

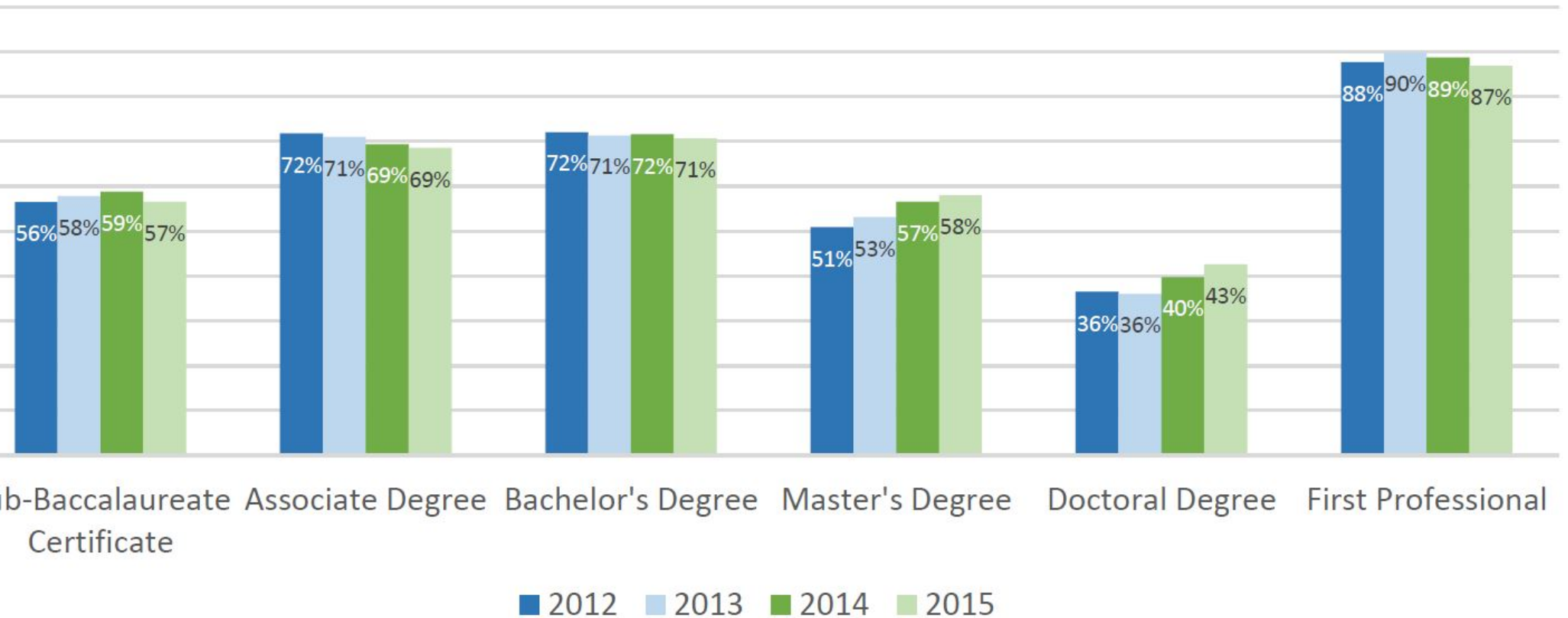
Minnesota Student Loan Credit

Federation of Tax Administrators
Revenue Estimation and Tax Research Conference

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Number of Minnesota Students with Debt



Monthly Payments in Minnesota

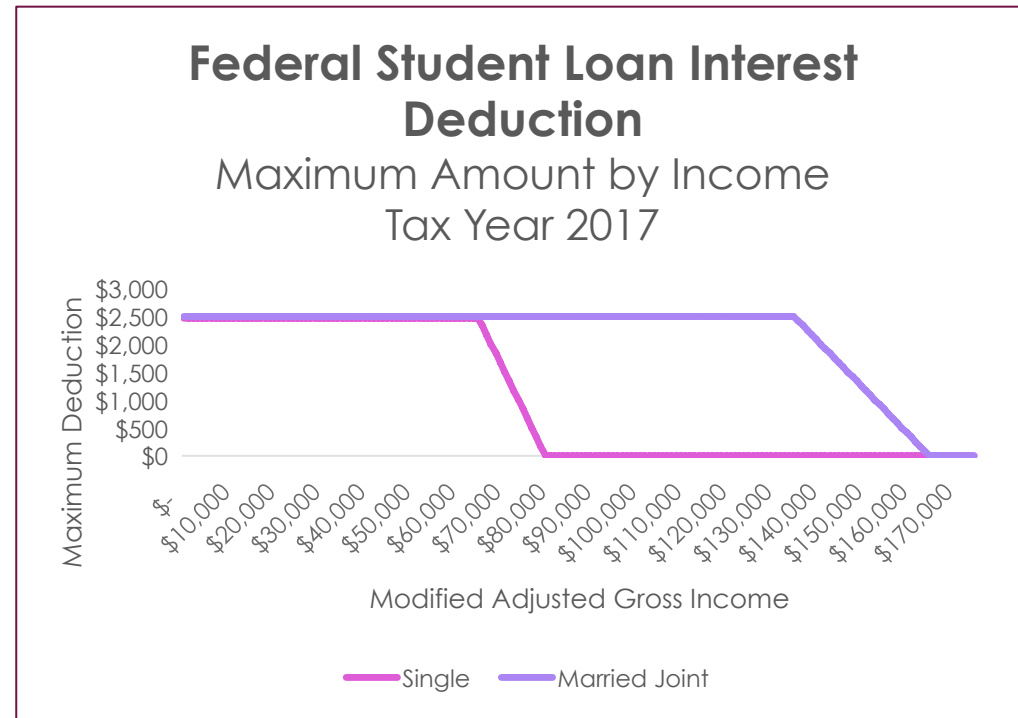
Degree Attained	Average Median Student Loan Debt for Those with Loans, 2015	Estimated Monthly Payment	Estimated Loan Term
Two-year Diploma	\$11,318	\$130	10 years
Associate Degree	\$18,233	\$210	10 years
Bachelor's Degree	\$26,822	\$205	20 years
Master's Degree	\$34,522	\$264	20 years
Doctoral Degree	\$63,237	\$439	25 years
First Professional Degree	\$139,090	\$907	30 years

Source: Minnesota Office of Higher Education

Note: Assumes a 6.8% interest rate.

Federal Student Loan Deduction

- ▶ Interest paid on qualified loans
- ▶ Taxpayer, spouse, or dependents
- ▶ \$2,500 maximum deduction
- ▶ Phased out for income over \$65,000. Completely at \$85,000. Thresholds doubled for married joint filers



2016 Proposed Credit - Methodology

- ▶ Information from Minnesota Office of Higher Education, Survey of Consumer Finances, and 2012 Minnesota returns
- ▶ Those claiming the federal deduction were considered as potentially eligible
- ▶ Debt varies significantly. On average, payments are 3.8% of income
- ▶ Estimates made for annual loan payments and loan amount based on SCF income distribution and 2013 state income tax sample
- ▶ Credit based on FAGI and wages
- ▶ Annual growth of 1.3%

Complications

- ▶ No loan information on Minnesota's state form
- ▶ Federal credit is capped and phases out
- ▶ No information on amount paid towards principal
- ▶ Primary concern: filers in phase-out range or completed phased-out who would be eligible for Minnesota credit
- ▶ Additional concern: how to handle married joint returns

Minnesota Student Loan Credit 2017

Nonrefundable

Uses Federal definition of qualified loans

Equal to the lesser of:

- ▶ Payments made during the tax year minus 10% of income over \$10,000
- ▶ Income
- ▶ Interest payment plus 10% of original loan amount
- ▶ \$500

Each spouse is eligible separately

Does not include parental loans or loans at private for-profit schools

Methodology – 1098-E

- ▶ Loan servicer sends to payer if interest paid is greater than \$600
- ▶ Includes total loan interest payments in the tax year
- ▶ Does not include principal payments
- ▶ Obtained 1098-E's for tax year 2013

Methodology – Matching to returns

- ▶ 1098-E's and 1040's were matched to a sample of income tax returns
- ▶ Four subsets from matching:
 - ▶ 1040 deduction and 1098-E – Typical Case
 - ▶ 1040 deduction and no 1098-E – We assume amount reported on 1040 is correct
 - ▶ 1040 no deduction and 1098-E – Usually filer is completely phased-out
 - ▶ No 1040 and 1098-E – We assume no federal subtraction claimed

Estimation Assumptions and Adjustments

- ▶ Assumed total loan payments were twice amount paid in interest
- ▶ Increased total interest by 50% for those who hit federal cap
- ▶ Total credit reduced by 8% to account for parental loans
- ▶ Total credit reduced by 15% to account for private for-profit schools

Married Joint Returns

- ▶ For married joint returns, the credit was calculated based on each spouse's earned income
- ▶ Nonwage income was divided equally between spouses
- ▶ Student loan payments were divided among spouses based on data from the 1098-Es of married joint filers
- ▶ Possible marriage penalty depending on circumstances

Married Joint Return Examples

	Two Singles					One Married Couple			
	Income	Payments	Reduction	Credit		Income	Payments	Reduction	C
er A	\$50,000	\$6,000	\$4,000	\$500		\$100,000	\$6,000	\$9,000	
er B	\$50,000	\$6,000	\$4,000	\$500		\$100,000	\$6,000	\$9,000	
	Income	Payments	Reduction	Credit		Income	Payments	Reduction	C
er C	\$35,000	\$2,700	\$2,500	\$200		\$65,000	\$2,700	\$5,500	
er D	\$30,000	\$5,700	\$2,000	\$500		\$65,000	\$5,700	\$5,500	\$

Average Deduction and Credit by Income (Single Filers Who Have Student Debt)

FAGI is less than	Federal Deduction	Minnesota Credit
0	\$2,154	\$486
5,000	\$878	\$444
10,000	\$700	\$402
20,000	\$1,128	\$417
30,000	\$1,747	\$456
40,000	\$2,089	\$456
50,000	\$2,394	\$490
100,000	\$0	\$500
250,000	\$0	\$498
500,000	\$0	\$500

Advantages of New 1098-E Data

Fills in missing information not available on 1040

- ▶ Information on total interest paid
- ▶ Information on phased-out earners
- ▶ Identifies taxpayers who did not claim the federal deduction