

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1276 - HB 1206

March 6, 2013

**SUMMARY OF BILL:** Effective January 1, 2014, enacts the Educate and Employ Act of 2012, which authorizes franchise and excise tax credits for employers providing educational assistance to employees equal to 25 percent of the lesser of the actual amount of educational assistance paid to an employee through an educational assistance program, or the maximum allowable amount that the employee may exclude from gross income for federal income tax purposes under §127 of the Internal Revenue Code. Such credits shall be allowed against the sum total of the employer's franchise and excise tax liability. Authorized franchise and excise tax credits shall not exceed a taxpayer's total tax liability. Authorizes eligible taxpayers to carry forward any unused tax credits for up to ten years. Requires the Department of Revenue (DOR) to promulgate rules and regulations.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – \$11,550,000/FY13-14  
\$23,100,000/FY14-15 and Subsequent Years**

Assumptions:

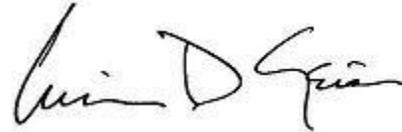
- The maximum allowable amount of educational expenses that an employee may exclude from gross income for federal income tax purposes under §127 of the Internal Revenue Code is currently \$5,250.
- Based on the Tennessee Higher Education Commission data from 2010, 2011, and 2012, it is estimated there are approximately 400,000 higher education students in Tennessee every year.
- Based on information from the U.S. Census Bureau – Survey of Income and Program Participation (2008), approximately 6.3 percent of higher education students receive employer tuition assistance. Based on information from the 2008 National Postsecondary Student Aid Study, conducted by the National Center for Education Statistics at the U.S. Department of Education, approximately 10.2 percent of higher education students receive employer tuition assistance. It is estimated that 8.25 percent  $[(6.3\% + 10.2\%) / 2]$  of higher education students will receive employer tuition assistance in the future.
- The annual number of students who will receive employer tuition assistance is estimated to be 33,000  $(400,000 \times 8.25\%)$ .

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- It is further estimated that 30 percent of such students, or 9,900 (33,000 x 30.0%) will receive assistance from entities that are not subject to franchise and excise tax, such as universities, non-profits, and government agencies. Seventy percent of students, or 23,100 (33,000 x 70.0%), will receive assistance from entities that are subject to franchise and excise tax.
- The maximum allowable franchise and excise tax credit that may be claimed in any given year by an eligible employer is \$1,313 ( $\$5,250 \times 25.0\%$ ) per employee receiving tuition assistance.
- The average tax credit claimed by eligible employers is estimated to be \$1,000 per year for each employee receiving tuition assistance.
- One hundred percent of employers offering tuition assistance to employees will claim the proposed tax credit.
- The recurring decrease in state revenue is estimated to be \$23,100,000 (23,100 x \$1,000).
- The first-year impact is estimated at 50 percent of the first full-year impact, or \$11,550,000 ( $\$23,100,000 \times 50.0\%$ ), due to the proposed effective date of January 1, 2014.

#### **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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