

March 12, 2025

To Tax Committee Members
From Sean Williams, Legislative Analyst
Subject Income tax modeling for H.F. 1958; student loan credit made refundable and maximum credit increased

Executive summary

This memo contains modeling results for H.F. 1958, which increases the maximum student loan credit from \$500 to \$1,000 and makes the credit refundable.

I am only able to model the changes in the student loan credit for individuals who currently file and claim the credit. DOR's revenue estimate for the bill differs from the House Research estimate because they assume some individuals who do not currently claim the credit will file for and claim the credit if the bill is enacted.

Among current recipients, House Research modeling estimates that the bill would reduce revenues by about \$7.2 million in tax year 2025. About 15,600 returns would see an average reduction in tax of about \$461. The bill slightly increases the overall progressivity of the individual income tax.

Background: House modeling capabilities

House Research can model some individual income tax proposals using the House Income Tax Simulation (HITS) model, version 7.5. The model uses a stratified sample of 2022 individual income tax returns, and forecasts changes in tax years 2025 to 2029 based on the February forecast from Minnesota Management and Budget (MMB).

The House, Senate, Department of Revenue (DOR), and MMB all use the same model to estimate certain income tax proposals, but DOR has a broader sample of high-income returns than the other agencies. This may result in differences between House Research modeling and DOR revenue estimates.

The model can only estimate tax policy changes if the data needed to model the provision is included on a tax return. All of the data used by the model comes from amounts that taxpayers entered on a state or federal income tax return.

HITS model estimates are not precise and are subject to several sources of error. The model relies on a sample of income tax records, which introduces sampling error into the estimates. Estimates for years outside of the sample year are based on the February economic forecast produced by MMB—this introduces forecasting error into the model. For some tax system components for which the model does not have precise data, the model uses imperfect

assumptions about taxpayers to interpolate missing numbers; this process also introduces error.

House Research modeling results are preliminary, and cannot replace formal estimates from the Department of Revenue.

Modeling results; H.F. 1958 as introduced

Change in credits and revenues

As was stated above, House Research modeling only accounts for the changes in the credit for existing credit claimants, which results in a smaller cost estimate than DOR’s revenue estimate.

House Research modeling estimates that the bill would increase the cost of the credit by about \$7.2 million, as compared to \$15.3 million in the revenue estimate. Among current recipients only, House Research modeling implies that under current law about 17,900 returns would claim about \$8.33 million student loan credits in tax year 2025. The bill increases total credits to about \$14.4 million, with no change in the number of returns claiming the credit.

The table below decomposes this \$7.2 million change in credits into the amount due to refundability versus the amount due to increasing the maximum credit amount.

Policy Change	TY 2025 Change in Credit (Thousands \$)
Increase maximum from \$500 to \$1,000	5,022
Make credit refundable	1,162
Interaction	1,014
Total	\$7,198

Distributional details

Table 1 below shows the distribution in changes of tax by adjusted gross income (AGI).

Table 1: H.F. 1958, as introduced, distribution of tax reductions by income Tax Year 2025, based on February forecast assumptions, return totals rounded

Income (AGI)	Decreases in Tax			
	# of Returns	Total (\$1,000)	% of Total Decrease	Average Decrease (\$)
Less than \$30,000	3,700	-1,893	26.3%	-\$507
\$30,000 to \$50,000	3,000	-1,562	21.7%	-\$522
\$50,000 to \$75,000	3,100	-1,061	14.7%	-\$345
\$75,000 to \$100,000	1,300	-426	5.9%	-\$333

Income (AGI)	Decreases in Tax			
	# of Returns	Total (\$1,000)	% of Total Decrease	Average Decrease (\$)
\$100,000 to \$125,000	800	-435	6.0%	-\$532
\$125,000 to \$150,000	900	-381	5.3%	-\$410
\$150,000 to \$250,000	2,200	-1,192	16.6%	-\$536
\$250,000 and more	600	-250	3.5%	-\$453
Total	15,600	-7,200	100.0%	-\$462

Table 2 below shows the distribution of tax decreases by the size of the decrease.

**Table 2: H.F. 1958, as introduced; distribution of tax reductions by size of change
Tax Year 2025, February forecast assumptions, return totals rounded**

Size of Decrease	Tax Decreases	
	Returns	% of Total Returns
No change	2,988,400	99.5%
1 to 25	500	0.0%
25 to 49	200	0.0%
50 to 99	300	0.0%
100 to 249	1,400	0.0%
250 to 499	2,200	0.1%
500 to 749	9,600	0.3%
750 to 999	600	0.0%
1000 +	700	0.0%
Total returns with a change	15,600	0.5%
Total returns	3,004,000	100.0%

Progressivity

House Research modeling indicates that the bill slightly increases the progressivity of the Minnesota individual income tax.

For tax year 2025, the baseline Suits Index for the income tax after all credits is .3023. Under the bill, the progressivity increases to .3027.

SW/mc