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State of Rhode Island

Budget Office

Department of Administration

State Fiscal Note for Bill Number: 2020-H-7501

Date of State Budget Office Approval:

Date Requested:

Date Due:

Impact on Expenditures		*Impact on Revenues*	
FY 2020	n/a	FY 2020	n/a
FY 2021	n/a	FY 2021	n/a
FY 2022	n/a	FY 2022	$(3,096,992)

Explanation by State Budget Office:

This bill would create Rhode Island General Laws (R.I. Gen. Laws) Chapter 44-70 entitled "Student Loan Tax Credit Act". This new chapter would allow a tax credit of up to $1,000 for Rhode Island residents who are obligated for a student loan that is non-dischargeable in bankruptcy, are attending a post-secondary school in Rhode Island, and work within the State. Qualified taxpayers must apply to the Department of Revenue, Division of Taxation for a voucher between January 1 and April 15 of the prior tax year and provide documentation to show payments to the lender of the applicable student loan. The voucher is to be filed with the taxpayer's personal income tax return for the following tax year. All issued tax credits will be paid directly to the taxpayer's lender.

The bill also amends R.I. Gen. Laws § 44-31.2-5 entitled "Motion Picture Production Tax Credits – Motion picture production company tax credit" to reduce the amount of tax credits issued under the Motion Picture Production Tax Credit (MPPTC) program after December 31, 2021 in order to allow for the issuance of the proposed Student Loan Tax Credits.

Under current law, there is a personal income tax credit provided to recent graduates with student loan debt who meet certain criteria provided under R.I. Gen. Laws Chapter 42-64.26 titled "Stay Invested in RI Wavemaker Fellowship", but there is no similar provision for enrolled students.

Under current law, up to $20 million may be issued under R.I. Gen. Laws § 44-31.2-5 in any given tax year and said credits must be made available to both motion picture productions and musical and theatrical productions. Tax credits issued as either motion picture production company tax credit or musical and theatrical productions tax credits may be taken against the taxes imposed by R.I. Gen. Laws Chapters 11 (Business Corporation Tax), 14 (Taxation of Banks), 17 (Taxation of Insurance Companies), and 30 (Personal Income Tax).

Comments on Sources of Funds:

The newly created Student Loan Tax Credit would presumably be applied against an applicant's personal income tax as the voucher required to be issued by the Division of Taxation would be filed with taxpayer's state income tax return and thus impact general revenues.

The reduction in the amount of available motion picture production company and/or musical and theatrical productions tax credits would impact general revenues via the business corporation tax (R.I. Gen. Laws Ch. 44-11), financial institutions tax (R.I. Gen. Laws Ch. 44-14), the insurance company gross premiums tax (R.I. Gen. Laws Ch. 44-17), or the personal income tax (R.I. Gen. Laws Ch. 44-30).

Summary of Facts and Assumptions:

This bill takes effect on January 1, 2021. The reduction of available credits to the motion picture production tax credits (MPPTC) program tax would be implemented for tax years beginning after December 31, 2021. ORA assumed the first round of applications would be submitted between January 1, 2021 and April 15, 2021, and the issuance of the first student loan tax credit vouchers proposed by this bill would be for the tax year beginning on or after January 1, 2022. Based upon the accrual methodology employed by the Office of Accounts and Controls (OAC), tax law changes that take effect in the middle of a fiscal year have a current fiscal year revenue impact equal to one-half of the succeeding fiscal year's revenue impact. ORA has used this accrual-based methodology to provide the budgetary revenue impacts contained in this fiscal note.

It should be noted the bill does not provide statutory references for the Rhode Island tax which the proposed credit may be used against. However, the bill states that approved applicants are to be provided with a tax voucher that is to be presented with the taxpayer's Rhode Island income tax return. ORA assumes that this proposal is intended to be for a tax credit to be taken against the personal income tax imposed under R.I. Gen. Laws Chapter 44-30. In order for a tax credit to be taken against a taxpayer's Rhode Island personal income tax liability, the credit must be included in the list of allowable credits provided in R.I. Gen. Laws subsection 44-30-2.6(c)(3)(F) titled "Rhode Island taxable income – Rate of tax – Credits against tax". ORA recommends redrafting of this bill for clarification of the intent on the applicability of the proposed credit by indicating the specific chapters of Title 44 entitled "Taxation" that the credit can be applied. For example, the bill could be reworded to say "[T]his income tax credit shall be allowed as a credit against the tax owed under Rhode Island General Laws Chapter 44-30." Additionally, ORA also recommends redrafting of this bill to amend R.I. Gen Laws subsection 44-30-2.6(c)(3)(F) by adding to the indicated list the proposed credit.

The proposed tax credit requires that the taxpayer must be "...obligated for a student loan that is non-dischargeable in bankruptcy..." in order to be eligible for the said tax credit. Federal student loans include direct loans, Perkins loans, and the discontinued Federal Family Education Loan Program. Based on a 2019 report by MeasureOne, these types of loans account for approximately 92% of student loan debt. All nonfederal loans are private student loans, which can be issued by banks, credit unions, online lenders, school, and states. According to 26 U.S.C. § 221(d)(1) qualified education loans are debts incurred solely to pay for qualified higher education expenses at an accredited institution by an eligible student. Higher education expenses are limited to those required for the cost of attendance, including tuition, fees, room, board, and books.

During the bankruptcy process, federal student loans and qualified private student loans are held to a high standard in order to be discharged. To be approved for discharge, the loan holder must prove undue hardship. Federal student loans are unlikely to be discharged in bankruptcy as an income-driven repayment plan can be as low as $0, with payments increasing as income rises. Some private loans also allow alternative repayment plans in order to assist the loan holder in the repayment process. However, while the standards for discharging federal and qualified private student loans during a bankruptcy case are quite high, only allowed in those cases of extreme hardship, it is not impossible for such student loans to be discharged in bankruptcy and some loan holders do get approved. In the case where the qualified student loan requirements noted above are not met, the loan debt may be treated as any other type of unsecured debt during a bankruptcy and is thus potentially dischargeable. Due to the uncertainty as to whether student loans can be dischargeable in bankruptcy, ORA recommends redrafting the bill to clarify which types of student loans might qualify a taxpayer for the proposed credit.

Under the proposal, student loan tax credit vouchers will be issued in the tax year prior to the redemption of the tax credit, with the first vouchers assumed to be issued in tax year 2021 to be redeemed with the tax year 2022 personal income tax return, which will be filed in calendar year 2023, with no carryforward provision. Thus, there will be no revenue impact in FY 2020 or FY 2021 from the proposed tax credit, and there will be a half-year impact in FY 2022. The tax credits issued under the MPPTC program and the musical and theatrical production tax credit (MTPTC) program in any given year may be carried forward up to three years. Additionally, the tax credits under these programs are issued on a calendar year basis, and due to the carryforward provision may have a budgetary impact across five fiscal years. Therefore, the redemptions of the tax credits do not necessarily align with the issuance of the credits. ORA estimates that MPPTC and MTPTC credits issued in calendar year 2022 will be redeemed in fiscal years 2023 through 2027. Thus, there will be no revenue offset from the reduction in the issuance of MPPTCs and MTPTCs until FY 2023.

According to the National Center for Education Statistics (NCES), there were a total of 80,868 students enrolled at Rhode Island post-secondary institutions in the fall of 2018, 69,394 undergraduate and 11,474 graduate students. Additionally, in the fall of 2016, 36.7488% of first-year students were enrolled in their home state. ORA assumed this ratio was true for all students with no growth. Thus, there were an estimated 29,718 Rhode Island residents enrolled at Rhode Island post-secondary institutions in Fall 2018, 25,501 undergraduate and 4,217 graduate students.

As of 2016, NCES reports that 48.1% of associate degree holders, 68.9 % bachelor's degree holders, 60.0% of master's degree holders, and 48.2% of doctoral degree holders have accumulated debt from pursing their degree. ORA assumed that these same percentages were true for current students. For undergraduate students, ORA used the average for associate and bachelor's degree holders of 58.5% (i.e., (0.481 + 0.689) / 2). Similarly, for graduate students, ORA used the average for master's and doctoral degree holders of 54.1% (i.e., (0.600 + 0.482) / 2). Applying these figures produces an estimated 17,206 Rhode Island residents enrolled in a Rhode Island post-secondary institution that has student loan debt, 14,925 undergraduate and 2,281 graduate students (i.e., 25,501 *0.585 and 4,217 * 0.541).

The U.S. Department of Education's Office of Federal Student Aid (FSA) defines deferment as a temporary postponement of payment on a loan that is allowed under certain conditions. For some federal loans, no interest will accrue during this time.

It should be noted that students attending an eligible post-secondary school at least half-time have their federal loans automatically enter deferment. While some private loans do offer deferment, many do not and thus students would be required to make payments on their loans while enrolled in a post-secondary institution. For loans that do go into deferment while the loan holder is enrolled, the loan holder may still make payments in order to reduce the interest and/or principle balance and the total loan cost over the long-term.

ORA was unable to determine the percentage of students enrolled in a post-secondary institution that also made payments on one or more student loans. However, based on information provided by Statista from a 2015 survey, of the students with debt who were asked what options they considered for repaying student loans, 36.0% responded that they had done or had considered paying on their student loans while in school. ORA assumed that all graduate and undergraduate students with debt who had considered paying on their student loans made some payments. As some loan holders who considered paying on their loans will not actually follow through with making payments, this estimate should be considered a maximum. Additionally, ORA assumed that all Rhode Island resident graduate and undergraduate students who paid on their student loans while in school would also meet the work requirements as set forth in this bill. Applying the 36.0% to the estimated number of Rhode Island residents enrolled in a Rhode Island post-secondary institution that have debt yields an estimated number of loan holders eligible for the credit of 6,194 (i.e., 17,206 * 0.36).

ORA was unable to determine the average amount a student who pays money toward student loans typically makes on their loans while in school. Instead, ORA assumed that all eligible loan holders would be eligible for the full amount of the tax credit. Thus, the estimated full-year revenue impact for the proposed tax credit is $6,193,983. The half-year revenue impact for FY 2022 is $3,096,992. As noted above, the revenue offset from the MPPTC and MTPTC programs will not impact the revenue estimate from the proposed bill until FY 2023.

The Governor's FY 2021 Recommended Budget projects a closing surplus of $24,842,778 in FY 2020 and $892,259 in FY 2021. Passage of this bill would have no impact on the FY 2020 closing surplus or the Governor's FY 2021 Recommended Budget, but it will increase the projected deficit for FY 2022.

Summary of Fiscal Impact:

FY 2020: No revenue impact is forecast due to the assumed implementation date.

FY 2021: No revenue impact is forecast due to the assumed implementation date.

FY 2022: A maximum revenue loss of $3,096,992 is forecast.

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