DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
Subtraction for Discharged
Student Loan Debt

February 28, 2017

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 882 (Davids) As Proposed to be Amended (HF882A1)

	Fund Impact			
	F.Y. 2018	**F.Y. 2019**	**F.Y. 2020**	**F.Y. 2021**
	(000's)			
General Fund	($90)	($50)	($30)	($130)

Effective beginning with tax year 2017.

EXPLANATION OF THE BILL

Current Law: Under federal law, individuals with federal student loans may qualify for one of four income-driven repayment plans: the Income-Contingent Repayment Plan (ICR), the Income-Based Repayment Plan (IBR), the Pay as You Earn Plan (PAYE), and the Revised Pay as You Earn Plan (REPAYE). The terms of each plan differ, but the plans typically limit student loan payments to a percentage of discretionary income (generally 10%, with some exceptions). Any amount owed after successful completion of the repayment plan is forgiven. The amount of the forgiven debt is generally considered taxable income.

- The ICR Plan was established in 1994 and requires a repayment period of 25 years before discharge of the remaining debt.
- The IBR Plan was established in 2009 and revised in 2014. Qualifying borrowers must have a partial financial hardship and make payments for 25 years (20 for new borrowers after July 2014).
- The PAYE Plan was established in 2012 and is available for borrowers who took out their first loan after September 30, 2007 and who have at least one loan after September 30, 2011. It requires a repayment period of 20 years.
- The REPAYE Plan was established in 2015 and requires a repayment period of 20 years (25 for graduate school loans).

Minnesota also has a teacher shortage loan repayment program for teachers teaching in a licensure field and economic development region where there is a teacher shortage.

Proposed Law: The bill would allow an individual income tax subtraction for qualified student loan debt that was discharged under Minnesota's teacher shortage loan forgiveness program or following the completion of a qualified income-driven repayment plan, to the extent that the discharged debt was included in federal taxable income. A qualified plan would include but not be limited to the ICR Plan, the IBR Plan, and the PAYE and REPAYE Plans.

REVENUE ANALYSIS DETAIL

- This estimate is based on data from the Office of Higher Education and a November 2016 report by the Government Accountability Office (GAO) on income driven student loan repayment plans.
- Repayments under the Teacher Shortage Loan Repayment program are estimated based on information from the Office of Higher Education.
- For the Federal repayment plans, there will be no fiscal impact until fiscal year 2021.
- Borrowers enrolled in an income-driven repayment plan must make regular monthly payments for 20 to 25 years before any remaining debt may be discharged.
- The ICR plan, which was the first qualified repayment plan, was established in 1994. The first enrollments occurred in 1995. According to the GAO, the expected subsidy for loans issued under the ICR Plan in 1995 will be about $100 million. Those debts will be discharged beginning in 2020, with the impact beginning in fiscal year 2021.
- About 2% of the discharged debt is assumed to be owed by Minnesota residents, based on the state's percentage of U.S. college enrollees in 1995.
- The other income-driven repayment plans were established in 2009 or later and require repayment periods of 20 to 25 years. The first forgiven loans under those plans would not occur until well outside the forecast window, although the eventual costs could be significant.
- A marginal tax rate of 6% was used in the estimate.
- Tax year impacts were allocated to the following fiscal year.

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

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