DEPARTMENT OF REVENUE

**INDIVIDUAL INCOME TAX**
**Student Loan Credit**

February 15, 2022

| | Yes | No |
|---|---|---|
| **DOR Administrative Costs/Savings** | X | |

Department of Revenue
Analysis of H.F. 3072 (Her) / S.F. 3028 (Murphy)

| | Fund Impact | | | |
|---|---|---|---|---|
| | **F.Y. 2022** | **F.Y. 2023** | **F.Y. 2024** | **F.Y. 2025** |
| | (000's) | | | |
| General Fund | $0 | ($429,700) | ($438,200) | ($446,800) |

Effective beginning tax year 2022.

## 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 eligible individual;
- The interest portion of eligible loan payments made during the tax year plus 10% of the original loan amount of all qualified education loans of the eligible individual; or
- $500.

For married joint filers, each spouse is eligible for the credit. Each spouse's adjusted gross income is defined as the spouse's percentage share of the couple's earned income, multiplied by the couple's combined adjusted gross income.

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:** The bill would make the following changes:

1. Increase the phase-out threshold from $10,000 to $50,000;
2. Limit the credit to 17% of earned income;
3. Increase the maximum credit from $500 to $5,000;
4. Make the credit refundable.

## REVENUE ANALYSIS DETAIL

- The estimate is based on information from 2019 income tax returns.
- In tax year 2019, Minnesota student loan credits totaled on $23.2 million on 50,900 returns.
- The proposed changes would increase the credit for 49,200 returns in tax year 2019. The average increase would be $3,385 per return.
- A very small number of returns could have a reduced credit because the credit is limited to 17% rather than 100% of earned income.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Credits for newly eligible returns were estimated based on the federal student loan interest deduction.
- In 2019, about 296,100 full-year and part-year resident returns claimed student loan interest deductions and were not eligible for the current student loan credit.
- It is unknown how many of those would have eligible student loans for the taxpayer or the taxpayer's spouse. The estimate was reduced by about 23% to exclude taxpayers with nonqualifying loans or student debt payments for a dependent. About 228,100 returns are assumed to have eligible student loans for the taxpayer or the taxpayer's spouse.
- Of those, about 132,400 returns would be eligible for the proposed credit. The average credit for newly eligible returns is $1,801.
- Tax year impacts were allocated to the following fiscal year.

**Number of Taxpayers:** About 181,600 tax returns would be affected in tax year 2022.

Minnesota Department of Revenue
Tax Research Division
https://www.revenue.state.mn.us/revenue-analyses