

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 952 (Proposed Education Committee Substitute)

SHORT TITLE: Deduct Postsecondary Tuition

SPONSOR(S): Rep. Starnes

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$Millions)				
	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
REVENUES		(\$9.4)	(\$20.1)	(\$32.0)	(\$45.5)
EXPENDITURES		(No administrative expense)			
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:		Department of Revenue			
EFFECTIVE DATE:	Effective for taxable years beginning on or after January 1, 1998.				

BILL SUMMARY: This bill allows taxpayers to deduct from their taxable income the amount of tuition they pay for their dependents to attend postsecondary educational institutions in North Carolina. The deduction is phased in over four years beginning in 1998 with 25% and topping out at 100% in 2001. A semester limitation is placed on each type of degree that prohibits a deduction if a student remains in school past a set time period.

ASSUMPTIONS AND METHODOLOGY: Tuition for both public and private institutions is eligible for the tax deduction.

Private Colleges

It is estimated that the tuition paid by North Carolinians attending North Carolina private colleges in FY 1996-97 is \$307,111,039. The North Carolina Association of Private Colleges & Universities provided the tuition rates for the private, nonprofit, non-Bible colleges. The tuition amounts for the private colleges were estimated by using enrollment data from the Statistical Abstract of Higher Education in North Carolina 1996-97 published by UNC General Administration. A breakdown of the tuition is shown on the next page.

Four year schools	\$286,988,047
Two year schools	4,107,947

Bible Colleges	2,685,150
Summer School Tuition	<u>13,329,895</u>
	\$307,111,039

Enrollment growth is expected to be 1.5% a year until 2001, then increase to 2% a year. Tuition inflation is projected to be 6% a year based on data from 1967 to 1996 as reported in Inflation Measures for Schools, Colleges, and Libraries (1996 Update) by Research Associates of Washington.

Data is not available from private universities on the impact of the semester limitation. The UNC System has estimated that 84% of the FTE (full time equivalent) of students would be eligible for the deduction under the proposed bill. This estimate is based on an analysis of student data files from 1981 to 1997. Given that the higher cost of private college tuition may prompt students to finish their degrees on schedule, this note assumes a 90% eligibility rate for the deduction for private schools.

Tuition	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
Private Colleges	\$307.1 mil.	\$330.1 mil.	\$354.9 mil.	\$381.5 mil.	\$410.1 mil.	\$442.9 mil.
Enrollment Growth		1.5%	1.5%	1.5%	1.5%	2.0%
Tuition Inflation		6%	6%	6%	6%	6%
90% Eligible	\$276.4 mil.	\$297.0 mil.	\$319.4 mil.	\$343.3 mil.	\$369.0 mil.	\$398.6 mil.
4 year Phase-in			\$79.8 mil.	\$171.6 mil.	\$276.7 mil.	398.6 mil.

UNC System

The UNC General Administration calculated the in-state tuition paid at its 16 institutions in FY 1996-97 to be \$140,025,000. This tuition amount includes regular term, summer term, and extension instruction fees. Enrollment is projected the same as private colleges at 1.5% until 2001, then increase to 2% a year. The inflation rate for tuition is projected to be 3% a year or half of the increase in private college tuition.

As mentioned above, the UNC System has estimated that 84% of the FTE (full time equivalent) of students would be eligible for the deduction under the proposed bill. This estimate is based on an analysis of student data files from 1981 to 1997.

Tuition	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
UNC System	\$140 mil.	\$146.3 mil.	\$152.9 mil.	\$159.8 mil.	\$167 mil.	\$175.3 mil.
Enrollment Growth		1.5%	1.5%	1.5%	1.5%	2.0%
Tuition Inflation		3%	3%	3%	3%	3%
84% Eligible	\$117.6 mil.	\$122.8 mil.	\$128.4 mil.	\$134.2 mil.	\$140.2 mil.	\$147.2 mil.
4 year Phase-in			\$32.1 mil.	\$67.1 mil.	\$105.1 mil.	\$147.2 mil.

Community Colleges

The Community College System reported \$60,047,120 in tuition paid in FY 1996-97. This number was derived from 107,227 FTE (full time equivalent) multiplied by tuition of \$560. According to the Legislative Fiscal Analyst that works with the Community College budget, the tuition rate is not projected to be increased in the near future. The General Fund Model projects enrollment growth in the Community College System to be 1.8% a year. Since data is not available from community colleges on the impact of the semester limitation, this fiscal note will assume 100% eligibility for the deduction.

Tuition	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
Community Colleges	\$60 mil.	\$61.1 mil.	\$62.2 mil.	\$63.3 mil.	\$64.5 mil.	\$65.6 mil.
Enrollment Growth		1.8%	1.8%	1.8%	1.8%	1.8%
Tuition Inflation		No increase				
4 year Phase-in			\$15.5 mil.	\$31.6 mil.	\$48.3 mil.	\$65.6 mil.

Proprietary Schools

The State Board of Community Colleges issues licenses to proprietary trade schools, proprietary technical schools, proprietary business schools and correspondence schools. The Board does not license schools that are regulated by their own licensing board (such as cosmetology) or by a department (such as truck driving by DOT). There are currently 35 proprietary schools licensed by the State Board of Community Colleges. When enrollment data was last collected for these schools in 1992, there were 4,500 students. To estimate the tuition cost for these schools, a Community College administrator pulled a small, unscientific sample that included healing arts such as massage therapy (\$5,550), computer instruction (\$7,300) and a business college (\$6,500).

Using this sample, it is estimated that the average tuition of a proprietary school is \$6,000/yr. for FY 1996-97. The same enrollment growth and tuition inflation of private colleges is applied to the FY 1996-97 tuition. Since data is not available from proprietary schools on the impact of the semester limitation, this fiscal note will assume 100% eligibility for the deduction.

Tuition	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
Proprietary Schools	\$27 mil.	\$29 mil.	\$31.2 mil.	\$33.5 mil.	\$36.1 mil.	\$38.9 mil.
Enrollment Growth		1.5%	1.5%	1.5%	1.5%	2.0%
Tuition Inflation		6%	6%	6%	6%	6%
4 year Phase-in			\$7.8 mil.	\$16.7 mil.	\$27.0 mil.	\$38.9 mil.

Summary

The total tuition eligible for the tax deduction each year is shown in the chart below. This note assumes that the individuals taking advantage of this credit are paying individual income tax at the 7% rate. An individual's taxable income will be reduced by the amount of tuition paid. Since the tax deduction is in effect beginning January 1, 1998, the first impact of the bill will be in FY 1998-99 when taxpayers file their returns in the spring of 1999. At a 7% tax rate, taxpayers will receive a \$9.4 million tax break in FY 1998-99 and the General Fund will lose a like amount in revenue.

	(\$Millions)				
	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
UNC System		128.4	134.2	140.2	147.2
Private Colleges		319.4	343.3	369.0	398.6
Community Colleges		62.2	63.3	64.5	65.7
Proprietary Schools		31.2	33.6	36.1	38.9
Total Eligible Tuition		541.2	574.4	609.8	650.4
4 Year Phase in		135.3	287.2	457.3	650.4
7% Income Tax		9.4	20.1	32.0	45.5

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Richard Bostic

APPROVED BY: Tom Covington

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