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Senate Bill 393 (Substitute S-1) Sponsor: Senator Dennis Olshove Committee: Commerce and Labor

Date Completed: 5-31-05

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer to claim a refundable income tax credit for postsecondary education expenses.

Specifically, for tax years beginning after December 31, 2005, a "qualified taxpayer" could claim a credit against the income tax equal to 10% of the first \$10,000 of "eligible expenses" paid in the tax year for courses taken at an "eligible educational institution" that would lead to a postsecondary degree or that were taken to acquire or improve the taxpayer's job skills.

If the amount of the credit exceeded the qualified taxpayer's tax liability for a tax year, the excess portion of the credit would have to be refunded.

Money from any other source used to pay for eligible expenses could not be used to calculate the credit allowed under the bill. Amounts deducted under any other section of the Income Tax Act or the Single Business Tax Act could not be used to calculate the credit.

"Qualified taxpayer" would mean an individual who has modified adjusted gross income of less than \$51,000, for a single return, or less than \$103,000 for a joint return; is at least 24 years old; is employed by an "eligible taxpayer" (as that term would be defined by Senate Bill 387) for at least 25 hours per week; and is not a full-time student as that status is determined by the eligible educational institution. (Under Senate Bill 387 (S-1), which proposes a single business tax credit for eligible employers that pay for employees' postsecondary education expenses, "eligible taxpayer" would mean an employer with 250 or fewer full-time equivalent employees.)

"Eligible expenses" would mean tuition or related expenses (such as student-activity fees and expenses for course-related books, supplies, and equipment paid directly to the eligible education institution as a condition for enrollment or attendance) paid for courses that the qualified employee, his or her spouse, and any dependent of the qualified employee took during the tax year and for which he or she received academic credit. Eligible expenses would not include any expenses related to the following types of courses:

- -- Courses taken to meet a continuing education requirement for a license or certificate required for the taxpayer's job.
- -- Sports, games, or hobbies.
- -- Noncredit courses.

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"Eligible educational institution" would mean any college, university, vocational school, or other postsecondary educational institution that is eligible to participate in a student aid program administered by the U.S. Department of Education.

For the 2006 tax year and each tax year after that, the maximum amounts of adjusted gross income allowed for a qualified taxpayer would have to be adjusted by the percentage increase in the U.S. consumer price index for the immediately preceding calendar year.

Proposed MCL 206.272 Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce income tax revenue by an estimated \$80 million beginning in FY 2006-07. All of this revenue loss would affect the General Fund. The bill would not have any direct impact on local government.

Fiscal Analyst: Jay Wortley

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.