

June 6, 2017

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 1 (1st Special Session), Omnibus Tax Bill, Article 1 Sec. 24

	Fund Impact			
	<u>F.Y. 2018</u>	<u>F.Y. 2019</u>	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>
			(000's)	
General Fund	(\$26,900)	(\$27,800)	(\$28,800)	(\$29,800)

Effective beginning with tax year 2017.

EXPLANATION OF THE BILL

Current Law: A federal deduction is allowed for interest paid on qualified loans used to pay higher education expenses for the taxpayer, spouse, or dependents. A person claimed as a dependent on someone else's return cannot take the deduction. The maximum deduction is \$2,500. For tax year 2016, the deduction is phased out for income over \$65,000 (\$130,000 for joint returns) and is completely phased out for taxpayers with income of \$80,000 or more (\$160,000 or more for joint returns). The deduction flows through to the computation of Minnesota taxable income.

Proposed Law: As proposed to be amended, the bill creates a nonrefundable income tax credit for individuals with qualified education loans related to an undergraduate or graduate degree program at a public or nonprofit institution. The credit would be 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.

A qualified loan is any loan used to pay for higher education expenses including tuition, fees, room and board, and other related expenses for the taxpayer. For married joint filers, each spouse would be eligible for the credit. The credit would be 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.

REVENUE ANALYSIS DETAIL

- This analysis is based on federal return information from the 2014 Minnesota income tax sample and student loan interest reported on federal form 1098-E.

REVENUE ANALYSIS DETAIL (Cont.)

- Taxpayers currently claiming the student loan interest deduction were identified as potentially eligible for the credit. However, information on the total loan amounts and the annual loan payments is not provided on income tax returns.
- The federal deduction is limited to \$2,500, subject to income limits. For taxpayers who claimed the maximum deduction, their total interest was increased by 50%, based on the median interest reported on 1098-Es for taxpayers claiming the maximum deduction.
- For taxpayers who are ineligible for the federal deduction because of income, the credit was estimated based on student loan interest reported on federal form 1098-E, matched to income tax returns.
- For married joint returns, the credit was calculated based on each spouse's earned income. Nonwage income such as self-employment income was divided equally between spouses. Student loan payments were divided among spouses based on data from the 1098-Es of married joint filers in the income tax sample.
- For part-year residents, the credit was allocated based on the percentage of income attributable to Minnesota.
- OHE reported 8% of all financial aid in 2013 were loans to parents. Since parents are not eligible for the credit, the total credit was reduced by 8%.
- The total credit was reduced by 15% to exclude loans for students at private for-profit institutions based on enrollment data from OHE.
- The credit was assumed to grow at 3.4% annually, based on the increase in the number of returns claiming the student loan deduction for Minnesota taxpayers from 2009 to 2014.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: About 65,000 taxpayers would claim the credit in tax year 2017. The average credit would be \$414.

Source: Minnesota Department of Revenue
Tax Research Division
[www.revenue.state.mn.us/research_stats/Pages/
Revenue-Analyses.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)