OHIO LEGISLATIVE SERVICE COMMISSION

Russ Keller

Fiscal Note & Local Impact Statement

Bill: H.B. 666 of the 132nd G.A. **Status:** As Introduced

Sponsor: Rep. Ramos **Local Impact Statement Procedure Required:** Yes

Subject: To authorize a refundable income tax credit for higher education expenses

State & Local Fiscal Highlights

STATE FUND	FY 2019	FY 2020	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Loss of up to $359 million	Losses increasing to potentially over $4 billion annually after ten years
Local Government and Public Library Funds (counties, municipalities, townships, and public libraries)			
Revenues	- 0 -	Loss of up to $12 million	Losses increasing over the first ten years, to potentially $144 million annually

Note: The state fiscal year is July 1 through June 30.

- The bill decreases state personal income tax revenue beginning with tax year (TY) 2019 returns filed in FY 2020. The GRF share of this revenue loss is estimated to be up to $359 million in FY 2020, and to grow to up to $739 million in FY 2021. Annual losses would continue increasing over the first ten years as more taxpayers become eligible; after ten years the annual revenue loss could be up to $4.2 billion per year.
- The state income tax revenue loss would be shared by the state General Revenue Fund (GRF, 96.68%), the Local Government Fund (LGF, 1.66%), and the Public Library Fund (PLF, 1.66%). 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.

Detailed Fiscal Analysis

H.B. 666 authorizes a higher education refundable tax credit that may be claimed against the personal income tax (PIT) beginning in the year that the bill becomes effective. The value of the credit is based on the "out-of-pocket" cost for an undergraduate student to attend an eligible Ohio educational institution.[1] Although this term is not found in the bill, H.B. 666 describes this "out-of-pocket" concept when specifying how the credit must be calculated. The taxpayer's credit value is based upon the net amount paid after excluding various funding sources (e.g., scholarships, education loan proceeds, etc.) from a student's "cost of attendance," which is a widely used definition found in federal statute. Please refer to the LSC Bill Analysis for a more detailed explanation about the enumerated funding sources that determine the net cost of attendance.

Beginning with the effective date of the bill, which LSC assumes to be in calendar year 2019, taxpayers may claim a refundable credit related to out-of-pocket costs incurred during the most recent "award" year.[2] Therefore, the credit claimed on PIT returns filed for tax year (TY) 2019 would reflect a student's qualified education expenses paid by the taxpayer during the 2018-2019 school year.

When filing PIT returns, the taxpayer may only claim one-tenth of the student's qualified education expenses paid during the award year. Ten percent of this aggregate amount may be claimed on PIT returns in the ensuing nine years. Thus, the provision spreads the state revenue loss incurred by this credit for a given school year over ten state fiscal years.

H.B. 666 contains some limiting factors on who can claim the credit. Most notably, the taxpayer cannot claim the credit "for a taxable year for which no portion of the taxpayer's federal adjusted gross income is allocated or apportioned to this state," as provided in the Revised Code. This provision largely eliminates those individuals that are not full-time residents, and certain part-time Ohio residents.

Fiscal effect

The table below estimates the annual revenue loss of the bill. For this estimate, LSC relied upon federal and state data sources to estimate the number of undergraduates at Ohio's public institutions as well as their net costs incurred.

For the most recent year for which data is available, the Department of Higher Education reports that Ohio's public institutions had 344,235 full-time equivalent (FTE) students in FY 2017. LSC assumed that between 70% and 80% of undergraduate students (or their benefactors paying the student's costs) at Ohio's public institutions

[1] An eligible institution as defined by the bill refers to existing Revised Code language identifying Ohio's public four-year universities, their associated branch campuses, and public community colleges.

[2] The bill refers to the federal definition of this time period, which is the period beginning July 1 and ending June 30 of the following year.

would benefit from the refundable tax credit authorized by H.B. 666.[3] Please note that future college enrollments and qualifying taxpayers' subsequent state residency decisions are subject to a large degree of uncertainty.

The credit can be claimed by whoever pays for the student's education, which means that a parent may claim the PIT credit on their state tax return. The cost of the policy would compound over the first ten years as additional students become eligible, but the number of students would plateau within a decade once newly eligible taxpayers are offset by those that exhaust their tax benefit. Beginning in FY 2020, LSC anticipates the credit would reduce GRF receipts by up to $359 million, and this annual revenue loss would grow and be in excess of a billion dollars within four years. Two local government funds would also lose tens of millions of dollars per year in the upcoming biennium because PIT revenues are deposited into the GRF, and the Local Government Fund (LGF) and Public Library Fund (PLF) each receive transfers equal to 1.66% of GRF tax receipts.

Estimated Maximum PIT Revenue Loss from H.B. 666		
	GRF Revenue Loss ($ in millions)	LGF/PLF Revenue Loss ($ in millions)
FY 2020	$359	$12
FY 2021	$739	$25
FY 2022	$1,138	$39
FY 2023	$1,558	$54
FY 2024	$1,999	$69
FY 2025	$2,439	$84
FY 2026	$2,879	$99
FY 2027	$3,319	$114
FY 2028	$3,760	$129
FY 2029	$4,200	$144

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[3] Governor Kasich stated in a speech in 2011 that 66% of those graduating from Ohio institutions during the Spring of 2008 were employed in Ohio during the fourth quarter of 2010. This Fiscal Note assumes that a higher percentage of graduates may remain employed in Ohio as a result of the bill.