

February 4, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 503 (Xiong)

	Fund Impact			
	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
			(000's)	
General Fund	(\$1,200)	(\$1,200)	(\$1,300)	(\$1,300)

Assumed effective beginning with tax year 2019.

EXPLANATION OF THE BILL

Current Law: A nonrefundable income tax credit is allowed for individuals with qualified education loans related to an undergraduate or graduate degree program at a public or nonprofit institution. The credit is equal to the least of:

- Eligible education loan payments of principal and interest made during the tax year minus 10% of adjusted gross income over \$10,000;
- The earned income of the taxpayer;
- The interest portion of eligible loan payments made during the tax year plus 10% of the original loan amount of all qualified education loans; or
- \$500.

For married joint filers, each spouse is eligible for the credit. The credit is allocated to part-year residents based on the percentage of their income that is attributable to Minnesota. Full-year nonresidents are not eligible for the credit.

Proposed Law: For married joint filers, the credit would be reduced based on each spouse's share of the couple's earned income multiplied by the couple's adjusted gross income.

For example, if a married joint return had adjusted gross income of \$60,000 and each spouse earned an equal amount, then each spouse's share of adjusted gross income would be \$30,000. The credit would be calculated as loan payments minus \$2,000 $((\$30,000 - \$10,000) * 10\%)$. Under current law, the credit is calculated as loan payments minus \$5,000 $((\$60,000 - \$10,000) * 10\%)$.

REVENUE ANALYSIS DETAIL

- The estimate is based on information from 2017 income tax returns.
- In tax year 2017, student loan credits totaled \$22.5 million on 50,500 returns.
- The proposal would increase the credit for about 1,800 returns. The average increase would be \$357.
- The estimate was increased by 80% to account for newly eligible filers.

REVENUE ANALYSIS DETAIL (Cont.)

- The credit is expected to grow at 2.7% a year, based on the 5-year average growth in the number of student loan interest deductions from tax year 2012-2016.
- Tax year impacts were allocated to the following fiscal year.

Number of Taxpayers: About 3,400 returns in tax year 2019.

Minnesota Department of Revenue
Tax Research Division
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