MINNESOTA · REVENUE

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

April 3, 2013

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

Department of Revenue
Analysis of S.F. 997 (Clausen) 1st Engrossment

| | Fund Impact | | | |
|---|---|---|---|---|
| | F.Y. 2014 | F.Y. 2015 | F.Y. 2016 | F.Y. 2017 |
| | | (000's) | | |
| General Fund | $0 | ($20,100) | ($64,100) | ($135,900) |

Effective beginning in tax year 2013 for debt incurred after June 30, 2012.

## EXPLANATION OF THE BILL

The bill would create a refundable credit against the individual income tax for repayment of a qualified education loan. Minnesota residents who graduated from a postsecondary institution in Minnesota would be eligible for the credit. The credit would apply only to indebtedness incurred on behalf of the taxpayer or the taxpayer's spouse after June 30, 2012 at a postsecondary institution in Minnesota. Debt incurred outside Minnesota by students who then transferred to a postsecondary institution in Minnesota would also be eligible.

An individual could claim a credit for the amount paid in principal and interest on qualified student loans during the tax year, up to a maximum credit of $4,000. For single filers and married separate filers, the credit would be phased out by one dollar for every nine dollars of household income over $39,000. For all other filers the credit would be phased out by one dollar for every nine dollars of income over $58,500. The thresholds are not indexed for inflation.

An employer could claim a nonrefundable credit for the amount paid in principal and interest on behalf of the employee, up to $4,000. The employer could take the credit only for payments made in months in which the individual did not make payments.

## REVENUE ANALYSIS DETAIL

- The data for this analysis comes from the Minnesota Office of Higher Education (OHE).
- For school year 2010-2011, student loans from all sources totaled $1.85 billion, according to the OHE. About 64% of students borrowed an average amount of $7,274 in that year.
- 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 $37,000 in student loans. A student completing a two-year program would owe $17,000.
- The current interest rate on federal subsidized loans is 3.4%, although the interest rate on unsubsidized or private loans is generally higher. Assuming an average interest rate of 4.5% and a term of ten years, the annual payment on that debt would be about $4,600 for graduates after four years or $2,100 for graduates from two-year programs.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Based on the average annual repayment amount, it is estimated that a graduate with a two-year degree would qualify for an average credit of $2,100 and a graduate with a four-year degree would qualify for the maximum individual credit of $4,000.
- In the first few years that the credit is available, the average eligible loan amount would be lower, since the credit applies only to debt incurred after June 30, 2012. The average credit amount in the first year is assumed to be $1,000 (the repayment amount on one year's average loan amount) and is phased in over subsequent years.
- Minnesota colleges and universities awarded 18,500 associate degrees and 31,700 bachelor degrees in 2010, according to the OHE, for a total of 50,200 graduates.
- About 81% of those graduates 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 46,000 eligible graduates.
- Of those graduates, about 64% are expected to have student loans. In 2013 there will be an estimated 29,000 graduates who are Minnesota residents and have eligible 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 2013 approximately 23,000 new graduates are expected to be eligible for the individual credit. Each subsequent year an additional class of students would graduate and be eligible.
- The individual credit is limited by household income. Based on data from the 2011 preliminary income tax sample, the number is reduced by 25% to account for individuals with income above the thresholds who would receive no credit or a reduced credit.
- Since students have a six-month grace period after graduation before student loan payments begin, a student who graduated in 2012-13 would begin paying off student loans around the beginning of tax year 2014.
- There are no data available on the number of employers who offer student loan repayment as an employee benefit. It is assumed that individuals would take advantage of the employer-paid benefit, if available, and otherwise would claim the individual credit.
- Tax year impact was allocated to the following fiscal year.

**Number of Taxpayers:** About 20,000 taxpayers in 2013. The number would increase significantly in later years as each year a new class of eligible students graduated.

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

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