Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 281 of the 131st G.A.

Date: April 19, 2016

Status: As Introduced

Sponsor: Rep. Rogers

Local Impact Statement Procedure Required: Yes

Contents: To authorize those receiving a college degree to deduct up to $10,000 per year from their state income tax

State Fiscal Highlights

STATE FUND	FY 2017	FY 2018	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Loss up to $6.9 million or more	Losses escalating by tens of millions of dollars per year
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2018 is July 1, 2017 – June 30, 2018.

- Authorizing a deduction for out-of-pocket college costs will reduce Ohio Adjusted Gross Income (OAGI) for Ohio taxpayers, and reduce Ohio revenues because OAGI serves as the starting point for determining Ohio taxable income. GRF revenue losses would be several million dollars in FY 2018, growing in subsequent years by tens of millions of dollars per year as more graduates become eligible for the deduction.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2016	FY 2017	FUTURE YEARS
Counties, municipalities, townships, and public libraries (LGF and PLF)			
Revenues	- 0 -	Loss up to $0.1 million	Losses escalating by hundreds of thousands of dollars per year
Expenditures	- 0 -	- 0 -	- 0 -
School districts that levy a school district income tax (SDIT)			
Revenues	- 0 -	Loss of thousands of dollars	Losses escalating by tens of thousands of dollars per year
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- All income tax revenues are deposited into the GRF, the Local Government Fund (LGF) and Public Library Fund (PLF). Permanent law requires that each receive 1.66% of GRF receipts, but a temporary provision of Am. Sub. H.B. 64 of the 131st General Assembly increased the PLF share to 1.70% for FY 2016 and FY 2017. Authorizing the new personal income tax deduction will reduce combined revenue to the LGF and PLF beginning in calendar year 2017 and losses would escalate by hundreds of thousands of dollars per year as more graduates become eligible for the deduction.
- The reduction in Ohio taxable income under the bill would reduce school district income tax revenues to those districts that use Ohio taxable income as the basis for calculation of taxes owed. Taxpayers living in these school districts account for approximately 8.6% of Ohio taxable income. If tax returns from these areas claimed 8.6% of the value of this new deduction, aggregate school district income tax (SDIT) revenues would be reduced beginning in FY 2018 and escalate by tens of thousands of dollars per year as more graduates become eligible for the deduction.

Detailed Fiscal Analysis

H.B. 281 authorizes a post-secondary school graduate obtaining a degree after the effective date to take a personal income tax (PIT) deduction for certain out-of-pocket higher education expenses. Deductible higher education expenses include tuition, fees, books, and supplies. Room and board expenses are also eligible if the student was enrolled for at least one-half of the full-time course load.

The state income tax deduction only applies to the out-of-pocket expenses. The bill excludes those expenses paid for by grants, scholarships, gifts, bequests, and 529 college saving plan distributions. The qualifying expenses paid for through borrowing (e.g., student loans) are eligible for the income tax deduction.

The deduction applies to those expenses incurred by a taxpayer while enrolled in an "eligible educational institution," as defined in section 529 of the Internal Revenue Code. The Internal Revenue Service[1] describes such an institution as "a school offering higher education beyond high school. It is any college, university, vocational school, or other post-secondary educational institution eligible to participate in a student aid program run by the U.S. Department of Education. This includes most accredited public, nonprofit and privately-owned–for-profit postsecondary institutions." H.B. 281 makes the PIT deduction available to those that graduate from an eligible educational institution (in Ohio or out-of-state) on or after the effective date of the bill.

[1] https://www.irs.gov/Individuals/Eligible-Educational-Inst.

The deduction cannot be for more than $10,000 in a given year, and the income exclusion can be taken again in successive years until all out-of-pocket costs have been completely deducted. As a result, the cost of the bill will escalate substantially in future years as more college graduates become eligible for the deduction.

Based on recent data from the National Center for Education Statistics,[2] Ohio educational institutions conferred 128,873 degrees during the 2012-2013 academic year. According to the U.S. Bureau of Labor Statistics, the labor force participation rate for those aged 25 to 34 was 81.2% in 2014. Among those with bachelor's degrees, the unemployment rate was 2.5%, so approximately 102,000 graduates are assumed to be earning income after attaining their degrees. Because it is doubtful that this many Ohioans attain some sort of college degree every year, an alternative measure of the bill's fiscal impact is provided. American Community Survey (ACS) statistics show that 30.9% of Ohioans between the ages of 25 and 34 have a bachelor's degree or higher, which implies that about 45,000 Ohioans attain a bachelor's degree in a given year. National ACS data leads LSC to infer that another 10,000 Ohioans annually attain an associate degree as their terminal degree. Therefore, the ACS data imply an annual floor of no less than 55,000 Ohioans that would newly benefit from this H.B. 281 tax incentive in future years.

If the bill is enacted prior to the 2016-2017 academic year, it will enable those graduating in the latter months of tax year (TY) 2016 to begin claiming their H.B. 281 deduction in TY 2017, which will impact FY 2018 state revenue collections. Survey data from the 2010 National Survey of College Graduates indicates about 25% of bachelor's degrees are conferred in the latter half of the calendar year, so the FY 2018 revenue impact would likely be about one-fifth of the costs incurred in FY 2019.

The table below illustrates the revenue impact of H.B. 281 based on general assumptions about future college graduates. A single income level is used for this analysis, but this simplification does not capture the range of incomes that would fall under Ohio's progressive income tax. The assumed income level of $30,000 is based upon a Rutgers University study[3] regarding recent college graduates. These simplifying assumptions enable the maximum (i.e., $10,000) PIT deduction to be claimed during the first tax year in which the H.B. 281 incentive is available. Although some graduates may delay the tax deduction to future years based on a variety of factors, FY 2020 and beyond are not covered in this analysis. Furthermore, LSC does not yet have a reliable data source to estimate how many graduates will permanently leave the Ohio labor force as opposed to those that do so temporarily. Finally, the projections in the table

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[2] Table 319.10, Degrees conferred by postsecondary institutions, by control of institution, level of degree, and state or jurisdiction: 2012-13.

[3] http://www.heldrich.rutgers.edu/sites/default/files/content/Chasing_American_Dream_Report.pdf. The report describes the findings of a nationally representative sample of 444 recent college graduates from the classes of 2006 through 2011.

below assume all recent graduates file a tax return with single filing status rather than as a married couple filing jointly. Due to these caveats, the revenue estimates in the table should be regarded as more illustrative than prescriptive.

Illustrative Revenue Estimate of H.B. 281		
	FY 2018	FY 2019
Number of Ohioans claiming $10,000 deduction	14,000 to 25,500	69,000 to 127,500
Income of recent graduates claiming deduction	$30,000	$30,000
Value of $10,000 tax deduction	$280	$280
State revenue loss (in millions):	$3.9 – $7.1	$19.3 – $35.7
GRF share (in millions):	$3.8 – $6.9 million	$18.7 – $34.5
LGF share (in millions):	$0.1 million	$0.3 – $0.6
PLF share (in millions):	$0.1 million	$0.3 – $0.6

Local taxing jurisdictions

All personal income tax (PIT) revenues are deposited into the GRF, the Local Government Fund (LGF) and Public Library Fund (PLF). Permanent law requires that each receive 1.66% of GRF receipts, but a temporary provision of Am. Sub. H.B. 64 of the 131st General Assembly increased the PLF share to 1.70% for FY 2016 and FY 2017. H.B. 281 revenue losses would begin in calendar year 2017 and losses will escalate by hundreds of thousands of dollars per year as more graduates become eligible for the deduction.

School district income taxes (SDIT) are based on either Ohio taxable income of taxpayers residing in the school district or on the portion of that income that is earned income, generally limited to wages and self-employment income. School boards and voters of individual school districts choose whether to enact income taxes in their districts and which of these two tax bases to use. For school districts in which Ohio taxable income serves as the starting point for calculation of school district income taxes, the new deduction will reduce school district income tax revenues. LSC does not have an estimate of the amount of this reduction. As of January 2016, 144 school districts levied an income tax from the "traditional" tax base rather than the earned income tax base. During FY 2015, these school districts raised $300.1 million through school district income taxes. The local revenue reduction amount caused by H.B. 281 for each respective school district depends on the number (if any) of taxpayers living in that district who utilize the benefits conferred by H.B. 281. Taxpayers living in school districts with the "traditional" tax base have approximately 8.6% of Ohio taxable income. If tax returns from these areas claimed 8.6% of the income reductions granted by H.B. 281, aggregate SDIT revenues would be reduced beginning in FY 2018 and escalate by tens of thousands of dollars per year as more graduates become eligible for the deduction.

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