
Higher Education Committee

HB 2201

Brief Description: Funding tuition reductions and other higher education programs.

Sponsors: Representatives Reykdal and Farrell.

Brief Summary of Bill

- Repeals tax deductions for interest on investments or loans secured by mortgages or deeds of trust.
- Requires tax collections from interest on investments or loans to be used to compensate institutions of higher education for a loss in tuition revenue created by a reduction in undergraduate tuition rates to be set in the operating budget.
- Requires savings to state financial aid programs to be reinvested in those programs to serve additional students.
- Subjects the act to a referendum with an effective date of January 1, 2016, if approved by a vote of the people.

Hearing Date: 3/26/15

Staff: Megan Mulvihill (786-7304).

Background:

Tax Deductions for Interest on Investments or Loans.

Those who are engaged in banking, loan, security, or other financial businesses may deduct from their taxes interest received on investments or loans that are primary secured by first mortgages or trust deeds on nontransient residential properties.

Education Legacy Trust Account.

The Education Legacy Trust Account was created in 2005 to support common schools, expand access to higher education through funding for new enrollments and financial aid, and other

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educational improvement efforts. Any monies received from taxes, penalties, interest, and fees under the Estate and Transfer Tax Act are deposited into the Education Legacy Trust Account.

Cost of Tuition.

In 2011 the Legislature granted tuition setting authority to the four-year institutions for all students for the 2011-12 through 2018-19 academic years. However, the Legislature suspended resident undergraduate tuition setting authority in the 2013-15 Operating Budget. Tuition setting authority will revert back to the Legislature in the 2019-20 academic year. Tuition at the community and technical colleges is set within caps by the Legislature in the Operating Budget.

Tuition at the public four-year institutions has increased from an average of \$6,400 in 2010-11 to \$8,778 in 2014-15. Resident undergraduate tuition for the 2014-15 academic year at the Washington public baccalaureate institutions and the community and technical colleges is as follows:

2014-15 Resident Undergraduate Tuition per Academic Year			
	Tuition	Tuition and Fees	Total Cost of Attendance*
University of Washington	\$11,305	\$12,394	\$27,112
Washington State University	\$11,396	\$12,398	\$28,176
Central Washington University	\$7,245	\$9,017	\$21,045
Eastern Washington University	\$7,372	\$8,133	\$22,245
The Evergreen State College	\$7,845	\$8,447	\$22,355
Western Washington University	\$7,503	\$8,965	\$23,222
Community and Technical Colleges	\$4,000	\$4,000+	N/A

*The total cost of attendance is an estimate for single, undergraduate students without dependents who are living away from their parent's home or undergraduate married students without dependents whose spouses are also students.

+ While tuition for the community and technical colleges is set by the Legislature, the fees vary by college and location.

Summary of Bill:

Tax deductions for interest on investments or loans secured by mortgages or deeds of trusts are repealed. The Department of Revenue must create a unique reporting code for interest derived from investments or loans by banking businesses, security businesses, lending businesses, and other financial businesses. The following are defined:

1. "Banking business" means a person engaging in business as a national or state-chartered bank, a mutual savings bank, a savings and loan association, a trust company, an alien bank, a foreign bank, a credit union, a stock savings bank, or a similar entity.

2. "Lending business" means a person engaged in the business of making secured or unsecured loans of money, or extending credit; and
 - more than one-half of the person's gross income is earned from such activities; and
 - more than one-half of the person's total expenditures are incurred in support of such activities.
3. "Security business" means a person, other than an issuer, who is engaged in the business of effecting transactions in securities as a broker, dealer, or broker-dealer, as those terms are defined in the Securities Act of Washington or the federal Securities Act of 1933. It does not include any company excluded from the definition of broker or dealer under the federal Investment Company Act of 1940.

Tax collections derived from interest on investments or loans must be deposited into the Education Legacy Trust Account. During the 2015-17 biennium, revenues deposited into the Education Legacy Trust Account from tax collections from interest on investments or loans must be used to compensate institutions of higher education for the loss of tuition revenue created by a reduction in resident undergraduate tuition rates. The percent reduction must be set in the operating budget. Any savings to state financial aid programs resulting from a reduction in resident undergraduate tuition rates must be reinvested in those programs to serve additional students. Revenues deposited into the account from tax collections derived from interest on investments or loans during the 2017-19 biennium and thereafter must be used to forestall increases in resident undergraduate tuition rates.

The act is subject to a referendum.

Appropriation: None.

Fiscal Note: Requested on March 25, 2015.

Effective Date: The bill takes effect on January 1, 2016, if approved by a vote of the people.