

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Student Loan Interest & Principal Deduction

March 13, 2007

Department of Revenue
Analysis of S.F. 1076 (Rosen) / H.F. 1537 (Gunther)

	Yes	No
DOR Administrative Costs/Savings		X

	Fund Impact			
	F.Y. 2008	F.Y. 2009	F.Y. 2010	F.Y. 2011
			(000's)	
General Fund	(\$5,300)	(\$5,700)	(\$6,100)	(\$6,600)

Effective beginning with tax year 2007.

EXPLANATION OF THE BILL

The bill would allow an individual to subtract student loan interest and principal payments made during the year from federal taxable income and alternative minimum taxable income. The proposal limits the subtraction for interest payments to those payments disallowed under federal law because the payment is in excess of the \$2,500 maximum or is made by a person whose income is above the federal phase-out. The phase-out threshold is indexed for inflation; for tax year 2007 it is \$140,000 for married joint filers and \$70,000 for all other filing statuses.

REVENUE ANALYSIS DETAIL

- The preliminary 2005 individual income tax sample indicates that 239,877 Minnesota residents claimed \$146.6 million in student loan deductions during tax year 2005.
- The estimate assumes that student loan interest payments not claimed on tax returns equal 10% of claimed deductions.
- Based on data from Sallie Mae, this estimate assumes that 29.78% of total student loan payments are made toward principal, rather than interest.
- Student loan deductions allowed under the proposal were multiplied by a marginal tax rate of 5.6% to compute the revenue loss estimate.
- The College Board predicts that college cost inflation will range from 5% to 8%. This estimate assumes that the subtraction would increase 7% per year.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: Estimated 250,000 individual filers in calendar year 2007.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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