



Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536

BILL



ANALYSIS

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

Senate Bill 387 (Substitute S-4 as passed by the Senate)  
Senate Bill 393 (Substitute S-3 as passed by the Senate)  
Sponsor: Senator Bruce Patterson (S.B. 387)  
Senator Dennis Olshove (S.B. 393)  
Committee: Commerce and Labor

Date Completed: 7-11-05

### **RATIONALE**

An educated workforce is considered crucial to the development and sustainability of economic vitality. As pointed out in the December 2004 *Final Report of the Lt. Governor's Commission on Higher Education & Economic Growth* (the Cherry Commission report), "States that educate and nurture creative talent...keep and attract people and investment and can capitalize on the multiplier effects that create new companies and jobs." As Michigan's economy makes the transition from one historically based on manufacturing operations that required low-skilled labor to one that likely will require skills and knowledge in advanced technology, some believe that the State should encourage workers to attain higher levels of education and training. Since well-paying, low-skill jobs traditionally have been available in Michigan, the State has had a low level of postsecondary education enrollment, relative to other states. According to the Cherry Commission report, only 37% of 18- to 24-year-olds in Michigan participate in postsecondary education, compared with up to 48% in leading states. It has been suggested that giving Michigan workers an incentive to continue their postsecondary education by offering tax credits for educational expenses would make Michigan's labor pool more attractive to employers who seek a highly skilled workforce, which would help to increase business development and job growth in the State.

### **CONTENT**

**Senate Bills 387 (S-4) and 393 (S-3) would amend the Single Business Tax Act and the Income Tax Act, respectively, to allow certain taxpayers to claim a refundable tax credit for postsecondary education expenses.**

Under both bills, the credit would be available for tax years beginning after December 31, 2005. The amount of the credit would equal 10% of the first \$10,000 of "eligible expenses" paid in the tax year for courses taken at an "eligible educational institution" that would lead to a postsecondary degree or that were taken to acquire or improve the job skills of a "qualified employee" or a "qualified taxpayer". Under Senate Bill 387 (S-4), an "eligible taxpayer" could claim the credit against the SBT for eligible expenses paid on behalf of a qualified employee. Under Senate Bill 393 (S-3), a qualified taxpayer could claim the credit against the income tax.

If the amount of the SBT credit exceeded the eligible taxpayer's tax liability for a tax year, or the amount of the income tax credit exceeded the qualified taxpayer's tax liability for a tax year, the excess portion of the credit would have to be refunded.

Money from any other source used to pay for eligible expenses could not be used to calculate the credits allowed under the bills. Amounts deducted under any other section of the SBT Act or the Income Tax Act also

could not be used to calculate the credits available under the bills.

"Eligible taxpayer" would mean an SBT taxpayer with an average of 250 or fewer full-time equivalent employees during the tax year in which a credit was claimed under Senate Bill 387 (S-4).

"Qualified employee", under Senate Bill 387 (S-4), would mean an individual who is an employee of the eligible taxpayer during the tax year; has modified adjusted gross income of less than \$51,000, if the employee files a single return, or less than \$103,000, if the employee files a joint return; is at least 24 years old; is employed by the eligible taxpayer for at least 25 hours per week; and is not a full-time student as that status is determined by the eligible educational institution. For tax years beginning after December 31, 2006, the maximum amounts of adjusted gross income allowed for a qualified employee would have to be adjusted by the percentage increase in the U.S. consumer price index (CPI) for the immediately preceding calendar year.

"Qualified taxpayer", under Senate Bill 393 (S-3), would mean an individual who has modified adjusted gross income of less than \$51,000, for a single return, or less than \$103,000 for a joint return; is at least 24 years old; is employed by an eligible taxpayer for at least 25 hours per week; and is not a full-time student as that status is determined by the eligible educational institution. For the 2006 tax year and each tax year after that, the maximum amounts of adjusted gross income allowed for a qualified taxpayer would have to be adjusted by the percentage increase in the U.S. CPI for the immediately preceding calendar year.

"Eligible expenses" would mean tuition or related expenses (such as student-activity fees and expenses for course-related books, supplies, and equipment that are a condition for enrollment or attendance) paid for courses that the qualified employee or qualified taxpayer (as applicable) took during the tax year and for which he or she received academic credit. Eligible expenses would not include any expenses related to the following types of courses:

-- Courses taken to meet a continuing education requirement for a license or

certificate required for the qualified employee's or qualified taxpayer's job.

-- Sports, games, or hobbies.

-- Noncredit courses.

Under both bills, "eligible educational institution" would mean any college, university, vocational school, or other postsecondary educational institution that is eligible to participate in a student aid program administered by the U.S. Department of Education.

Proposed MCL 208.35d (S.B. 387)

Proposed MCL 206.272 (S.B. 393)

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

Producing a better educated, more highly skilled workforce is essential for Michigan to develop technology-based businesses and well-paying, quality jobs in the 21<sup>st</sup> century. Michigan was a leader in developing highly paid manufacturing jobs in the 20<sup>th</sup> century, but those positions generally did not require the level of education and skill necessary for many jobs in today's economy. In the past, people with a high school education, or even less, often could enter the labor market with the expectation of finding a good job in Michigan. Consequently, Michigan lags behind other leading states in the educational level of its workforce, with only 22% of the State's adults holding college degrees (*Detroit News* editorial, "Tuition Increases Are An Obstacle to College", 6-16-05).

Enhancing the expertise of Michigan's labor pool would make the State a more attractive place to develop and locate businesses that increasingly rely on a highly educated workforce. Indeed, according to the Cherry Commission report, the Governor and Lieutenant Governor challenged the Commission to make recommendations that would meet goals to double the percentage of Michigan residents who attain postsecondary degrees, improve the alignment of Michigan's higher education institutions with emerging employment opportunities in Michigan's economy, and build a dynamic workforce with the talents and skills needed for success in the 21<sup>st</sup>

century. Unfortunately, the increasingly higher cost of securing a postsecondary education poses a significant barrier to workers' achieving the skills and expertise demanded in today's job market.

By offering an SBT credit to employers, and an income tax credit to employees, for a portion of the employees' higher education expenses, the bills would ease the financial burden that may prevent workers from advancing their education. The proposals also could encourage more people to pursue postsecondary education, thereby making Michigan's labor pool more attractive to those wishing to start, maintain, or locate their businesses in this State.

**Response:** The bills should include assurances that the education pursued by workers seeking a tax credit for themselves or their employers would be consistent with attaining the skills necessary to meet the demands of the labor market. While education for education's sake is worthwhile, the tax credits should be directed toward paying for the types of educational opportunities that would help to train and retrain Michigan's workforce.

In addition, it is unclear whether the tax credits would be available for courses that simply provide job training or only for those that are part of a degree-granting program. While the bills refer to courses that would lead to a postsecondary degree or that were taken to acquire or improve job skills, the definition of "eligible expenses" is limited to courses for which a qualified employee or qualified taxpayer receives academic credit. In testimony before the Senate Commerce and Labor Committee, a Central Michigan University (CMU) official cautioned against excluding noncredit courses from the tax-credit plan. He said that about 85% of adult education programs are skill-development courses that are not part of a degree-granting program. The bills should make the tax credit available for the cost of noncredit courses that focus on job training.

#### **Supporting Argument**

A more educated workforce would lead to higher wages for Michigan employees. According to the Cherry Commission report, "...research shows that a 5 percent increase in the share of college-educated adults would boost overall economic growth by 2.5 percent over ten years, and the real wages of all Michigan residents by 5.5 percent". If

the bills resulted in more Michigan workers' pursuing higher educational opportunities, the quality of life of those workers and their families would improve and they would have more disposable income to spend on goods and services, which would contribute to Michigan's economic growth.

#### **Supporting Argument**

The bills would help to sustain the viability of higher-education opportunities for workers that are currently available in Michigan. According to the CMU official who testified before the Senate committee, that university has delivered off-campus educational programs to over 30,000 adult workers since 1971. Those students have a vast array of jobs in many areas of the State, and most take one course per term to advance their careers. The bills would provide a great support to students in CMU's programs and others like them.

#### **Supporting Argument**

By providing an incentive for workers to pursue educational opportunities, the proposed tax cuts would jibe with several of the recommendations contained in the Cherry Commission report, including expanding access to baccalaureate institutions and degrees, targeting adults seeking to complete postsecondary credentials, and aligning postsecondary education with economic needs and opportunities.

#### **Opposing Argument**

Offering tax credits for postsecondary educational expenses would fall far short of what is needed to encourage business development and job growth in Michigan. Making broad-based business tax cuts and easing up on governmental regulation of businesses would be more economically efficient and fairer to all types of businesses than would extending tax breaks to some employers and employees for the employees' higher educational costs.

#### **Opposing Argument**

Encouraging Michigan's workers to enhance their skills by taking college courses is a good idea and could be valuable to economic growth, but the approach taken by the bills may not be the most appropriate way to achieve the goal of educating the State's workforce. The proposed plan for tax credits for postsecondary education expenses essentially would be an ongoing grant

program. If that is a desired policy, perhaps it should be accomplished through the annual appropriations process, where it would compete with all other State spending priorities.

### **Opposing Argument**

The General Fund cost of providing the tax credits would be too high, especially in these times of tight budgets and difficult decisions about how to appropriate the State's tax revenue.

**Response:** If the bills resulted in a better educated workforce and aided in bringing more new businesses and highly skilled jobs to Michigan, the State would benefit in the form of economic growth and increased tax revenue. In the long-run, new revenue generated from more jobs and higher salaries should exceed the estimated \$11 million annual cost of the proposed tax credits.

Legislative Analyst: Patrick Affholter

### **FISCAL IMPACT**

#### **Senate Bill 387 (S-4)**

The bill would reduce single business tax revenue by an estimated \$2 million beginning in FY 2006-07. All of this loss in revenue would affect the General Fund. The bill would have no direct impact on local government.

#### **Senate Bill 393 (S-3)**

The bill would reduce income tax revenue by an estimated \$9 million beginning in FY 2006-07. All of this revenue loss would affect the General Fund. The bill would not have any direct impact on local government.

Fiscal Analyst: Jay Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.