GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0341		**Title:**	Provide tax benefits to employers and students for higher education expenses
Primary Sponsor:	Harris, Bill		**Status:**	As Amended in House Committee

- ☐ Significant Local Gov Impact
- ☑ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$61,177	$35,623	$36,108	$36,597
Revenue:				
General Fund	($678,450)	($678,450)	($678,450)	($678,450)
Net Impact-General Fund Balance:	($739,627)	($714,073)	($714,558)	($715,047)

Description of fiscal impact: HB 341, as amended, would allow employers to take credits against individual income tax or corporate income tax for 25% of payments made for employee's higher education expenses or student loan repayments. This would reduce the general fund balance by about $0.7 million per year.

FISCAL ANALYSIS

Assumptions:

1. This bill would create two new credits against either individual income tax or corporate income tax. One credit would be for 25% of educational expenses an employer provides to employees as a non-taxable fringe benefit. The other would be for 25% of student loan repayments for an employee. The bill would exclude these repayments from taxable income.

Employer tuition assistance credit

2. Approximately 3,400 graduate students and 40,000 undergraduates are enrolled at colleges and universities in Montana. The U.S. Department of Education has estimated that 22% of graduate students receive some form of educational assistance from their employer. Only assistance that comes through a fringe benefit program equally available to all employees would be eligible for the credit. Assistance provided through some other agreement between an employer and a particular employee would not. This fiscal note assumes

that 10% of graduate students would receive employer assistance eligible for the credit, and that the number of undergraduates receiving eligible employer assistance would be equivalent to 5% of seniors. This is 340 graduate students and 500 undergraduates.

3. Average full time resident tuition and fees at units of the Montana University System are approximately $6,200 for undergraduates and $7,200 for graduate students. Employer assistance programs range from a flat amount to a percentage of tuition and fees to full tuition and fees. Some students receiving employer assistance would be attending college full time, but many would be attending part time. This fiscal note assumes that the average employer assistance is equivalent to one-third of full time tuition and fees, or $2,067 per undergraduate and $2,400 per graduate student.
4. Total employer assistance eligible for the credit would be $1,902,780 per year (340 x $2,067 + 500 x $2,400). This is approximately 0.7% of tuition paid at Montana colleges and universities. Annual credits would be 25% of that amount, or $475,695.
5. Employers who take the credit would not be allowed to deduct amounts used for the credit as a business expense. Assuming that, on average, employers' marginal tax rates would be the same as the corporate income tax rate of 6.75%, the revenue increase from foregone deductions would be $128,438.
6. The net annual reduction in general fund revenue would be $347,257 ($475,695 - $128,438).

Student loan repayment credit

7. The Federal Reserve estimates that there are $1.1 trillion in outstanding student loans. The Census Bureau estimates that 0.3378% of U.S. college graduates live in Montana. If Montana college graduates have the same average level of student loans as graduates in other states, outstanding college loans of Montana residents would be $3.716 billion. If the average term of outstanding student loans is 20 years and the average interest rate is 8%, annual payments would be $387.5 million.
8. The proportion of student loan payments made by employers is unknown, though this fiscal note assumes that it is half the proportion that employers are estimated to pay of total tuition, or 0.35%. Total student loan repayments eligible for the credit would be $1,324,770. Annual credits would be 25% of that amount, or $331,193.
9. The bill does not prohibit employers from deducting student loan repayments as a business expense, to the extent they are deductible under current law. Thus, there is no partial offset from lower deductions.

Total credits

10. This bill would apply beginning with TY 2015. The first credits would be claimed on TY 2015 returns filed in FY 2016. The total reduction in general fund revenue would be $678,450 per fiscal year.

Department costs

11. The credits in this bill would be relatively complex to administer since the department would be required to track and match employers and employees and to verify that employees' adjustments to income match employers' credits. One-time costs in FY 2016 to develop a new credit claim form and incorporate the new credit into the department's data processing systems would be $22,575. An additional 0.50 FTE auditing technician would be required to verify and audit credit claims and corresponding adjustments to income. One-time costs to set up a new employee would be $3,298 in FY 2016. Personal services costs would be $32,111 per year in FY 2016 and FY 2017, $32,541 in FY 2018, and $32,978 in FY 2019. Annual operating costs would be $3,193 in FY 2016, $3,512 in FY 2017, $3,567 in FY 2018, and $3,619 in FY 2019.

Fiscal Impact:	**FY 2016 Difference**	**FY 2017 Difference**	**FY 2018 Difference**	**FY 2019 Difference**
FTE	0.50	0.50	0.50	0.50
Expenditures:				
Personal Services	$32,111	$32,111	$32,541	$32,978
Operating Expenses	$25,768	$3,512	$3,567	$3,619
Equipment	$3,298	$0	$0	$0
TOTAL Expenditures	$61,177	$35,623	$36,108	$36,597
Funding of Expenditures:				
General Fund (01)	$61,177	$35,623	$36,108	$36,597
TOTAL Funding of Exp.	$61,177	$35,623	$36,108	$36,597
Revenues:				
General Fund (01)	($678,450)	($678,450)	($678,450)	($678,450)
TOTAL Revenues	($678,450)	($678,450)	($678,450)	($678,450)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($739,627)	($714,073)	($714,558)	($715,047)

Long-Term Impacts:

1. The bill sunsets the credits at the end of CY 2022. Unless a future legislature renewed the credits, the last credits would be claimed on TY 2022 returns filed in FY 2023.

Sponsor's Initials *Date* *Budget Director's Initials* *Date*