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BILL ANALYSIS

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

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 of State or Federal loans used to obtain the degree, if the taxpayer were an employed resident of Michigan and received a bachelor's degree from an approved postsecondary educational institution after December 31, 2012.

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. If the allowed credit exceeded the taxpayer's tax liability for the tax year, the excess portion could not be refunded.

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.

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

Proposed MCL 206.275 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.

Date Completed: 2-4-14 Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.