

March 1, 2021

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	<b>X</b>	

Department of Revenue  
Analysis of H.F. 1234 (Becker-Finn) / S.F. 1400 (Isaacson)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>
	(000's)			
General Fund	(\$4,600)	(\$4,700)	(\$4,800)	(\$4,900)

Effective beginning with tax year 2021.

**EXPLANATION OF THE BILL**

**Current Law:** A nonrefundable income tax credit is allowed for individuals with qualified education loans related to an undergraduate or graduate degree program at a public or nonprofit institution. The credit is equal to the least of:

- Eligible education loan payments of principal and interest made during the tax year minus 10% of adjusted gross income over \$10,000;
- The earned income of the taxpayer;
- The interest portion of eligible loan payments made during the tax year plus 10% of the original loan amount of all qualified education loans; or
- \$500.

For married joint filers, each spouse is eligible for the credit. The credit is allocated to part-year residents based on the percentage of their income that is attributable to Minnesota. Full-year nonresidents are not eligible for the credit.

**Proposed Law:** For married joint filers, the credit calculation would be based on each spouse's share of the couple's earned income multiplied by the couple's adjusted gross income.

For example, if a married joint return had adjusted gross income of \$60,000 and each spouse earned an equal amount, then each spouse's share of adjusted gross income would be \$30,000. The credit would be calculated as loan payments minus \$2,000  $((\$30,000 - \$10,000) \times 10\%)$ . Under current law, the credit is calculated as loan payments minus \$5,000  $((\$60,000 - \$10,000) \times 10\%)$ .

The bill would also make the credit refundable.

**REVENUE ANALYSIS DETAIL**

- The estimate is based on information from 2019 income tax returns.
- In tax year 2019, student loan credits totaled \$23.4 million on 52,200 returns.
- Credits for married joint filers were increased by 80% to account for newly eligible filers.

**REVENUE ANALYSIS DETAIL (Cont.)**

- The credit is expected to grow at 2.0% a year, based on the average growth in the amount of student loan credits claimed for tax years 2017-2019.
- Tax year impacts were allocated to the following fiscal year.

**Number of Taxpayers:** About 14,700 tax returns would be affected in tax year 2021, with an average reduction in tax of \$315.

Minnesota Department of Revenue  
Tax Research Division  
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