SENATE BILL REPORT

SB 5196

As of February 3, 1995

Title: An act relating to a business and occupation or public utility tax credit for persons making contributions to public institutions of higher education in this state.

Brief Description: Providing tax credits for persons making contributions to higher education.

Sponsors: Senators Bauer, Owen, Winsley and McAuliffe; by request of Governor Lowry.

Brief History:
Committee Activity: Higher Education: 2/7/95.

SENATE COMMITTEE ON HIGHER EDUCATION

Staff: Jean Six (786-7423)

Background: Studies demonstrate that having a well educated society is key to the future social and economic well-being of Washington. There is evidence that many people lack the financial resources to obtain the postsecondary education necessary for them to become contributing members in a prosperous Washington economy. The financial aid currently provided by the state and federal governments has not kept pace with the needs of students. Tuition has recently increased significantly, thereby increasing the number of students who need financial assistance. According to the Higher Education Coordinating Board (HECB), applications for state financial aid increased 27 percent between 1992 and 1994.

The Office of Financial Management forecasts that because of significant population growth, higher education enrollments must increase by 50,000 students over the next 15 years to maintain the current participation rate. Constrained financial aid resources will be applied to an even larger student population.

Summary of Bill: The creation of a private-public partnership is intended to encourage businesses to fill the gap between available resources and the demand for student financial aid. Businesses that make cash contributions to qualified institutions receive dollar-for-dollar credit against their B&O/Public Utility taxes. These cash contributions must be used for financial aid.

Beginning on July 1, 1995, under certain conditions, people may receive a credit against business and occupation taxes or public utility taxes when they contribute to public colleges and universities. In order to receive the tax credit, people must make the contribution to a particular institution for financial aid for needy resident students. In addition, they must follow procedures and accept conditions adopted by the Higher Education Coordinating Board.

The procedure includes a requirement that contributors reserve the tax credit with the board before making contributions. In addition, they must sign an affidavit with the Department of Revenue.

Financial aid contributions must be used by the institution as follows: 50 percent will be used for students participating in the State Need Grant Program, 16.7 percent will be used for work study aid, and the remainder may be used for any form of aid for needy resident students. The Higher Education Coordinating Board will subtract the amount of need grant contributions from the need grant amount that the institution would normally receive through the state program. Contributions toward other aid programs do not require any offsets, and offsets are not permitted for contributions to programs other than the need grant and work study programs.

Tax credits must be taken in the same year that the tax liability occurs. Credits cannot exceed a person's tax liability for any particular calendar year, and contributions made before July 1, 1995, cannot be used for a credit.

The total tax credits contributed for higher education financial aid purposes is capped at $60 million for the 1995-97 biennium. Up to $50 million must be used as financial aid to needy students that qualify for the state need grant program or an individual institution's financial aid program. Up to $10 million must be used for students qualifying for the state work study program. Each institution is limited to no more than $20 million in contributions in any biennium.

Appropriation: None.

Fiscal Note: Requested on January 16, 1995.

Effective Date: The bill takes effect on July 1, 1995.