Ohio Legislative Service Commission

Russ Keller

Fiscal Note & Local Impact Statement

Bill: Am. H.B. 167 of the 129th G.A.

Date: November 16, 2011

Status: As Enacted

Sponsor: Reps. Derickson and Mallory

Local Impact Statement Procedure Required: Yes

Contents: To authorize an income tax deduction for the otherwise taxable portion of a federal Pell Grant or Ohio College Opportunity Grant used to pay room and board for a postsecondary student

State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
General Revenue Fund			
Revenues	Loss, potentially up to several million dollars	Loss, potentially up to several million dollars	Loss, potentially up to several million dollars
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2012 is July 1, 2011 – June 30, 2012.

- Authorizing the taxable portion of a federal Pell Grant or Ohio College Opportunity Grant (OCOG) to be excluded from taxable income would reduce GRF personal income tax revenues by up to several million dollars per year.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2011	FY 2012	FUTURE YEARS
Counties, municipalities, townships, and public libraries (LGF and PLF)			
Revenues	- 0 -	- 0 -	Loss, potentially up to $100,000 or more
Expenditures	- 0 -	- 0 -	- 0 -
School districts that levy a school district income tax (SDIT)			
Revenues	Negligible loss, if any	Loss, potentially up to $100,000 or more	Loss, potentially up to $100,000 or more
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Authorizing the taxable portion of a federal Pell Grant or Ohio College Opportunity Grant (OCOG) to be excluded from taxable income would potentially reduce Local Government Fund (LGF) and Public Library Fund (PLF) revenues starting in FY 2014.

- The exclusion of select educational grants from Ohio adjusted gross income (OAGI) will reduce the tax base for the majority of the Ohio school districts that levy a school district income tax (SDIT). Presently, 152 school districts levy an SDIT where OAGI serves as the tax base, and approximately 11.4% of Ohio's taxable income is attributable to taxpayers in one of these 152 school districts.

Detailed Fiscal Analysis

H.B. 167 authorizes an individual to deduct, for purposes of determining Ohio adjusted gross income, amounts used to pay for room, board, and any meal plan administered by the educational organization, if the amounts were received in the form of a federal Pell Grant or an Ohio College Opportunity Grant (OCOG). The Federal Pell Grant Program provides need-based grants to low-income undergraduate and certain postgraduate students. The Ohio College Opportunity Grant Program provides need-based assistance to Ohio residents in nursing degree and undergraduate programs.

Federal law excludes from an individual's adjusted gross income amounts received as a scholarship or fellowship grant to the extent the individual uses the funds for tuition, fees, books, supplies, and equipment required for courses of instruction at a post-secondary educational organization. Amounts used for room and board are not exempt and are therefore included in federal adjusted gross income. Because federal adjusted gross income is the starting number for determining an individual's Ohio income tax liability, amounts used for room and board are currently subject to Ohio income taxation.

The deduction applies to taxable years ending on or after tax year (TY) 2011. If the Pell Grant recipient is a spouse or a dependent of a taxpayer, the taxpayer may exclude the applicable Pell Grant amount from his/her Ohio taxable income.

Fiscal effect

The proposed deduction would reduce the personal income tax base beginning in TY 2011, thereby reducing receipts from the state's personal income tax. Income tax receipts are allocated to the GRF. Under the current rules governing the OCOG, there would be no revenue loss associated with exempting OCOG benefits from taxation. There may be a revenue loss associated with Pell Grant awards though. Data limitations make it impossible to estimate the magnitude of that revenue loss with precision. Accordingly, the following analysis attempts to determine an upper limit to the revenue loss.

The current OCOG distribution formula substantially impacts the degree to which Pell Grants will be used for room and board. Because of laws enacted in H.B. 1 of the 128th General Assembly, Pell Grants are increasingly used to cover the cost of tuition. Presently, OCOG funds are restricted to tuition and general fees, which is the reason that the income tax exemption of OCOG funds would have no fiscal impact[1]

[1] Under current law, there is one exception to the OCOG limitations, affecting only a small group of students. The Chancellor of the Board of Regents is permitted to award OCOG funds to pay housing costs if a student is enrolled in a two-year institution and is eligible for an Education and Training Voucher available to students currently or formerly in the foster care system. However, OCOG-eligible

under current law. If, in the future, room and board expenses are included in the OCOG award, the proposed income tax exemption may have an effect.

Federal Pell Grants are direct grants awarded through participating institutions to students with financial need who have not received their first bachelor's degree or who are enrolled in certain postbaccalaureate programs that lead to teacher certification or licensure. Data from the U.S. Department of Education indicate that Ohio four-year institutions received $511.4 million for the 2009-2010 academic year through the Federal Pell Grant Program. For the most part, educational institutions that have their own room and board facilities are four-year institutions. The average Pell Grant award at public four-year institutions in 2009-2010 was $3,729, and 99,663 students received this award (refer to Table 1). For private four-year institutions, there were 38,022 recipients receiving an average award of $3,675.

Table 1. Pell Grant Recipients at Ohio Institutions in 2009-2010 Academic Year		
Educational Institution	**Number of Pell Grant Recipients**	**Average Award**
Public, Four-Year Total	99,663	$3,729
Private, Four-Year Total	38,022	$3,675
All, Four-Year Total	137,685	$3,714[2]

Changes in H.B. 1 of the 128th General Assembly made it so Pell Grants are less likely to be used toward the cost of room or board furnished by an educational institution. OCOG is the only state-funded need-based financial aid program for students in postsecondary education. The OCOG distribution formula specifies that OCOG awards are determined based on the student's remaining "state cost of attendance" after the student's federal Pell Grant and expected family contribution (EFC) are applied. EFC is determined based on the Federal Application for Free Student Aid (FAFSA), which also determines Pell eligibility. The "state cost of attendance" is established by the Chancellor of the Board of Regents and is calculated for each campus individually based on expected educational costs. Under the Chancellor's current definition of "state cost of attendance," OCOG awards may only be used for tuition and general fees. The definition is subject to change; therefore, in the future, the Chancellor may include educational expenses such as books, transportation, room, and board.

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living expenses for these students would be unlikely to qualify for the tax exemption because the exemption is limited to funds used for room and board furnished by the student's institution and very few two-year institutions offer on-campus housing and meal plans.

[2] Weighted average of Pell Grant awards at both types of educational institution.

Because the OCOG distribution formula is predicated on the presence of Pell Grants and EFC, the Pell Grants will supplant OCOG awards in paying for tuition. Therefore, the current distribution formula has the effect of reducing (but not eliminating) the likelihood that Pell Grants will be used to pay room and board expenses. OCOG awards based on state cost of attendance are more restrictive than Pell Grants because, while OCOG can be applied only to instructional costs, the Pell Grant may be used for things like living expenses. Due to federal Pell Grant increases, students of Ohio's university branch campuses, community colleges, state community colleges, and technical colleges will have a state cost of attendance that is completely covered by Pell Grants and EFC, and will not receive OCOG awards in FY 2012. Thus, the likeliest Pell Grant recipients to utilize this tax provision are those at four-year colleges, and specifically, public four-year colleges given that those institutions generally have lower tuition than private four-year colleges.

Tables 2 and 3 provide an estimate as to how many students attending four-year institutions would receive Pell Grants as well as the amount of the Pell Grants a student would likely be awarded. The two tables differentiate students by tax filing status, which distinguishes between those that are claimed as dependents (Table 2) within a household, and those that file independently or jointly with a spouse (Table 3). The 2007–2008 National Postsecondary Student Aid Study (NPSAS:08), which is a report completed by the U.S. Department of Education's National Center for Education Statistics, provided data on the average Pell Grant awards for differing levels of household income as well as the distribution of the Pell Grant recipients within those specified household income levels. In using information from the Ohio Department of Taxation on income levels and corresponding tax liabilities, effective tax rates and the resulting tax savings can be determined for these Pell Grant recipients. The estimate of total foregone revenue represents the maximum possible revenue loss in the event that all Pell Grant recipients at four-year institutions use the entire Pell Grant award toward room and board expenses. LSC does not have data that identifies the allocation of Pell grant awards to room and board, which is why the total foregone revenue estimate is represented as a maximum revenue loss as opposed to a likely revenue loss.

Table 2. Pell Grant Awards by Household Income of Student with Dependent Status

Estimated 56,393 Students in Ohio	**Less than $20,000**	**$20,000 - $39,999**	**$40,000 - $59,999**	**$60,000 - $79,999**	**TOTAL**
Average Pell Grant Award	$4,000	$3,200	$1,800	$600	N/A
Effective Tax Rate	0.43%	1.57%	2.17%	2.50%	N/A
Tax Savings Per Taxpayer	$17.04	$50.15	$38.98	$14.98	N/A
Distribution of Pell Grant Recipients	35.7%	45.5%	18%	0.8%	100.0 %
Number of Recipients	20,132	25,659	10,151	451	56,393
Total Foregone Revenue	**$343,001**	**$1,286,909**	**$395,721**	**$6,754**	**$2,032,385**

Table 3. Pell Grant Awards by Household Income of Student with Independent Status or Filing Jointly with Spouse					
Estimated 81,292 Students in Ohio	**Less than $10,000**	**$10,000 - $19,999**	**$20,000 - $29,999**	**$30,000 - $49,999**	**TOTAL**
Average Pell Grant Award	$3,800	$3,100	$3,500	$2,400	N/A
Effective Tax Rate	0.04%	0.56%	1.30%	1.93%	N/A
Tax Savings Per Taxpayer	$1.37	$17.48	$45.55	$46.35	N/A
Distribution of Pell Grant Recipients	39.9%	27.1%	15.8%	17.0%	99.8%[3]
Number of Recipients	32,436	22,030	12,844	13,820	81,292
Total Foregone Revenue	**$44,490**	**$385,138**	**$585,031**	**$640,554**	**$1,655,213**

In order to account for the current OCOG distribution formula, only Pell Grant recipients at four-year institutions are included in this fiscal analysis. It is highly likely that Pell Grants will be infrequently used for room and board at other types of institutions. Table 4 below summarizes the maximum revenue loss for TY 2011 assuming that every Pell Grant recipient at a four-year institution uses their entire award for room and board. The actual revenue loss would almost certainly be lower because many students at four-year colleges will use their Pell Grant toward tuition, and even those that use them toward the cost of room and board may not choose to live on campus. Nevertheless, data are unavailable for LSC staff to estimate the impact of these two factors. Thus, a maximum annual revenue loss estimate is provided below. This analysis assumes the number of recipients and the average amount of the Pell Grant awards are equal to 2009-2010 levels. Also, the estimate assumes that no taxpayer has more than one Pell Grant recipient in their household.

Table 4. Pell Grant Recipients at Four-Year Ohio Institutions		
Dependency Status of Student	**Estimated Number of Students**	**Foregone Revenue (Maximum Possible Amount)**
Dependent	56,393	$2,032,385
Independent Status or Filing Jointly with Spouse	81,292	$1,655,213
TOTAL	**137,685**	**$3,687,598**

Local Government Fund and Public Library Fund

Receipts from the personal income tax are deposited into the GRF. Under permanent law, a portion of GRF tax receipts are subsequently transferred to the Local Government Fund (LGF) and the Public Library Fund (PLF). Am. Sub. H.B. 153 (the operating budget act for fiscal years 2012 and 2013) fixed the LGF and PLF transfer amounts at pre-determined levels so that any increase (or decrease) in tax receipts

[3] The remaining 0.2% of students are from households with incomes above $50,000, but their fiscal impact is negligible, and they are excluded from this analysis.

during the biennium will affect the GRF only. For FY 2014 and subsequent years, transfers to the LGF and PLF will resume based on a fixed percentage, but the applicable percentage is not yet known. The Tax Commissioner will determine, by July 5, 2013, the ratio of FY 2013 transfers to the respective funds to total FY 2013 GRF tax revenues. Subsequent transfers to the LGF and PLF will be based on those respective ratios. The revenue loss to the local government funds on account of H.B. 167, which is predicated upon the maximum revenue loss for the Ohio income tax, would be indeterminable for future biennia, but likely to be up to $100,000 or more.

School district income tax

School district income taxes (SDIT) are based on either Ohio taxable income (OTI) of taxpayers residing in the school district or on the portion of that income that is earned income, generally limited to wages and self-employment income. School boards and voters of individual school districts choose whether to enact income taxes in their districts and which of these two tax bases to use. For school districts in which OTI serves as the starting point for calculation of school district income taxes, exclusion from Ohio adjusted gross income of Pell Grant and OCOG awards will reduce OTI and the school district income tax revenues derived from Ohio taxable income. Presently, 152 school districts levy an SDIT where OTI serves as the tax base, and approximately 11.4% of Ohio's taxable income is attributable to taxpayers in one of these 152 school districts. During FY 2010, school districts raised $250.6 million through school district income taxes where OTI serves as the tax base. The amount of the local revenue reduction for each respective school district depends on the number (if any) of Pell Grant and OCOG recipients living in that district who use the awards to pay room and board for a postsecondary student. The maximum revenue loss to school districts, which is predicated upon the maximum revenue loss for the Ohio income tax, would be a little more than $100,000.

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