



## Fiscal Estimate Narratives

DOR 6/24/2015

LRB Number	15-1144/1	Introduction Number	SB-194	Estimate Type	Original
<b>Description</b> Student loans, the individual income tax subtract modification for tuition and student fees, creating an authority to be known as the Wisconsin Student Loan Refinancing Authority, granting rule-making authority, and making an appropriation					

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, an individual may claim an income tax deduction for certain amounts paid during the year for tuition and mandatory student fees. For tax year 2015 a deduction of up to \$6,943 per student is allowed for tuition that is paid to any university, college, technical college or a school approved by the Educational Approval Board that is located in Wisconsin. Tuition paid to a public vocational school or public institution of higher education in Minnesota under the Minnesota-Wisconsin reciprocity agreement also qualifies for the deduction.

Eligible expenses include tuition for the education of the claimant, the claimant's spouse, and his or her dependents. The 2015 maximum deduction amount is phased out in specified ranges of federal adjusted gross income (FAGI): between \$52,550 and \$63,000 for single and head of household filers, \$83,990 and \$104,990 for married joint filers, and \$42,000 and \$52,500 for married separate filers. The phase-out ranges are indexed for inflation and the maximum deduction per student is based on the amount of tuition charged by the University of Wisconsin System at four-year institutions.

Wisconsin also conforms to current federal law, which allows that individuals who have taken out loans on behalf of themselves, their spouse or their dependents to pay for the cost of attending an eligible educational institution may deduct the interest they pay on these loans. The maximum allowable deduction is \$2,500. For 2015, the deduction amount is reduced for single and head of household filers when modified FAGI is more than \$65,000 and is eliminated when modified FAGI exceeds \$80,000; for married joint filers the deduction is phased out between \$130,000 and \$160,000 of modified FAGI. Married separate filers and those filers claimed as dependents on another individual's return may not claim the deduction.

The bill makes a number of changes to the law relating to student loans. As the bill pertains to the individual income tax, it eliminates the income thresholds for the current law tuition deduction, beginning in tax year 2016. It also expands the definition of tuition expenses to include any amount paid by a claimant during the year on a student loan (interest and principle). Expanding the definition of tuition expenses to include student loans will allow claimants to deduct the same tuition payment multiple times, to the extent that tuition is paid using the proceeds of a student loan. The tuition payment may be deducted once when it is paid, and again when the student loan is repaid. Student loan interest payments may also be deducted once under current law, and again under the bill.

Based on simulations using the 2012 Individual Income Tax Model, eliminating the income phase-out for the tuition deduction is expected to reduce revenue by approximately \$3.0 million in fiscal year 2016 and \$29.5 million annually beginning in fiscal year 2017. Expanding the deduction to include student loan principle and interest payments is expected to further reduce revenue by approximately \$8.0 million in fiscal year 2016 and \$79.5 million annually, beginning in fiscal year 2017. The combined fiscal effect of the bill is an estimated revenue reduction of \$10.9 million in fiscal year 2016 and \$108.7 million annually beginning in fiscal year 2017.

The bill also exempts the newly created Wisconsin Student Loan Refinancing Authority from sales and use tax. The exemption is expected to reduce sales and use tax collections by a minimal amount.

### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2015 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

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**Description**  
 Student loans, the individual income tax subtract modification for tuition and student fees, creating an authority to be known as the Wisconsin Student Loan Refinancing Authority, granting rule-making authority, and making an appropriation

**I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):**

<b>II. Annualized Costs:</b>	<b>Annualized Fiscal Impact on funds from:</b>	
	Increased Costs	Decreased Costs

<b>A. State Costs by Category</b>		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>

<b>B. State Costs by Source of Funds</b>		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		

<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$-108,700,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$-108,700,000</b>

<b>NET ANNUALIZED FISCAL IMPACT</b>		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$-108,700,000	\$

<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
DOR/ Bradley Caruth (608) 261-8984	Michael Wagner (608) 266-6785	6/24/2015