likely to remain in this State, rather than pursue employment elsewhere. If Michigan's economy is to continue to grow and diversify, the State must have an educated, skilled workforce. The bill represents one way to motivate individuals who graduate from a college or university in Michigan to stay and meet the needs of the State's job-providers.

In addition, many recent graduates may be unable to buy cars, houses, or other big-ticket items because they are repaying student loans. By reducing their financial stress, the bill could enable graduates to make these purchases, which would help local businesses and the overall economy.

Response: Despite the merits of the bill, it is not clear how the State would pay for the proposed tax credit.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The actual costs of the tax credit would depend on the increasing cost of higher education and the amount borrowed, the number of students who graduate, interest rates and duration of loans, default rates, and the number of graduates who stay in Michigan and obtain employment in the State. On an individual basis, a graduate with a bachelor's degree who had student loans totaling $27,451 and annual loan payments of $3,657, would receive a State income tax credit of $1,829 each year for five years. Using assumptions regarding average student loan debt and average income tax liability before credits, and assuming that 50% of students receiving bachelor's degrees leave the State, the estimated cost of the credit would range between $19.6 million and $29.4 million in FY 2013-14 assuming all affected taxpayers were single. To the extent that a taxpayer had dependents, the impact would be reduced. For example, if affected taxpayers had three dependents (spouse and two children) for the entire period, the impact of the bill would range between $10.8 million and $20.6 million in FY 2013-14.

As more taxpayers became eligible for the credit, the cost would rise through FY 2017-18, when the bill would reduce General Fund revenue by between $102.1 million and $152.9 million, depending on affected taxpayers' characteristics, such as family size, income, and student debt terms. In years after FY 2017-18, the number of eligible taxpayers, as well as the revenue reduction, would be relatively more stable.

Fiscal Analyst: David Zin

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