

**INDIVIDUAL INCOME TAX
PROPERTY TAX REFUND
Discharged Debt Subtraction**

February 14, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 860 (Gustafson) / H.F. 385 (Norris)

	Fund Impact			
	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>
		(\$000's)		
General Fund	\$0	(Negl.)	(Negl.)	(Negl.)

The discharged debt subtraction is effective beginning tax year 2025.

The renter's credit calculation of income is effective beginning tax year 2025.

The property tax refund section is effective for property taxes payable in 2026 and thereafter.

EXPLANATION OF THE BILL

Current Law: Under provisions enacted in 2023, a debtor who demonstrates that he or she has incurred coerced debt is entitled to certain relief, including a court order preventing the creditor from attempting to enforce or collect the coerced debt.

Coerced debt is debt that was incurred using the debtor's personal information without his or her knowledge, authorization, or consent, or with the use or threat of force, intimidation, harassment, fraud, deception, coercion, or other similar means.

Forgiven debt is generally included in federal adjusted gross income and is included in the definition of household income for the purpose of calculating the homeowner property tax refund.

Proposed Law: The bill proposes an individual income tax subtraction for the amount of discharged debt that is awarded to a debtor who has incurred coerced debt. The discharged debt would also be excluded from income used to determine the property tax refund and the renter's credit.

REVENUE ANALYSIS DETAIL

Individual Income Tax

- It is assumed that in most cases, the coerced debt will be reassigned to the person who caused the debtor to incur coerced debt rather than being forgiven altogether. In that case there would be no forgiven debt and no change in taxable income.
- The amount of coerced debt that will be forgiven is unknown but assumed to be negligible.

Property Tax Refund; Renter's Credit

- Under the bill, the amount of household income used to determine the homeowner property tax refund and renter's income tax credit would be reduced by the amount of debt forgiven, which would increase refunds to eligible homeowners and renters.

REVENUE ANALYSIS DETAIL (cont.)

- It is assumed that a small number of homeowners and renters would receive an increased refund or credit under the proposal, resulting in an increase in state general fund costs of less than \$5,000 beginning in fiscal year 2026 for renters and fiscal year 2027 for homeowners.

Minnesota Department of Revenue
Tax Research Division
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