

March 12, 2025

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1933 (Her)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
		(000's)		
General Fund	(\$15,300)	(\$15,600)	(\$16,000)	(\$16,300)

Effective beginning with tax year 2025.

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 eligible individual;
- The interest portion of eligible loan payments made during the tax year plus 10% of the original loan amount of all qualified education loans of the eligible individual; or
- \$500.

For married joint filers, each spouse is eligible for the credit. Each spouse’s adjusted gross income is defined as the spouse’s percentage share of the couple’s earned income, multiplied by the couple’s combined adjusted gross income.

The credit is allocated to part-year residents based on the percentage of their income that is Minnesota source income. Full-year nonresidents are not eligible for the credit.

Proposed Law: The bill would increase the maximum credit to \$1,000 and make the credit refundable.

REVENUE ANALYSIS DETAIL

- The estimate is based on information from 2023 individual income tax returns.
- In tax year 2023, Minnesota student loan credits totaled about \$12.7 million across 28,000 returns.
- The increase in the maximum credit would increase the credit for 23,700 returns in tax year 2023. The average increase would be \$517 per return.
- Credits for newly eligible returns were estimated based on the federal student loan interest deduction.
- In 2023, about 188,400 returns claimed student loan interest deductions and were not eligible for the current student loan credit.

REVENUE ANALYSIS DETAIL (Cont.)

- It is unknown how many of those returns would have eligible student loans for the taxpayer or the taxpayer's spouse. The estimate is reduced by 12% to exclude taxpayers with nonqualifying loans or student debt payments for a dependent, based on the percentage of Parent Plus loans and enrollment in for-profit institutions.
- About 3,500 returns would be newly eligible for the proposed credit. The average credit for newly eligible returns is \$685.
- An annual growth rate of 2.2% is assumed based on the average historical growth of the credit.
- Based on a report from the U.S. Government Accountability Office, as of January 31, 2024, only about 40% of all student loan borrowers were current in their repayments with scheduled payments of more than \$0, while 14% were on income-driven repayments plans with scheduled payments of \$0. If more borrowers began repaying or had an increase in their scheduled payments, the estimated impact would be larger.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: About 28,400 returns would have an average decrease in tax of \$538 in tax year 2025.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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