OHIO LEGISLATIVE SERVICE COMMISSION

Russ Keller

Fiscal Note & Local Impact Statement

Bill: H.B. 186 of the 132nd G.A. **Status:** As Introduced

Sponsor: Reps. Rogers and Scherer **Local Impact Statement Procedure Required:** Yes

Subject: Income tax deduction for higher education expenses

State & Local Fiscal Highlights

	FY 2018	FY 2019	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Loss up to $110 million	Loss up to $117 million or more
Department of Taxation			
Expenditures	- 0 -	Increase, possibly significant	Increase, possibly significant
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	- 0 -	Loss up to $3.8 million	Loss up to $4.0 million or more

Note: The state or school district fiscal year is July 1 through June 30. For example, FY 2018 is July 1, 2017 – June 30, 2018. For other local governments, the fiscal year is the calendar year.

- The bill grants an income tax deduction for those who obtain a post-secondary degree or technical credential, which would apply to roughly one-tenth of Ohio's adult population. H.B. 186 reduces GRF receipts by up to $110 million in FY 2019 and $117 million in FY 2020. The tax department would also likely incur significant expenditures to administer this deduction and ensure taxpayer compliance.
- The state income tax revenue loss would be shared by the state General Revenue Fund (GRF, 96.66% in FY 2019 and 96.68% thereafter), the Local Government Fund (LGF, 1.66%), and the Public Library Fund (PLF, 1.68% in FY 2019 and 1.66% thereafter). Funds deposited into the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.
- Estimates above assume that the bill is effective for tax year 2018.

Detailed Fiscal Analysis

H.B. 186 authorizes a person who obtains a post-secondary degree or technical credential from an eligible educational institution (collectively referred to in the bill as a "qualifying credential") to claim an income tax deduction over a period of years for the person's expenses in obtaining the credential. Anyone obtaining such a credential during a taxable year ending after the bill's effective date is entitled to deduct all such expenses, while someone obtaining a credential during any preceding taxable year may be eligible to deduct a reduced amount of such expenses. The portion of the total eligible expenditures that may be deducted for any year is limited to $4,000.[1]

Generally, the deduction applies only to out-of-pocket education expenses, which would exclude those paid for by scholarships, grants, federal tax benefits,[2] and payments from a college savings plan. For a full explanation of higher education expenditures eligible for this proposed deduction, please refer to the LSC Bill Analysis.

For taxpayers that earned the credential prior to enactment, the bill lowers the eligible out-of-pocket expenses by $2,000 for each year between the year the taxpayer obtained the qualifying credential and the year the deduction is claimed. For example, a 40-year-old that obtained a bachelor's degree in calendar year 2000 must reduce his or her out-of-pocket costs for tax year (TY) 2018 by $36,000 (equal to 18 years multiplied by $2,000). If that 40-year-old taxpayer only incurred $35,000 in out-of-pocket costs for his or her bachelor's degree, then H.B. 186 would provide no benefit.

For persons obtaining the credential in a taxable year ending before the bill's effective date, the deduction must be made beginning with the taxable year that includes the bill's effective date; for persons obtaining the credential after that taxable year, the deduction must be made beginning with the taxable year following the year in which the qualifying credential was earned. The deduction may continue to be made for each following taxable year until the person has deducted all eligible expenses.

Estimated Revenue Loss of H.B. 186 in First Full Year After Effective Date			
Classification of Education Credential	**Individuals**	**Tax Benefit**	**Revenue Loss**
Existing Ohio graduates			
Associate's degree and technical certification	190,649	$140	$26,690,860
Bachelor's degree	498,790	$140	$69,830,600
Graduate or professional degree	122,978	$140	$17,216,920
Projected annual gain in new Ohio graduates			
Associate's degree and technical certification	13,384	$120	$1,606,080
Bachelor's degree	45,393	$120	$5,447,160
Graduate or professional degree	5,343	$120	$641,160
TOTAL	**876,537**	**N/A**	**$121,432,780**

[1] The $4,000 figure is tied to the limit on an existing deduction for contributions to an account created under the state's 529 college savings program.

[2] Presently, the federal government authorizes a deduction for tuition and fees (up to $4,000 excluded from income), the American opportunity credit, and the lifetime learning credit. LSC assumes the average tax benefit is $1,000 per year.

For simplicity, the revenue analysis assumes all existing Ohio graduates under the age of 35 and one-third of graduates between the ages of 35 and 39 will take this deduction. Ohio graduates age 40 and above are presumed not to qualify for the H.B. 186 proposal. Based on the marginal tax rates in continuing law, existing graduates would likely deduct the full $4,000 amount against a marginal rate of 3.5%. Those obtaining the degree after the effective date of the bill are assumed to deduct the full $4,000 amount against a marginal rate of 3.0%; the lower rate reflects that such taxpayers will be at the beginnings of their careers and would likely have lower earnings on average. The table above assumes the legislation would become effective for TY 2018. The estimates in the above table do not account for the business income deduction nor do they account for the fact that some Ohio taxpayers did not incur any out-of-pocket costs or cannot document their college expenditures. For these reasons, the resulting estimates are unavoidably rough, and actual revenue losses are likely to be less than the amounts in the table.

Based on these assumptions, H.B. 186 will reduce GRF receipts by up to $110 million in FY 2019, entirely due to the presence of existing Ohio graduates during the first year of the bill's effective date. Beginning in FY 2020 and years soon thereafter, this GRF revenue loss would likely grow by at least $7.5 million per year as new Ohio taxpayers obtain qualifying credentials.[3] The Local Government Fund (LGF) and Public Library Fund (PLF) would lose up to a combined $3.8 million in FY 2019 and up to $4.0 million or more in successive years.

Administering the new tax deduction will require the Department of Taxation to establish procedures and record-keeping requirements for taxpayers to document their qualified higher education expenses. There may be a significant increase in costs for the Department to do so; any such costs would likely be paid from the GRF.

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[3] A deduction for certain post-secondary tuition expenses historically offered under the income tax was repealed by Am. Sub. H.B. 66 of the 126th General Assembly. That deduction was more limited in nature. The Tax Expenditure Report for the FY 2006-FY 2007 biennium estimated the GRF revenue loss from that deduction to be $16.2 million in FY 2007.