INDIVIDUAL INCOME TAX
Student Loan Repayment Credit

March 18, 2013

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 609 (Kahn) / S.F. 524 (Koenen)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
General Fund		($12,200)	($24,800)	($37,900)

Effective beginning in tax year 2013.

EXPLANATION OF THE BILL

The proposal would create a refundable credit against the individual income tax for repayment of a subsidized Stafford or Perkins student loan. The credit would apply only to loans incurred on behalf of the taxpayer or the taxpayer's spouse to pay tuition and fees for academic year 2012-2013 or later.

An individual could claim a credit for the amount paid in principal and interest on subsidized Stafford or Perkins student loans during the tax year, up to a maximum credit of $500. To be eligible for the credit, the individual must be a Minnesota resident and have completed a degree program at a college or university in Minnesota or at a public postsecondary institution in a state with a tuition reciprocity agreement with Minnesota.

- The data for this analysis comes from the Minnesota Office of Higher Education (OHE).
- For school year 2010-2011, about 190,000 students received subsidized Stafford or Perkins Loans totaling $700 million, according to the OHE. The average amount borrowed in that year was about $3,700.
- Assuming that loan amounts grow at least at the same rate as tuition, it is estimated that the average student beginning school in 2012-13 and completing a four-year program would owe about $18,800 in subsidized Stafford and Perkins loans. A student completing a two-year program would owe about $8,800.
- At the current interest rate of 3.4% and a term of ten years, the annual payment on that debt would be about $2,200 or $1,000 respectively.
- The credit is limited to student loans incurred to pay tuition and fees. Since the average loan amount is less than the average cost of tuition and fees, the entire loan payment is assumed to be eligible for the credit.
- Based on the average annual repayment amount, most eligible graduates would qualify for the maximum individual credit of $500.
- In the first few years that the credit is available, the average eligible loan amount would be lower, since the credit applies only to loans incurred for school years 2012-2013 and later. However, any student with at least $4,230 in eligible loans would qualify for the maximum credit of $500. It is assumed that most eligible individuals would meet that threshold.

- Minnesota colleges and universities awarded about 50,000 associate and bachelor's degrees in 2010, according to the OHE. About 81% of those students were Minnesota residents.
- In addition, about 4,500 Minnesota residents graduated from public institutions in reciprocity states, for a total of about 45,000 graduates in 2010 who were Minnesota residents. Since the number of graduates has increased by 4% annually over the past ten years, it is estimated that in 2013 there will be about 51,000 eligible graduates.
- Given that 60% of graduates have subsidized Stafford or Perkins loans, in 2013 there will be an estimated 30,000 graduates who are Minnesota residents and have Stafford or Perkins loans.
- Some graduates may defer student loan payments for graduate school or other reasons, so it is assumed that 80% of graduates with eligible debt would claim the credit each year.
- In school year 2012-13, approximately 24,000 new graduates would be eligible for the credit. Each subsequent year an additional class of students would graduate and be eligible.
- Since students have a six-month grace period after graduation before subsidized loan payments begin, a student who graduated in 2012-13 would begin paying off student loans near the beginning of tax year 2014.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: About 24,000 in tax year 2014. That number would grow substantially each year as new graduates become eligible for the credit.

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

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