

2011 HOUSE FINANCE AND TAXATION

HB 1356

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1356
January 24, 2011
#13268

☐ Conference Committee

Committee Clerk Signature

May Bricker

Explanation or reason for introduction of bill/resolution:

A Bill relating to an individual income tax deduction for higher education student loan repayment; and to provide an effective date.

Minutes:

See attached testimony #1, #2, #3

Representative Heilman: Sponsor. Support. Please refer to attached testimony #1.

Vice Chairman Craig Headland: I'm interested in this bill. I have a junior in high school that is probably looking towards college. If I have the ability to pay for college and I may very well choose to do that, why don't I get a tax break?

Representative Heilman: We've wrestled with that. There was talk about maybe we should include in there if you pay in cash you could deduct that also. I will leave that to the committee if you want to make that amendment. The reasoning is that there is so much student loan debt out there and the theory is that if you're paying in cash you're already ahead of the ballgame in most cases. This was to address one issue of the student loan increasing indebtedness. I wouldn't be opposed to cash write-offs if that is what the committee sees fit.

Vice Chairman Craig Headland: I am sure this is not your intent but I don't know if people have the ability to pay for their college do we want to provide them with a reason to go and borrow money?

Representative Heilman: That was another thing brought up when we were going to talk with this committee. It could be viewed as an incentive that for 20 years you could get a tax break but the tax break would not cover the amount of interest you'd be paying if you're making minimum payments. I don't think this will encourage students to take out more debt because in the future they may receive a tax break. I would certainly hope that the education of our students would show that not to be a worthy investment. That is a good point but I don't think that this would encourage more indebtedness. But to your original question that may be another reason to add a payment in cash type deduction as well because then they'd have the incentive to pay now or later.

Representative Glen Froseth: Who becomes the primary obligor if the student loan is co-signed by the parent and if the student decides not to come back to North Dakota? Would the parents get the \$2000 credit?

Representative Heilman: The intent was if the student was the primary signer on the loan then only that student would get the credit. The idea was to have the young educated professional stay in North Dakota. If the parent was the primary signer on the loan then the student would not qualify.

Representative Shirley Meyer: Do you know what the current interest rate is on student loans?

Representative Heilman: I'm not exactly sure. Just speaking from experience it's somewhere in the 5-7% range. When I consolidated most of them were at 6.8% and that was a federal loan. There might be officials from the bank that would know that information better than I would.

Representative Bette Grande: When you came up with this to be deducted off the percentage of their income how do we know how that correlates to the amount they are paying on their student loans?

Representative Heilman: If I understand the question how we came up with the \$2000 when we originally talked about this we talked about a tax credit but we thought this would be more palatable to use this as a deduction. If we take the \$112 million in annual payments, give or take, divided by the 62,000 residents who pay them that equates to about \$1800 a year. We wanted to make sure we caught what the average people are paying and that's where the \$2000 came from. It doesn't have any regard to what their income might currently be.

Representative Bette Grande: I'm not looking for the income level I'm saying that I might be able to deduct because of my income that \$2000 but I'm only paying \$150.

Representative Heilman: It would only be up to \$2000.00. So they would have to provide proof that they have paid x amount of dollars in their student loans. If they only paid \$1500 in the year they would only deduct \$1500.

Representative Wayne Trottier: If a person pays cash it would be hard to deduct that or use this credit because at the time you wouldn't know if they were staying in North Dakota, is that right?

Representative Heilman: That is kind of the point. We wanted that long term incentive to stay. The cash incentive certainly is something to have a discussion about but that is hard to say they would stay because of that. This was more of a long term commitment to the young people of North Dakota that said we realize you've invested in your education and thank you for staying in North Dakota and as long as you continue to stay here you still qualify. There is danger with a cash deduction that if they leave then there's more money that went out of state in so many words.

William Woodworth, ND Student Association, Legislative Lobbyist: See attached testimony #2. Support.

Dustin Gawrylow, Executive Director of ND Taxpayers Association: Support. Please refer to attached testimony #3.

Representative Patrick Hatlestad: Co-sponsor. Support. We have worked diligently over the years to attempt to make college more affordable and we seemed to have a great deal of trouble keeping the costs down. This might be an incentive then for the young people that are pursuing that four year degree to be able to look down the future and know that there would be some incentive to keep going to borrow the money to get the education to provide North Dakota with that educated population. I think it's a good idea and I think it will keep young people in the state. I think it has economic benefits that are significant and I would actively support the passage of HB 1356.

Vice Chairman Craig Headland: We just heard that from Mr. Gawrylow that this deduction is going to be equivalent to about \$37. If that is the case do you really believe that it will be enough of an incentive to keep somebody in North Dakota that really wants to experience life somewhere else?

Representative Patrick Hatlestad: I thought it was a difference between the two deductions and the tax credit. So it would actually be more than that. I think it's an incentive and I think it shows a faith on part of the legislature towards the young people of North Dakota that we truly are going to do something to encourage them to stay.

Shirley Glass, Bank of North Dakota: I heard something earlier about interest rates. Interest rates right now are around 6.8% for federally insured student loan. Parent loans that are federally insured are about 8.5%. The Bank of North Dakota has their Dakota Education alternative loan and rates on those loans right now are 1.8% for a variable rate and 6.3% for a fixed rate loan.

Representative Dave Weiler: The Bank of North Dakota can no longer provide student loans? What's the deal with that?

Shirley Glass: That is correct. We are no longer able to provide federally insured student loans through the Department of Education. That ended as of July 1, 2010. We did have a few remaining disbursements we made through the end of 2010 but we were unable to originate any new loans after July 1. All of them are originated directly by the Department of Education federally. Our alternative loan program continues to be strong and viable and we continue to make those loans daily.

Representative Glen Froseth: The difference in rates between 6.8 and 8.5% are federal loans. Most of the loans must be federally insured then because I think most of the students are paying 8.5%.

Shirley Glass: The 8.5% is the rate of the parent loan. The 6.8% is if the student is getting the loan in their name on the federally insured side. The rates have been at 6.8 for a number of years. The majority of loans are being made directly to the student. The

parents are getting those loans in cases where they are helping supplement where they aren't able to make the family contribution on their own and they need to obtain funds to do that. In some cases they are going with the parent loan and in many cases they choose to go with the Dakota Education loan because it has much more favorable terms in the form of interest rates.

Chairman Wesley R. Belter: If you look at the interest rates in the last five years these interest rates that are charged for student loans seem to be pretty high. Are they that risky is that why the interest rate is so high compared to what you might get a business loan for or a home loan?

Shirley Glass: Yes. A majority of those loans are made to students with no credit, no credit associated with those loans, there's no collateral being held and that's why you're seeing the interest rates at 6.8%.

Chairman Wesley R. Belter: Nearly 50% of our students never graduate. Are there an awful lot of students that take student loans and never finish school? I mean as far as loan repayments or is it the ones that graduate who don't pay?

Shirley Glass: You're absolutely right. The fact that when those students don't go on and get their degree repayment is obviously more difficult because they haven't necessarily gotten the benefit of those dollars that they've borrowed. On the other side often times the amount of debt they have is much lower so you're hopefully able to work out arrangement with them for a monthly payment. As a whole the Bank of North Dakota's default rate is pretty low. We attribute that to the customers that we serve and the work that we do to prevent those defaults in the fact that we counsel these students and work with them and try to find options available that will fit their financial situations so they are able to make those monthly payments.

Chairman Wesley R. Belter: But now we have this new federal program which the Bank of North Dakota can no longer participate in. Do you know because it's been changed to the federal level are student loans going to be at a much lower interest rate than currently offered by Bank of North Dakota or private lenders?

Shirley Glass: At this time, no. The interest rates are set and they are still at 6.8% just like they were when we were able to offer the loans ourselves. There has been discussion about wanting to reduce those but because of the economy and the problems the federal government is having with deficits and debt there has been no talk of reducing interest rates on student loans. As a matter of fact discussion is possibly taking away some of the benefits than reducing rates.

Chairman Wesley R. Belter: I'm not sure how this program works so where is the savings coming from? Was the federal government subsidizing the Bank of North Dakota to handle these loans or where does the federal government feel that there's going to be a savings?

Shirley Glass: That's a difficult question to answer. The truth of the matter is that when the bill passed it was passed talking about the fact that there would be substantial savings because they would no longer be subsidizing lenders in payments on loans. The Bank of

North Dakota was actually returning funds to the Department of Education for several years when interest rates were so low. We were sending money back on behalf of students. The Department of Education is able to borrow at a much lower rate than the 6.8% return that they are receiving from the students. Back when the bank was making those loans it wasn't that the bank was retaining these funds we were returning them to the Department of Education millions of dollars every year.

Representative Patrick Hatlestad: You said the parent loan was 8.5% yet when you talked about the student loan being risky because they had no background and things but obviously the parents have a track record collateral and yet you're charging them almost 2% more?

Shirley Glass: I would never charge the parent more but the Department of Education is. There is no logic in that because you're absolutely right in when we look at delinquency rates and the default rates of a parent loan they are much lower. They are one of the best loans that you can have. You have a parent taking it out with established credit. There is some credit criteria that is linked to that. It's not a real stringent credit analysis that's done there just can't be any adverse credit. You are correct in that the repayment rate of those loans is very good. Why it's at 8.5% I'm not really sure but again those rates are set by the Department of Education. They should be lower in my opinion.

Vice Chairman Craig Headland: The way the bill is written it says the primary obligor is going to receive the credit. In a lot of cases I'm assuming these loans are taken out by the student but the end result is that the parent ends up paying the tab. How is the tax department going to determine who really is paying the tab or is the way this bill is written that the student no matter whether he is paying or not is going to receive the tax break?

Shirley Glass: In my opinion based on the reporting that is required the student will always be the person who is usually the student is going to get the tax credit. We are required by law to report based upon who the primary obligor is on the debt and in that case it would be the student. The only time the parent would receive the credit is in the case of the parent loan. At the time that we suspended our participation in the program we were making very few parent loans. A majority of them were in our alternative program and those loans were being made in the name of the student with the parent acting as a co-signer.

Vice Chairman Craig Headland: So if the parent co-signs there may be a way to move this tax deduction to them.

Representative Wayne Trottier: Are your loan applications up or down or the same as before when the federal program was stopped?

Shirley Glass: Our loan applications are actually up in the deal loan program. We did quite a lot of volume this year.

Representative Roscoe Streyle: As far as I know the student not allowing you to do federal loans was in the health care bill and the reason it was that was to offset the actual cost and make the number look a little smaller for Obama care.

Representative Glen Froseth: All your new loan portfolios now are at the rate of 6.8%? You no longer have to charge 8.5%?

Shirley Glass: We no longer make those loans. The only loans we are making today are either at 1.8 variable or 3.6 fixed. Those are the only new loans the Bank of North Dakota is making. We do have some loans that we have made in the past on our books at the 8.5 and 6.8 rate but we are no longer making them.

Representative Glen Froseth: Then do you allow a student to close out its present loan at 8.5% and re-write a new program under your new rates of 1.8 or 3.6?

Shirley Glass: They can't do that. They can wipe it out and consolidate the federally insured loans that they have into a new federally insured consolidation loan. The Bank of North Dakota is not allowed to make those loans that would have to be made through the Department of Education. It would be a weighted average of whatever loans that they have. You can't take federal debt and turn it into private debt.

Chairman Wesley R. Belter: No further testimony. Closed hearing on HB 1356.

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1356
January 31, 2011
#13727

☐ Conference Committee

Committee Clerk Signature

Mary Brucke

Explanation or reason for introduction of bill/resolution:

A bill relating to an individual income tax deduction for higher education student loan repayment; and to provide an effective date.

Minutes:

No attachments.

Representative Bette Grande: Made a motion for a DO NOT PASS.

Representative Wayne Trottier: Seconded.

A roll call vote was taken: YES 9 NO 5 ABSENT 0

MOTION CARRIED—DO NOT PASS.

Representative Mark S. Owens will carry HB 1356.

FISCAL NOTE

Requested by Legislative Council
01/18/2011

Bill/Resolution No.: HB 1356

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$6,600,000)			
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1356 creates a new income tax deduction for resident individuals who make student loan payments.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

HB 1356 creates a new income tax deduction of up to \$2,000 of student loan payments made during the tax year by a resident individual who is the primary obligor on the loan.

If enacted, HB 1356 is expected to reduce state general fund revenues by an estimated \$6.6 million for the 2011-13 biennium.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
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Phone Number: 328-3402

Date Prepared: 01/21/2011

Date: 1-31-11
Roll Call Vote # 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1356

House Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: ☐ Do Pass ☒ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Grande Seconded By Rep. Trottier

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	✓		Scot Kelsh		✓
Vice Chair. Craig Headland	✓		Shirley Meyer		✓
Glen Froseth	✓		Lonny B. Winrich		✓
Bette Grande	✓		Steven L. Zaiser		✓
Patrick Hatlestad		✓			
Mark S. Owens	✓				
Roscoe Streyle	✓				
Wayne Trottier	✓				
Dave Weiler	✓				
Dwight Wrangham	✓				

Total (Yes) 9 No 5

Absent 0

Floor Assignment Rep. Owens

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1356: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (9 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING). HB 1356 was placed on the Eleventh order on the calendar.

2011 TESTIMONY

HB 1356

NORTH DAKOTA HOUSE OF REPRESENTATIVES

STATE CAPITOL
600 EAST BOULEVARD
BISMARCK, ND 58505-0360

COMMITTEES:
Education
Political Subdivisions

Testimony #1 p. 1
Representative Joe Heilman
District 45
2702 9 1/2 Street North
Fargo, ND 58102-1370
jaheilman@nd.gov

Testimony: HB 1356 - Student Loan Payment Deduction

Committee: Finance and Taxation

Chairman: Rep. Wesley Belter

Mr. Chairman and Members of the Committee, my name is Rep. Joe Heilman (District 45) and I am here to testify in support of HB 1356.

As you know, the cost of education is not decreasing and students today are graduating with increasing amounts of student loan debt. Depending on which report you read, the average student debt load from one of ND's 4-year institutions is typically \$20,000 or more and about \$5,000-\$8,000 at a 2-year institution.

According to information I received from the Bank of ND, their best estimates show us that there are more than 62,000 residents (nearly 10% of ND's population) currently repaying student loans in ND. Annually, these residents make over \$112,000,000 in payments (on average, roughly \$1,800 per year) towards their student loans. As you can see, this issue impacts many North Dakotans in a big way...more so than any other time in ND's history as student loans become more accessible.

House Bill 1356 would allow a resident of ND to deduct up to \$2,000 of payments towards student loans (principal and interest) from their ND State Taxable Income. For example, a young professional living in ND, making \$40,000 per year, and making \$2,000 in payments towards their student loans would pay state income tax on \$38,000. Over the life of the loan (typically, 10-20 years), this can add up to a significant incentive.

NORTH DAKOTA HOUSE OF REPRESENTATIVES



STATE CAPITOL
600 EAST BOULEVARD
BISMARCK, ND 58505-0360

COMMITTEES:
Education
Political Subdivisions

Testimony #1 p. 2
Representative Joe Heilman
District 45
2702 9 1/2 Street North
Fargo, ND 58102-1370
jheilman@nd.gov

Origins of the Bill and why it is important

I have been involved with youth issues in ND for many years. In 2008-09, I was the Student Body President at NDSU and this summer I served on the ND Youth Council. Over the years, lawmakers have always asked *"How do we keep our educated youth in the state after graduation?"* This is a really important question as ND taxpayers invest very heavily in the cost of Higher Education. Additionally, we are now providing sizeable merit-based scholarships to students if they choose a ND institution of Higher Learning. These are fantastic initiatives and they do a great job of getting our young people to continue their education in ND, but those investments *don't* address the issue of keeping them here once they graduate.

This Bill offers a unique opportunity not found in other states. It's a way of saying, "Thank you for choosing to live and work in ND. We realize you have invested much into your education and if you make a commitment to North Dakota, North Dakota will make a commitment to you."

The Bill is not restrictive to where you received your education, age, level of degree, type of institution, etc. The only requirements are that you make student loan payments and live in ND. If a graduate from the University of MN decides to work and live in ND, they would qualify.

The fiscal note with this Bill estimates a \$6.6 Million tax break (2011-13 Biennium) to tens of thousands of residents looking to get a fresh start in ND. As a side note: in the last fiscal year, the general fund contribution from the ND Lottery was \$5.1 Million (over \$10 Million in the biennium).

When this deduction is partnered with the other benefits of choosing ND (job availability, cost of living, safety, great schools, etc.), it is yet another way to separate us from other states and make ND the best choice for young people to live and work.

Mr. Chairman and members of the committee, this concludes my testimony. I thank you for your time and the ongoing commitment to ND. I would be happy to stand for any questions.



Chairman Belter and members of the committee, my name is William Woodworth. I am currently the Legislative Lobbyist for the North Dakota Student Association. We are in favor of passing the bill HR 1356 that would allow students to deduct a certain percentage of their total student loan payments from their State Taxable Income. Students feel that this bill will provide an incentive to stay within the state after graduation, as only North Dakota students will qualify. According to the Bank of North Dakota there are around 62,000 North Dakota residents in repayment of their student loans. This would impact students and young professionals in the state by affording them the financial means to attend college, while creating economic stability. We feel as proposed the legislation will both benefit the students and the state by providing more affordable education with the assurance to improve the retention of young professionals within the state. Thank you for your time.

William Woodworth

North Dakota Student Association, Legislative Lobbyist

Testimony #3



Subject: Conceptual Amendments to HB 1356

Bill: HB 1356

Testimony Provided By: Dustin Gawrylow

Lobbyist #160

Presented To: House Finance and Tax Committee

January 24th, 2011

While the prospect of further complicating the tax code is not one that should be the first choice of the legislature, there are dozens of other targeted tax credits and deductions.

As such we support this bill, and would like to propose a few simple changes to this bill:

1. Instead of a tax deduction up to \$2,000 off taxable income, for simplifications sake, amend that provision to a \$500 NON-REFUNDABLE tax credit towards general tax liability – the fiscal note should be roughly the same.
2. Applies to all student loans, including private loans.
3. Ensure that parents and co-signers can take advantage of the credit with proof that they and not the student actually paid.

With these changes, this bill should be moved forward as an optional piece of the larger tax reduction package this session.

The North Dakota Taxpayers' Association is a membership-funded advocacy group designed to get taxpayers a voice in legislative matters. NDTA is 100% in-state funded, and counts over 500 North Dakotans as current members. NDTA is the only organization with a full time lobbyist dedicated to advocating on behalf of the taxpayer.

North Dakota Taxpayers' Association

NDTaxpayers.com • 1720 Burnt Boat Drive Suite 102 • Bismarck, ND 58503 • (701) 751-2530