

MEMORANDUM



DATE: September 17, 2010
TO: Interested Parties
FROM: Kyle I. Jen, Associate Director
RE: House Bill 6453: Michigan Promise Tax Credit

House Bill 6453 would amend the Income Tax Act of 1967 to create, for tax years beginning with 2010, a refundable tax credit worth up to \$4,000 for individuals graduating from high school after 2006, completing a postsecondary degree or certificate after 2008, and receiving compensation in the tax year following completion of the degree/certificate as a full-year resident of Michigan. The amount of the tax credit would be reduced by any payment previously received by the taxpayer under the Michigan Promise Grant Act.

The bill would result in a reduction in state income tax revenue of roughly \$160 million per year once the full impact of the credit was phased in.

Background Information: Michigan Promise Grant

The Michigan Promise Grant Program was created by Public Act 479 of 2006 (the Michigan Promise Grant Act), replacing the previous Michigan Merit Award Program. Students were eligible for the Promise Grant Program beginning with the high school graduating class of 2007.

The Michigan Promise Grant Act provided for an award of \$4,000 to a student completing two years of postsecondary education, while incorporating an exam-based element (based on the Michigan Merit Exam) similar to the previously-existing Merit Award. Students were eligible to receive Promise Grant payments as follows:

- Exam-based payments totaling \$2,000 (two payments of \$1,000 each in first two years of postsecondary enrollment).
- A payment upon completion of two years of postsecondary education: an additional \$2,000 for students who had received the exam-based payments and the full \$4,000 payment for students who had not qualified for the exam-based payments.

Funding for the Promise Grant Program was included in the FY 2007-08 and FY 2008-09 Higher Education budgets, but the appropriation for the program was eliminated in the FY 2009-10 budget as part of balancing the General Fund budget for that year. The proposed appropriation for FY 2009-10 was \$140.0 million. The costs of the program were projected to eventually reach roughly \$190 million per year.

House Bill 6453: Michigan Promise Tax Credit

The proposed tax credit under House Bill 6453 would effectively reimburse students eligible for the Promise Grant but not receiving payments due to the elimination of the annual appropriation for the program—with the exception of students leaving the state or not receiving some form of compensation in the year following postsecondary completion, and with a delay in the time at which the credit/payment was received in many cases.

Specific provisions of the proposed credit include the following:

- The tax credit would be equal to \$4,000 less the amount of any Promise Grant payments the taxpayer had received prior to the program being defunded. The Department of Treasury would issue certificates to eligible taxpayers specifying the amount of the credit a taxpayer was eligible to claim.

- The credit would be refundable. That is, the portion of the credit exceeding a taxpayer's tax liability would be paid to the taxpayer by the state as part of the taxpayer's refund.
- A Promise Zone Authority would receive the tax credit instead of the taxpayer if the taxpayer had authorized such an arrangement.
- Consistent with the Promise Grant Act provisions, a taxpayer could have attended a public or private college or university (including a community college) or a credential-granting postsecondary education institution approved by the Department of Treasury.
- The taxpayer would have to have completed an associate's degree, a vocational training program, or a bachelor's degree within 10 years of initial enrollment at a postsecondary institution.
- The taxpayer (1) could not be claimed as a dependent on another taxpayer's return for the relevant tax year, (2) would have to be a full-year resident of Michigan, and (3) would have to have received compensation subject to withholding or from self-employment in the tax year following postsecondary completion.

Fiscal Impact

The Department of Treasury estimates the annual reductions in state revenue resulting from the creation of the Promise Tax Credit would be as follows:

Tax Year	Fiscal Year	Revenue Loss
2010	2010-11	\$6.8 million
2011	2011-12	\$31.0 million
2012	2012-13	\$53.9 million
2013	2013-14	\$105.2 million
2014	2014-15	\$142.2 million
2015	2015-16	\$156.4 million
2016	2016-17	\$157.6 million
2017	2017-18	\$158.9 million
2018	2018-19	\$160.2 million
2019	2019-20	\$161.5 million

The initial revenue loss would be minimal since (1) a large percentage of students (particularly those in bachelor's degree programs) would not yet have completed a degree or certificate program and (2) some taxpayers otherwise eligible for the credit would have received Promise Grant payments prior to the elimination of the annual appropriation.¹

Eventually, however, the credit would result in an annual reduction in state revenue of approximately \$160 million per year.

The majority of the revenue loss (at least 77 percent) resulting from the credit would affect General Fund/General Purpose revenue. The remainder would affect School Aid Fund revenue.

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¹ For example, a student graduating from high school in 2007 and completing a bachelor's degree in four years of study would not be eligible to claim the tax credit until tax year 2012.