Ohio Legislative Service Commission

Bill Analysis

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H.B. 246

130th General Assembly
(As Introduced)

Reps. Rogers and Blair, Cera, Barborak, Celebrezze, Antonio, Maag, Gerberry, Patterson, Slesnick, Stinziano, Henne, Beck

BILL SUMMARY

- Authorizes a post-secondary school graduate obtaining a degree after the effective date to take a personal income tax deduction for certain out-of-pocket higher education expenses.
- Authorizes an employer that hires a recent post-secondary school graduate to deduct, over five years, all or a percentage of the employer's costs of employing that graduate from the employer's gross receipts subject to the commercial activities tax.

CONTENT AND OPERATION

Educational expense income tax deduction

The bill authorizes students that graduate on or after the effective date from an "eligible educational institution" to deduct, over a period of years beginning in the year after graduation, each graduate's "qualified higher education expenses" from the graduate's Ohio adjusted gross income. Deductible higher education expenses include all of the following incurred when the graduate was a student enrolled toward the completion of a degree program at an eligible educational institution:

(1) Tuition, fees, books, supplies, and equipment required for the student's attendance at the institution;

(2) Provided the student enrolled for at least one-half of the full-time course load, room and board expenses, up to the amount of the room and board allowance determined by the institution for federal financial aid purposes or the amount actually charged in the case of on-campus housing, whichever is greater;

(3) Special needs services required for the student's attendance at the institution;

The graduate is required to subtract from the above expenses the following:

(1) The amount of such expenses covered from grants, scholarships, gifts, or bequests;

(2) The amount of such expenses covered from payments from a qualified tuition program qualifying for federal tax exemption under section 529 of the Internal Revenue Code;

(3) The amount of any federal income tax reduction resulting from a deduction or credit claimed by the graduate on the basis of such expenses.

The resulting difference is the amount the graduate may deduct from the graduate's adjusted gross income.[1] An eligible educational institution broadly includes any college, university, vocational school, or other post-secondary educational institution eligible to participate in a student aid program administered by the United States Department of Education.[2]

A graduate who receives an associate or technical degree may deduct 20% of the graduate's qualified higher education expenses for each of the five taxable years beginning with the taxable year following the year in which the graduate received the degree. A graduate who receives a baccalaureate, master's, professional, or other advanced degree may deduct 10% of the graduate's expenses for each of the ten taxable years beginning with the taxable year following the year in which the graduate received the degree.[3] In either situation, a graduate may defer taking the deduction for any taxable year during which the graduate is enrolled full-time in an eligible educational institution to pursue a more advanced degree. The deferring graduate must retain evidence of such enrollment for possible inspection by the Tax Commissioner for four years after the graduate finishes taking the deduction.[4] Additionally, each graduate taking the deduction must retain proof of graduation for four years after the graduate finishes taking the deduction.

A graduate is required to add back any higher education expense deduction taken for the purpose of determining whether the graduate is eligible to claim the

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[1] R.C. 5747.01(32) and 5747.82.

[2] See 26 U.S.C. 529.

[3] R.C. 5747.82(B).

[4] R.C. 5747.82(C).

existing personal income tax credit that eliminates income tax liability for a person with an adjusted gross income of less than $10,000.[5] Thus, the bill's deduction would not reduce a person's adjusted gross income such that a person otherwise ineligible for the credit would become eligible for the credit.

Commercial activity tax deduction for hiring recent graduates

The bill authorizes an employer that hires a recent post-secondary school graduate after the bill's effective date to deduct the employer's costs of employing the graduate from the employer's gross receipts subject to the commercial activities tax. An employer may take the deduction only if the recent graduate meets certain criteria. First, in addition to the graduate being hired after the effective date, the graduate must be hired to a full-time position in Ohio requiring at least 2,080 compensated hours per year. Second, the graduate must have obtained a degree from an eligible education institution at some time within the two calendar years preceding the graduate's hiring date.[6] Third, employment of the graduate must result in an increase of the total number of employees employed in full-time positions by the employer on the bill's effective date.[7] An employer may take the deduction only on the basis of an employee that meets the above criteria ("qualifying new employee").

The bill allows the employer to deduct the employer's following costs associated with hiring a qualifying new employee:

(1) Wages;

(2) Social Security and Medicare excise taxes;

(3) Premiums paid to provide health insurance to the employee;

(4) Worker's compensation premiums;

(5) Unemployment compensation taxes.[8]

The employer may take a deduction only for the first five years that the qualifying new employee is employed. The employer may deduct 100% of the costs described above for the first 12 months ("employment year") that the qualifying new employee is employed. Thereafter, the amount that may be deducted gradually

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[5] R.C. 5747.82(D).

[6] R.C. 5751.031(A)(2).

[7] R.C. 5751.031(D).

[8] R.C. 5751.031(A)(1).

decreases to 50% of costs paid in the second employment year, 25% in the third employment year, 12.5% in the fourth employment year, and 6.25% in the fifth employment year. The employer must take deduction for the tax period in which the employer paid the qualifying new employee's costs.[9]

If, before the end of the five-year period over which the employer may take the deduction, a qualifying new employee's employment relationship is terminated for any reason and the employer subsequently hires another qualifying new employee, the percentage of the subsequently hired employee's costs the employer may deduct equals the percentage of costs the employer could have deducted for that period if the subsequently hired employee had been the former employee. However, if the former employee leaves after employer has already claimed the full deduction on the basis of that employee, the employer may take the deduction on the basis of the subsequently hired employee according to the five-year subsiding percentage schedule described above if the subsequently hired employee is a qualifying new employee.[10]

HISTORY

ACTION	DATE
Introduced	08-15-13

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[9] R.C. 5757.031(B).

[10] R.C. 5751.031(C).