COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2017 REGULAR SESSION

MEASURE

2017 BR NUMBER **1610** **HOUSE** BILL NUMBER **382**

RESOLUTION NUMBER_____ AMENDMENT NUMBER _____

SUBJECT/TITLE An ACT relating to taxation.

SPONSOR Representative J. Kay

NOTE SUMMARY

FISCAL ANALYSIS: ☒ IMPACT ☐ NO IMPACT ☐ INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: ☒ STATE ☐ LOCAL ☐ FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: ☒ GENERAL ☐ ROAD ☐ FEDERAL ☐ RESTRICTED AGENCY _____ ☐ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES			($3.758 million)
EXPENDITURES			
NET EFFECT			($3.758 million)

( ) indicates a decrease/negative

MEASURE'S PURPOSE: The purpose of this measure is to help reduce the burden of student loan payments on employees in the Commonwealth by allowing employers to make contributions to employees' student loans and exempting the contributions from Kentucky's individual income tax.

PROVISIONS/MECHANICS: Section 1 of this bill amends KRS 141.010 to include an exclusion of payments by employers to employees' student loan debt, up to $5,250 per year, from adjustable gross income.

Sections 2 through 8 contain amendments to various sections in KRS Chapters 131 and 141 to allow the Department of Revenue to report information on tax credits and deductions to the Legislative Research Commission.

Section 9 requires the Department of Revenue to report information on this tax deduction to the Legislative Research Commission and describes the purpose of the deduction.

FISCAL EXPLANATION: According to the U.S. Department of Education, there are 205,713 federal student loan borrowers in Kentucky, with a total outstanding debt of $5.258 billion.

Under this bill, up to $5,250 per borrower could be excluded from adjustable gross income. There is no data on how many employers in Kentucky offer this benefit, nor how many would be incentivized to do so if this benefit is made deductible from individual income tax, but it is possible to very generally estimate the fiscal impact of this measure.

According to the Society for Human Resource Management's 2015 Employee Benefits survey, 3 percent of employers offer this benefit already, in varying amounts generally less than the $5,250 cap on excludable contributions. If we assume that (1) the number of employers offering the benefit stays the same; (2) that the national average is the same as the Kentucky average; (3) that employees are evenly distributed, so 3 percent of borrowers receive this benefit, and (4) employers increase their contributions to be the maximum allowed under this bill, then 6,171 employees would benefit and would receive cumulative deductions of $32.4 million. If we assume the marginal tax rate affected for these employees is 5.8 percent, this would result in an annual loss of revenue of $1.879 million.

If we assume that this bill incentivizes more employers to offer this benefit, so that 6 percent of borrowers take advantage of it, an annual loss of $3.758 million of revenue from individual income tax would result.

Data addressing employer and employee participation in these benefit plans is not readily available, but this bill includes requirements that the Department of Revenue report to the Legislative Research Commission the amount of revenue lost by this deduction. The deduction sunsets in 4 years under this bill, allowing time for the General Assembly to evaluate the fiscal impact of the bill.

DATA SOURCE(S): **LRC Appropriations and Revenue Staff; U.S. Department of Education; Society for Human Resource Management**
PREPARER: **Amit M. Shanker** **NOTE NUMBER**: **88** **REVIEW**: **JRS** **DATE**: **2/22/2017**