



[SF 432](#) – Tax Deduction, Student Loan Interest (LSB2588XS)
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Fiscal Note Version – New

Description

[Senate File 432](#) expands the existing Iowa income tax deduction for student loan interest paid by a taxpayer by removing the annual maximum deduction amount of \$2,500 and by removing a restriction that limits availability of the deduction for taxpayers with modified adjusted gross income above an amount specified in federal law. The Bill is retroactive to the beginning of tax year (TY) 2021.

Background

Iowa tax law couples with the federal deduction for qualified student loan interest. The federal maximum amount of interest a taxpayer may deduct in a year is \$2,500. The deduction phases out for taxpayers with modified adjusted gross income between \$70,000 and \$85,000 for single taxpayers and between \$140,000 and \$170,000 for married taxpayers. The thresholds listed are TY 2020 amounts, and the amounts are adjusted annually for inflation. Taxpayers with incomes above the top threshold do not benefit from the current federal or Iowa student loan interest deduction.

Assumptions

The projection developed by the Department of Revenue is based on actual TY 2019 income tax returns filed by Iowa taxpayers adjusted for demographic changes. Assumptions include the following:

- To project the impact on Iowa taxpayers, the Department of Revenue adjusted the student interest claimed on actual Iowa TY 2019 income tax returns for two factors:
 - The amount of 2019 interest paid by taxpayers impacted by the income thresholds that is above the amount they were allowed to deduct.
 - The amount of 2019 interest paid by taxpayers above the maximum \$2,500 allowed deduction.
 - After adjustment for the two factors, the projected amount of student loan interest claimed by taxpayers under the proposal is \$967.1 million. This compares to the projected \$190.4 million in interest deductions allowed under current law.
- Although the change is effective retroactive to January 1, 2021, taxpayers are not assumed to make withholding or estimate payment changes until after June 30, 2021. The General Fund impact for a tax year is assumed to occur in the fiscal year that begins after the start of the tax year.
- Tax exemptions impact the calculation of the local option income surtax for schools. As a statewide average, the surtax equals 3.0% of State income tax liability.

Fiscal Impact

Removing the current \$2,500 qualified student loan interest deduction limit and the related income thresholds is projected to reduce annual net General Fund revenue by \$25.5 million per fiscal year, beginning FY 2022.

The expanded income tax exemption will also reduce the annual amount of revenue raised by the local option income surtax for schools by \$750,000, beginning FY 2022.

Sources

Iowa Department of Revenue
Moody's Analytics
Regional Economic Models, Inc. (REMI)

/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.

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