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BILL ANALYSIS

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Senate Bill 57 (as introduced 2-3-15)
Sponsor: Senator Curtis Hertel, Jr.
Committee: Finance

Date Completed: 2-17-15

CONTENT

The bill would amend the Income Tax Act to allow an individual to claim a credit against the income tax for up to 50% of the amount paid on State or Federal loans used to obtain a higher education degree, if the taxpayer were an employed resident of Michigan. The bill also would allow an employer to claim a Corporate Income Tax credit for payments made on student loans on behalf of an employee.

Specifically, beginning on and after January 1, 2015 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. An employer could claim a credit against the tax imposed by Part 2 of the Act equal to 50% of the amount of payments made by the employer on a qualified student loan on behalf of a qualified employee during the tax year or 20% of the average yearly tuition for Michigan's public universities per employee, whichever was less.

(Part 2 imposes the Corporate Income Tax as well as a tax on insurance companies and financial institutions.)

The bill would define "qualified taxpayer" as a taxpayer who received a degree from an approved postsecondary educational institution after May 1, 2015, who is a resident of this State, and who is employed in Michigan. It would define "qualified employee" as an employee who received a degree from an approved postsecondary educational institution after May 1, 2015, and who is a resident of this State.

If the allowed credit exceeded the qualified taxpayer's or the employer'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.

For an employer to be eligible for the credit, the employer would have to provide reasonable proof in support of payments claimed to be paid on behalf of a qualified employee for his or her qualified student loan. The proof would be submitted in a form that would include, at a minimum, all of the following:

-- The employer's Federal employer identification number or the Michigan Treasury number assigned.

-- The name and address of the qualified employee.
-- The date and amount of each payment made toward a qualified student loan.
-- Any other criteria that the Department considered appropriate for the determination of eligibility for the credit.

The bill would define "qualified student loan" as any State or Federal loans incurred to attend and receive a 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 & 206.675 Legislative Analyst: Ryan M. Bergan

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 maximum State income tax credit of $1,829 each year. Using assumptions regarding average student loan debt and average income tax liability before credits (which implicitly makes assumptions regarding filing status and number of dependents), and assuming that 50% of students receiving bachelor's degrees leave the State and that all borrowers take advantage of provisions deferring loan repayment until six months after graduation, the estimated cost of the credit would be $53.8 million in FY 2016-17, assuming all affected taxpayers were single with no dependents; all of the cost would reduce General Fund revenue. To the extent that a taxpayer had dependents, the impact would be reduced. For example, if all affected taxpayers had three dependents (spouse and two children) for the entire period, the impact of the bill would total approximately $40.6 million in FY 2016-17. As a result, the impact would depend not only on the education-related variables listed above, but also on specific household characteristics of individual taxpayers.

As more taxpayers became eligible for the credit, the cost would rise through FY 2025-26 (assuming an average loan repayment of 10 years). Using the higher estimate, for single taxpayers with no dependents, the bill would reduce General Fund revenue by approximately $538.2 million in FY 2025-26, again depending on affected taxpayers' characteristics, such as family size, income, and student debt terms. In years after FY 2025-26, the number of eligible taxpayers, as well as the revenue reduction, would be relatively more stable.

To the extent that more than 50% of graduates remained in Michigan, the estimated impact of the bill would be larger, while if less than 100% of graduates who remained in Michigan were employed, the impact of the bill would be lower.

Fiscal Analyst: David Zin

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