OHIO LEGISLATIVE SERVICE COMMISSION

Bill Analysis

Sam Benham

H.B. 186

132nd General Assembly
(As Introduced)

Reps. Rogers and Scherer, Antani, Antonio, Arndt, Bishoff, Boccieri, Boggs, Celebrezze, Cera, Clyde, Fedor, Henne, Hood, O'Brien, Patterson, Ramos, Sheehy, K. Smith, Sweeney, Vitale, West

BILL SUMMARY

- Authorizes an income tax deduction for certain out-of-pocket higher education expenses paid by a person obtaining a degree or credential after or, under some circumstances, before the bill's effective date.

CONTENT AND OPERATION

Educational expense income tax deduction ("Blair Deduction")

The bill authorizes a person who obtains a post-secondary degree or technical credential from an eligible educational institution (collectively referred to in the bill as a "qualifying credential") to claim an income tax deduction over a period of years for the person's expenses in obtaining the credential. Anyone obtaining such a credential during a taxable year ending after the bill's effective date is entitled to deduct all such expenses, while someone obtaining a credential during any preceding taxable year may be eligible to deduct a reduced amount of such expenses.

An eligible educational institution broadly includes any college, university, vocational school, or other post-secondary educational institution eligible to participate in a student aid program administered by the United States Department of Education.[1]

Deductible expenses

Deductible higher education expenses include all of the following incurred while the credential-earner was a student enrolled at an eligible educational institution:

[1] See 26 U.S.C. 529.

(1) Tuition, fees, books, supplies, and equipment required for attendance at the institution;

(2) If the student enrolled for at least one-half of the full-time course load, room and board expenses, up to the amount of the allowance determined by the institution for federal financial aid purposes or the amount actually charged in the case of on-campus housing, whichever is greater;

(3) Special needs services required for attendance at the institution;

The total amount of such expenses must be reduced by the following:

(1) The amount of such expenses covered from grants, scholarships, gifts, or bequests;

(2) The amount of such expenses covered from payments from a qualified tuition program qualifying for federal tax exemption under section 529 of the Internal Revenue Code (sometimes referred to as a "529 college savings program");

(3) The amount of any federal income tax reduction resulting from a deduction or credit claimed by the credential-earner on the basis of such expenses;

(4) If the credential-earner obtained the credential during a taxable year ending before the bill's effective date, $2,000 for each taxable year ending between the taxable year in which the student obtained the credential and the taxable year that includes the bill's effective date, excluding any taxable year within that range during which the student was enrolled full-time at an eligible educational institution to pursue another qualifying credential. For example, if the effective date falls in 2017 and a person spent $70,000 for a master's degree awarded in 2011, the person could deduct $58,000 of those expenses: $70,000 [educational expenses] – ($2,000×6 [years between 2011 and 2017]) = $58,000. By contrast, if the person spent $5,000 for an associate degree awarded in 2014, the person would not be able to deduct any of those expenses: $5,000 [educational expenses] – ($2,000×3 [years between 2014 and 2017]) = <0.

The difference resulting from reducing expenses by such sums is the total amount of qualified higher education expenses a person may deduct in computing taxable income.[2] The portion of that total that may be deducted for any year is limited to $2,000. The $2,000 figure is tied to the limit on an existing deduction for contributions to an account created under the state's 529 college savings program and may increase or

[2] R.C. 5747.01(A)(33) and 5747.82.

decrease if the state's 529 program limit is later adjusted.[3] For persons obtaining the credential in a taxable year ending before the bill's effective date, the deduction must be made beginning with the taxable year that includes the bill's effective date; for persons obtaining the credential after that taxable year, the deduction must be made beginning with the taxable year following the year in which the qualifying credential was earned. The deduction may continue to be made for each following taxable year until the person has deducted all of those expenses.[4]

Deferral

A person may defer taking the deduction for any taxable year during which the person is enrolled full-time in an eligible educational institution to pursue another qualifying credential. The person must retain evidence of such enrollment for possible inspection by the Tax Commissioner for four years after the person finishes taking the deduction.[5] Additionally, each person taking the deduction must retain proof of graduation for four years after the person finishes taking the deduction.

Interaction with low-income credit

The effect of the bill's deduction on a taxpayer's Ohio adjusted gross income is disregarded for the purpose of determining whether the taxpayer is eligible to claim the existing personal income tax credit that eliminates income tax liability for a person with an adjusted gross income of less than $10,000.[6] Thus, the bill's deduction would not reduce a person's adjusted gross income such that a person otherwise ineligible for the credit would become eligible for it.

HISTORY

ACTION	DATE
Introduced	04-24-17

H0186-I-132.docx/ks

[3] R.C. 5747.70, not in the bill and 5747.82(A)(4) and (B).

[4] R.C. 5747.82(B)(1) and (2).

[5] R.C. 5747.82(C).

[6] R.C. 5747.82(D).