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Legislative Budget
Office

H.B. 514
134th General Assembly

Fiscal Note & Local Impact Statement

[Click here for H.B. 514's Bill Analysis](#)

Version: As Introduced

Primary Sponsor: Reps. Cross and Denson

Local Impact Statement Procedure Required: Yes

Jason Glover, Budget Analyst, and other LBO staff

Highlights

- The bill authorizes a graduate from an Ohio institution of higher education to claim a personal income tax (PIT) deduction for up to three years on certain post-graduation income. Revenue losses would amount to roughly \$50 million the first year deductions were claimed, likely FY 2024, and grow quickly over the first three years, to roughly \$150 million starting in the third year. Losses would grow at a much more moderate pace in subsequent years.
- Under codified law, 96.68% of any PIT revenue losses would be borne by the GRF. The remaining revenue losses would be borne by the Local Government Fund (LGF) and Public Library Fund (PLF). Each fund receives 1.66% of GRF tax revenues.
- The bill authorizes a refundable income or commercial activity tax (CAT) credit equal to 30% of the compensation paid by an employer to a student intern. CAT revenue is distributed to the GRF (85%), the School District Tangible Property Tax Replacement Fund (13%), and the Local Government Tangible Property Tax Replacement Fund (2%). Data limitations make any estimates of revenue losses from this provision very uncertain, but they would likely amount to several million dollars annually.
- The Department of Higher Education's (DHE) expenditures from GRF line item 235438, Choose Ohio First (COF) Scholarship, may increase to provide forgivable loans to nonresident students who meet certain eligibility criteria. Costs for the program may be \$1.0 million in its first year of operation and reach \$2.5 million by the program's fourth year of operation, and every year thereafter. Ultimately, the total amount awarded is limited to COF's appropriation.

- The bill appropriates \$100,000 in each of FY 2022 and FY 2023 from GRF line item 235496, Ohio College Opportunity Grant (OCOG) Supplement, to provide supplemental OCOG to students who are eligible for OCOG under current law and who meet certain other criteria.

Detailed Analysis

Overview

The bill creates certain tax incentives and financial aid programs for higher education. Specifically, it does the following: (1) authorizes a graduate from an Ohio institution of higher education to claim an income tax deduction for up to three years on certain post-graduation income, (2) authorizes a refundable income or commercial activity tax credit equal to 30% of the compensation paid by an employer to a student intern, (3) requires the Chancellor of Higher Education to establish a Choose Ohio First (COF) subprogram to make forgivable loans to nonresident students who meet additional eligibility criteria, (4) requires the Chancellor to award supplemental grants to students who are eligible for an Ohio College Opportunity Grant (OCOG) and who meet other prescribed criteria, (5) requires the Chancellor to review and update the rules for determining whether a student qualifies for in-state tuition to make it easier for a nonresident student to establish Ohio residency, and (6) requires the Governor to appoint a Department of Higher Education (DHE) employee to the Governor's Executive Workforce Board. Provisions with notable fiscal effects are discussed below. For more information on all of the provisions in the bill, please see the bill analysis.

Income tax deduction for recent graduates

The bill authorizes a personal income tax (PIT) deduction for up to three years of certain post-graduation income earned by an individual who graduates from an institution of higher education in Ohio with a bachelor's degree or a more advanced degree on or after January 1, 2023. A qualifying graduate may deduct the graduate's employee compensation and self-employment earnings; however, if those earnings are eligible for continuing law's business income deduction, the graduate must deduct them under that deduction before taking the bill's deduction.

A graduate must begin claiming the three-year deduction for either the taxable year that includes the graduation date or the following year; the graduate forfeits the deduction if it is not claimed in one of those two taxable years. After the initial year, the graduate may continue claiming the deduction for the next two years. Overall, a graduate may only claim the deduction for a total of three taxable years, regardless of the number of degrees the graduate obtains that may qualify for the deduction.

A graduate may defer claiming the deduction for any taxable year during which the graduate is enrolled full time in an Ohio institution of higher education to pursue a more advanced degree.

LBO estimates the average savings for a recent graduate would be about \$700 per year, when applying the PIT rates and brackets in codified law. LBO further assumes between 65,000 and 80,000 individuals will graduate every year and earn wages within Ohio. Although data shows that approximately 100,000 individuals annually graduate from Ohio institutions, some of those individuals will instead choose to further their education or leave Ohio. Since the bill authorizes

a three-year exemption, up to three cohorts of graduates will be claiming the exemption at any given time. So the annual PIT revenue losses would climb sharply in the first three years the bill is in effect, until annual revenue losses plateau at roughly \$150 million per year.

The earliest revenue losses would begin in FY 2024 once tax year 2023 PIT returns are filed by those graduating after January 1, 2023. Under codified law, 96.68% of any PIT revenue losses would be borne by the GRF. The remaining revenue losses would be borne by the Local Government Fund (LGF) and Public Library Fund (PLF). Each fund receives 1.66% of GRF tax revenues.

Intern hiring tax credit

The bill authorizes a refundable tax credit against the PIT or commercial activity tax (CAT) equal to 30% of the wages and salaries paid by an employer to a student intern on or after January 1, 2023. Qualifying student interns are those who participate in an internship program or a cooperative education program in conjunction with an in-state or out-of-state college or university.

To obtain the credit, an employer must apply to the Chancellor of Higher Education between January 1 and January 21 on the basis of compensation paid to interns in the preceding calendar year. If the employer qualifies for the credit, the Chancellor must issue the employer a tax credit certificate within 15 days after receiving the completed application. The Chancellor may obtain from the Tax Commissioner any information that is necessary to verify that the employer qualifies for the tax credit, even if that information would generally be confidential under existing tax information disclosure prohibitions.¹

The revenue loss from the credit is difficult to estimate without public information about wages paid to interns by private businesses. If these types of employers paid each intern an average of \$5,000 in wages, the refundable CAT credit would reduce tax receipts by \$7.5 million, if the employers collectively compensated 5,000 interns per year. Actual revenue losses could be higher than this illustrative scenario. CAT revenue is distributed to the GRF (85%), the School District Tangible Property Tax Replacement Fund (13%), and the Local Government Tangible Property Tax Replacement Fund (2%). The latter two funds reimburse school districts and other political subdivisions, respectively, for a set portion of their revenue losses from the repeal of tangible personal property taxes. If revenue to the two funds is less than the set reimbursement payment amounts, funds are transferred from the GRF to make up the difference. So any revenue loss under the CAT is ultimately borne by the GRF, along with the LGF and PLF as described in the previous section.

COF loan subprogram

The bill requires the Chancellor of Higher Education to establish and administer a subprogram under DHE's existing Choose Ohio First (COF) Scholarship Program² to make

¹ Officers and employees of the Chancellor are required to maintain confidentiality of such information.

² COF provides scholarships to students pursuing science, technology, engineering, mathematics, and medicine (STEMM) or STEMM education degrees at one of Ohio's institutions of higher education. Under COF, selected institutions are awarded funds through a competitive grant process based on their STEMM recruitment and retention plans. Recipient institutions then distribute scholarships to students.

forgivable loans to a nonresident student who is enrolled at a state university or a nonpublic four-year college or university in a science, technology, engineering, and mathematics (STEM) or STEM education-related undergraduate or graduate program and was ranked in the top 5% of the student's high school graduation cohort according to grade point average. Under the subprogram, the Chancellor may provide up to 100 first-time loans of \$10,000 per academic year to eligible students. A student that receives a first-time loan is then eligible to receive an additional loan of \$5,000 in each of three subsequent academic years. The Chancellor must forgive the loans in a graduated manner prescribed by the bill as long as the participating student graduates from the institution in which the graduate was enrolled while in the subprogram, has outstanding loans under the subprogram, is making timely payments on those loans in accordance with the graduate's repayment schedule, and meets certain residency requirements. A participating student's loan is completely forgiven if the student resides in Ohio for three years after graduation.

DHE's expenditures from GRF line item 235438, Choose Ohio First Scholarship, may increase to provide subprogram loans to eligible students. The bill limits the number of loans to 100 each year. The amount of first-time loans is \$10,000, making the maximum total expenditures for the first year \$1.0 million. In subsequent years, applicants who have already been awarded a loan may apply for an additional \$5,000 loan each year for three years, for a total of \$25,000 in loans per applicant. When fully implemented, annual loan expenditures could be as much as \$2.5 million. The total cost would be somewhat offset by loan repayments made once loan recipients graduate (prior to their full loan forgiveness after three years of post-graduate residency in Ohio). Ultimately, COF expenditures, for both scholarships under current law and the proposed loans under the bill, will be limited to the program's annual appropriations. H.B. 110 of the 134th General Assembly, the current main operating budget act, appropriates \$25.0 million in FY 2022 and \$28.0 million in FY 2023 for item 235438.

The bill requires the Chancellor to adopt rules to establish and administer the program, including rules to determine the form and manner in which eligible students apply for loans. These additional administrative responsibilities may increase DHE's administrative expenses.

OCOG supplemental grants

The bill appropriates \$100,000 in each of FY 2022 and FY 2023 from GRF line item 235496, Ohio College Opportunity Grant Supplement, to be distributed by the Chancellor of Higher Education as supplemental Ohio College Opportunity Grant (OCOG) to a student who is eligible for OCOG, is making progress toward a bachelor's degree, and has obtained an associate's degree from a public community or technical college, a university branch campus, Central State University, Shawnee State University, or a private, nonprofit institution that is not the institution at which the student is enrolled in a bachelor's degree program. The bill requires the Chancellor to adopt rules to implement the provision.

Under the bill, an eligible student would be able to receive, in addition to OCOG already awarded, a supplemental OCOG amount equal to one-half of the amount a student is awarded under OCOG. In FY 2022, OCOG generally provides eligible full-time students enrolled at public institutions and private, nonprofit institutions annual awards of \$2,200 and \$3,700, respectively. If the OCOG supplemental program had been operating in FY 2022, an eligible student enrolled in a bachelor's degree program at a public university or private, nonprofit institution could receive up to \$1,100 (0.5 x \$2,200) and \$1,850 (0.5 x \$3,700), respectively, in additional OCOG.

OCOG provides need-based financial aid to college students. In general, to be eligible for an OCOG award, a student must be an Ohio resident in an associate's degree, first bachelor's degree, or nurse diploma program at an eligible public, private nonprofit, or private for-profit institution of higher education. A student must also have an expected family contribution (EFC) of 2190 or less and a maximum household income of \$96,000. According to DHE, approximately 52,000 eligible students received over \$100.2 million in OCOG aid in FY 2021.³

Rules regarding Ohio residency

Continuing law generally requires the Chancellor's rules for determining Ohio residency for state subsidy and tuition surcharge purposes to deny residency status to any individual living in Ohio primarily to attend a state institution. The bill requires the Chancellor to review and update residency rules for state subsidy and tuition surcharge purposes to make it easier for a nonresident student to establish Ohio residency. Depending on the results of the Chancellor's review and rules revisions, state institutions that currently enroll students newly eligible for in-state tuition may receive less tuition revenue than under current law. As a point of reference, institutions classified 19.5% of students as nonresidents in the fall 2020 headcount reported to DHE. About 60% of these students attended four-year main campus locations. The table below shows that, in FY 2022, the average in-state tuition and general fees for undergraduate students enrolled at the main campus of one of the state's 13 public four-year universities is \$10,217, while the average out-of-state undergraduate tuition and general fees charged to a student is \$19,797.

Average Annualized Undergraduate Tuition and General Fees by Residency and Status, FY 2022			
Sector	Average Out-of-State Undergraduate Tuition and General Fees	Average In-State Undergraduate Tuition and General Fees	Difference
University main campuses	\$19,797	\$10,217	\$9,580
University regional branches	\$17,023	\$6,172	\$10,851
Community colleges	\$9,306	\$5,085	\$4,222

On the other hand, reduced tuition may incentivize additional qualifying students to enroll in Ohio institutions, which would increase tuition revenues as well as instructional costs. Ultimately, the bill's fiscal impact on tuition revenues will depend on the number of students that currently pay out-of-state tuition rates that would be newly eligible for in-state tuition as well as the number of new students and which type of institution the students attend. Any increase in revenue as a result of additional students will be offset, at least in part, by the cost to educate the new students.

³ See DHE's [Summary of Program Expenditures FY 2021 \(PDF\)](https://ohiohighered.org/sgs/expenditures), which is available on DHE's website: ohiohighered.org/sgs/expenditures.

In addition, state institutions may gain or lose revenue from state share of instruction (SSI) formula payments. SSI is the state's primary funding source to support the instructional costs of the state's 61 public universities and community and technical colleges. Generally, only in-state students are counted in the SSI distribution formula. This is the main reason that tuition rates charged to out-of-state students are significantly higher than those charged to students that reside in this state. Since the General Assembly determines the overall amount appropriated for SSI payments each year, any rule changes that provide residency status for subsidy and tuition purposes to students that previously were classified as nonresidents will not necessarily increase the state's cost for SSI formula payments even if enrollment were to increase. However, the institutions in which the students newly eligible for in-state tuition enroll may gain some additional SSI funding depending on whether the institutions attain a greater share of the statewide amounts computed for each formula component. Likewise, the institutions whose share of the formula components decreases may receive less SSI funding. In FY 2021, the average SSI distribution per student was \$7,172 for the state's public four-year universities and regional campuses and \$5,332 for community and technical colleges.