



Creating a Tax Credit Program for College Degree Recipients: Building Young Talent in South Carolina

Problem: The perception is that tuition levels at South Carolina’s public colleges and universities makes higher education unaffordable for too many of the State’s citizens. Lottery Scholarship levels have been consistent for the past several years, and there is no anticipated overall increase planned.

South Carolina needs more college-educated young people in the state, to build business opportunities, develop a broader tax base, and contribute to overall economic development. The greatest benefit to the State is the retention of well-educated students within South Carolina.

For every South Carolinian college graduate we lose by out of state migration we transfer about \$150,000 of spent investment to their new locale and we forego about \$1 to \$2 million of taxable income (their expected earnings for productive years). Conversely, if we create incentives for out-of-state students who attended SC universities, then we capture another state’s K-12 investment and gain the appreciated lifetime earnings.

Scholarship money given to students for education does not motivate them to stay in South Carolina and work. The wealth their education provides is transported to other states for their long-term benefit. The Governor has asked how we can make higher education less costly. The issue should not necessarily be a reduced cost up front through more scholarships, but an enhanced overall benefit to the State.

Proposal: **Any student who receives a degree from a public or private institution (associate or bachelor’s degree) and then works in South Carolina will be able to claim a State Income Tax Credit over 10 years, based on the amount paid (cost) in tuition and required fees.** The maximum allowable cost will equal:

- Four-year institutions: Median tuition and required fees (as reported to SREB) * 4.5.
- Two-year institutions: Median tuition and required fees (as reported to SREB) * 2.5.

The total allowable cost will be re-assessed every two years. The “cost” is the total paid to the institution minus any state scholarship, state need-based aid, or

federal need-based grant. Room, board, parking, and other auxiliary charges are not considered part of the allowable costs.

Out-of-state students who receive a degree from a public institution (associate or bachelor's degree) will be able to claim a tax credit equal to the total differential paid (cost) between in-state and out-of-state tuition and fees over the period of their attendance.

This amount will be kept on file and can be claimed for up to 25 years after graduation.

Eligibility: A student's costs are eligible for potential tax credit during any semester where he or she is enrolled full-time and is in good academic standing. Student who withdraw or drop-out cannot use their costs as income tax credits.

Tax Credit

Description: When filing a SC Resident Tax return, students will be able to claim 10 percent of the total cost accumulated. They will be able to claim this 10 percent amount each year for 10 years, with deferments possible. The Department of Revenue will be responsible for storing and maintaining the information.

Graduates can take advantage of the program for any period up to 10 years, ending after 25 years from the graduation calendar year.

Example: Based on the current median tuition and fees, the total possible cost allowable is \$30,000. A student who enrolls at a four-year university, does not receive any state scholarship or any need-based aid, would accumulate a "cost" of approximately \$26,432 (\$6608*4 years). After graduation, the student works in South Carolina, and he or she would be able to claim an Income Tax credit of \$2,643 for up to 10 years.

If this student graduated and went to graduate school outside of SC, the cost will be kept on file and could be used once he or she moved back to SC, up to 25 years after the year of bachelor's degree completion.

Benefits: The benefits of this program include:

- The result is a net income tax reduction on those who usually do not benefit from traditional tax cuts.
- The program increases the young talent available to SC businesses.
- It's self regulating because the student has the responsibility to find a job or start a business with taxable income in order to claim the credit.
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- The income tax reduction occurs at the height of the buying cycle, when young people are more likely to purchase cars, homes, and other durable goods. This increases the chance that the money will be returned to the SC economy.
- Only those who contribute to the State's economy benefit from the program.
- The State's long term tax revenue will increase as workers with higher wages remain in the State.
- By spreading the credits over ten-years the differential value between dollars paid in and credits paid out reduces the impact to state revenues.
- The program does not require additional appropriations to the institutions.
- Data required for maintenance of the program are already maintained by the individual institutions in standard formats.
- It is a source of accountability for the institutions and their programs because students who are interested in the idea will seek colleges and programs that are suited to the state's economic dynamics.
- The institutional accountability discussion shifts from one of inputs to outcomes. Rather than focus on SAT scores and merit, the State can gather information on how each institution contributes to the State's economy through its graduates.
- Institutions will have opportunities to collaborate with businesses to increase focus on long term workforce needs.
- There is no additional strain placed on lottery funds.

In conclusion, the benefits of this plan far outweigh any cost placed on the State's general fund. We can tell current SC residents that if you go to college, graduate, and work in South Carolina, then over the long-term your tuition is free. We can tell out-of-state students who attend our colleges and universities that if you graduate, become a resident, and work to build a business in South Carolina we'll give you back the non-resident tuition differential you paid.