



SF 214 – Student Loan Tax Deduction (LSB1679XS)
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Fiscal Note Version – New

Description

[Senate File 214](#) allows a taxpayer to deduct employer-paid education loan payments from income subject to Iowa individual income tax. The change applies to tax years beginning on or after January 1, 2019.

The change will make such employer payments exempt from Iowa income tax for tax year (TY) 2019 through the last tax year prior to the implementation of the contingent income tax system established in [SF 2417](#) (2018 Tax Modifications Act). The new tax system is contingent upon General Fund revenue meeting a dollar goal and an annual growth goal. The first year the contingent tax system could be implemented is TY 2023. Employer-paid education loan payments are exempt from Iowa income tax in the contingent tax system, so this Bill would only apply to tax years prior to the implementation of the contingent tax system.

Assumptions

- The Department of Revenue utilized the income tax micro model developed for the 2019 Legislative Session to estimate the tax year impacts of the Bill. The following variables were used in the model to estimate the impact of the Bill:
 - One percent of taxpayers aged 18 to 64 and reporting wage income will receive employer-paid education loan assistance each tax year (15,249 individuals each year).
 - The employer-paid education loan assistance will equal \$1,200 per year for benefiting employees. With 15,249 individuals benefiting at \$1,200 per year, the amount of the deduction will total \$18.3 million for TY 2019.
 - The projected average income tax reduction for the 15,249 individuals is \$73. This average is projected to increase by 3.0% each tax year.
- For the projection, implementation of the contingent income tax system is assumed to occur for TY 2023.
- For the first year (TY 2019), 5.0% of benefiting individuals will reduce withholding and estimate payments in response to the new exemption. In future tax years, 30.0% of individuals will do so.

Fiscal Impact

The new tax deduction for employer-paid education loan payments is projected to decrease net General Fund revenue by the following amounts:

- FY 2020 = \$1.3 million
- FY 2021 = \$1.2 million
- FY 2022 = \$1.2 million
- FY 2023 = \$1.0 million

The Bill does not have a projected impact beyond FY 2023.

Source

Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
