

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Student Loan Credit

April 28, 2016

### *Analysis Revised for Corrected Estimates*

Department of Revenue  
Analysis of H.F. 3441 (Applebaum)/ S.F. 3060 (Jensen)

	Yes	No
DOR Administrative Costs/Savings	X	

	<b>Fund Impact</b>			
	<b><u>F.Y. 2016</u></b>	<b><u>F.Y. 2017</u></b>	<b><u>F.Y. 2018</u></b>	<b><u>F.Y. 2019</u></b>
		(000's)		
General Fund	\$0	(\$31,800)	(\$32,400)	(\$33,200)

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

**Proposed Law:** The bill would create a refundable income tax credit for individuals with qualified education loans related to an undergraduate or graduate degree program. The credit can be claimed for indebtedness only for the taxpayer and spouse.

The credit is equal to one-half of eligible loan payments in excess of 10% of adjusted gross income, up to a maximum credit of \$1,000.

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 or the taxpayer's spouse. The credit would be allocated to nonresidents and part-year residents based on the percentage of their income that is attributable to Minnesota. For a nonresident, the credit cannot exceed tax liability.

### REVENUE ANALYSIS DETAIL

- The analysis is based on federal return information from a sample of 2013 Minnesota individual income tax returns.
- 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.
- In 2013, about 92% of all student loans are taken for only taxpayers or their spouses, according to Minnesota Office of Higher Education.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Annual loan payments are estimated to be two times the amount of interest deducted.
- The credit for each return was calculated based on reported federal adjusted gross income.
- For nonresidents, the credit was apportioned based on the percentage of income attributable to Minnesota.
- The credit was assumed to grow at 2.2% annually, based on the increase in the number of taxpayers who claimed the federal student loan deduction from 2009 to 2013.
- Tax year impact was allocated to the following fiscal year.

**Number of Taxpayers:** About 52,300 returns would claim the credit in tax year 2016. The average credit would be \$607.

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)