INDIVIDUAL INCOME TAX
Student Loan Credit for Public Service

April 12, 2016

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 3439 (Applebaum) / S.F. 3058 (Dahle)

	Fund Impact			
	F.Y. 2016	**F.Y. 2017**	**F.Y. 2018**	**F.Y. 2019**
	(000's)			
General Fund	$0	($5,100)	($5,200)	($5,400)

Effective beginning tax year 2016.

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 for joint returns). The deduction flows through to the computation of Minnesota taxable income.

Proposed Law: The bill creates an income tax credit for public service employees who have a partial financial hardship and one or more education loans. The credit is equal to 50% of eligible loan payments over 10% of federal adjusted gross income, up to $2,000. To be eligible, an individual must be in a public service job with a partial financial hardship, meaning that the amount owed on eligible student loans under a standard 10-year repayment plan exceeds 15% of the individual's discretionary income.

Public service jobs include a full-time job in emergency management, government, military service, public safety, law enforcement, public health, public education, social work in public agencies, and other public services, or at non-profit organizations that are exempt from taxation, or teaching as a full-time faculty member at a Tribal College or University, or in high-needs subject areas or areas of shortage, An individual is eligible for the credit regardless of eligibility for the federal Public Service Loan Forgiveness Program.

Eligible loan payments include the amount of loan payments (including principal and interest) paid by the individual on a student loan incurred on behalf of the individual or the individual's spouse. The credit is refundable for Minnesota residents and part-year residents. For nonresidents, the credit is limited to the taxpayer's tax liability. For nonresidents and part-year residents, the credit is allocated based on the percentage of the taxpayer's income attributable to Minnesota.

REVENUE ANALYSIS DETAIL

- This estimate is based on federal information from a sample of 2013 Minnesota income tax returns, information from United States Bureau of Labor Statistics (BLS), and the National Student Loan Data System (NSLDS).
- About 3.6 million enrollees in income-driven repayment plans have partial financial hardship as of December 31, 2015, according to NSLDS.
- Of those, about 71,800 (2%) are assumed to be Minnesota residents, based on the percentage of U.S. nonfarm employees located in Minnesota, from the BLS.
- It is unknown how many of those individuals are in public service jobs. Public service employees represent about 27% of the workforce, according to data from the BLS. This estimate assumes that 20% of repayment plan enrollees with partial financial hardships would be eligible for the credit.
- The credit is equal to 50% of payments over 10% of FAGI. Income information for repayment plan enrollees is not immediately available, but based on data for income tax returns with the student loan deduction, the income limit would reduce total credits by about 60%.
- Tax year impacts were allocated to the following fiscal year.

Number of Taxpayers: About 14,400 taxpayers in tax year 2016.

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

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