Department of Finance and Administration

Legislative Impact Statement

Bill: HB1531
Bill Subtitle: TO CREATE AN INCOME TAX CREDIT FOR EDUCATIONAL LOAN PAYMENTS FOR QUALIFIED INDIVIDUALS AND EMPLOYERS OF QUALIFIED INDIVIDUALS.

<u>Basic Change :</u>

Sponsor: Representative G. Hodges

HB1531 creates an income tax credit for educational loan payments for qualified individuals and employers of qualified individuals and provides criteria and definitions regarding the loan payment credit and who is eligible to claim the credit. Any unused income tax credit may be carried forward for ten consecutive tax years following the tax year in which the credit was earned. The bill is effective for tax years beginning on or after January 1, 2017. The credit is refundable if the student graduates in a science, technology, engineering, or mathematics field or if the student receives an associate's degree.

<u>Revenue Impact :</u>

Arkansans owe approximately $9 billion in student loan debt. Approximately $700 million in new debt is added every year and most student loans are on a 10-year repayment plan, so it is estimated that HB1531 would potentially generate hundreds of millions of credits per year since the credit is either dollar for dollar or 50% in some circumstances. Due to the broad nature of the income tax credit, the actual revenue impact is substantial and is estimated as follows:

Estimate revenue loss of $91,000,000 in FY2018.
Estimate revenue loss of $182,000,000 in FY2019.
Estimate revenue loss of $273,000,000 in FY2020.
Estimate revenue loss of $364,000,000 in FY2021.
Estimate revenue loss of $455,000,000 in FY2022 and after.

<u>Taxpayer Impact :</u>

Businesses or individuals that make qualified payments would utilize the income tax credit. Individuals and employers who qualify for the credit may offset up to 100% of their tax liability. If the qualified individual earned an associate's or bachelor's degree in science, technology, engineering, or mathematics or the individual received an associate's degree the credit is refundable. For employers, the employee for which loan payments are made must work at least 16 hours per week. If the employee works less than 32 hours per week, the credit is limited to 50% of loan payments made by an employer. Unused credits may be carried forward up to ten years.

<u>Resources Required :</u>

Computer programming, training, forms and booklet instructions would need to be updated. Additional auditors will be needed to review applications for the credit and verify that loan payments were made. Additional service representatives will be needed to handle additional workload for processing returns claiming credits.

<u>Time Required :</u>

The current bill as written is effective 90 days after adjournment. Estimated time to create and implement the required process is one year from the passage of this bill.

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1531
Bill Subtitle: TO CREATE AN INCOME TAX CREDIT FOR EDUCATIONAL LOAN PAYMENTS FOR QUALIFIED INDIVIDUALS AND EMPLOYERS OF QUALIFIED INDIVIDUALS.

Procedural Changes :

Computer programs, forms, training manuals, and procedures manuals would need to be updated.

Other Comments :

Additional concerns over the implementation and impact of this new income tax credit:

1. It would be difficult for DFA to monitor and review credit claims due to the number of possible claimants. The bill does not provide a provision to prevent an employer and employer from claiming the tax credit where as part of the employee's employment contract the employer would make the payments from the gross income of the employee.
2. The bill is not specific in defining what degrees qualify as a science, technology, engineering, or a mathematics degree.
3. There is no provision limiting the above the line deduction for student loan interest paid meaning the State of Arkansas would reimburse eligible taxpayers more than 100% for loan payments.

Legal Analysis :

HB1531 creates an income tax credit for educational loan payments made by a qualified individual or the employer of a qualified individual. Certain specific provisions of the credits are refundable and create additional regulatory requirements for DFA. The amount of a credit available to a qualified individual is determined by the "average" amount of tuition. The bill is silent, however, as to which agency is responsible for calculating the average tuition and the number and lengths of the periods used to calculate the average. The fact that the bill is silent on the period during which an average tuition is computed may render it an unconstitutional delegation of authority as it would require the agency responsible for calculating the average tuition to determine how it is calculated and the amount of the credit.