



HF 334 – Student Loan Interest Income Tax Deduction (LSB2151YH)
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Fiscal Note Version – New

Description

[House File 334](#) expands the existing Iowa income tax deduction for student loan interest by removing the annual maximum deduction amount of \$2,500 and by removing a restriction that limits availability of the deduction for taxpayers with adjusted gross income above a specified amount. The Bill is retroactive to the beginning of tax year (TY) 2017.

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 \$65,000/\$130,000 (single/married) and \$80,000/\$160,000. The thresholds listed are TY 2015 amounts, and the amounts are adjusted annually for inflation. Taxpayers with incomes above the top threshold do not benefit from the student loan interest deduction.

Assumptions

For TY 2015, a total of \$209.8 million in student loan interest was claimed as a deduction on 193,000 Iowa income tax returns. Of the 193,000 tax returns, the interest deduction on 16,000 tax returns was reduced (but not eliminated) by the income thresholds and 33,000 claimed a deduction equal to the maximum \$2,500. Also, an estimated 20,000 taxpayers had student loan interest, but did not indicate it on their federal or State tax return because their income exceeds the upper threshold and so they are not eligible for the deduction.

The projection developed by the Department of Revenue is based on actual TY 2015 income tax returns filed by Iowa taxpayers. Additional assumptions include the following:

- To project the impact on Iowa taxpayers, the Department of Revenue adjusted the student interest actually claimed for TY 2015 for two factors:
 - The amount of 2015 interest paid by taxpayers impacted by the income thresholds that is above the amount they were allowed to deduct.
 - The amount of 2015 interest paid by taxpayers above the maximum \$2,500 allowed deduction.
- Student loan interest was randomly assigned to 20,000 tax returns with 2015 incomes above the income thresholds.
- After adjustment, the projected amount of student loan interest actually paid by taxpayers filing TY 2015 Iowa income tax returns was \$357.1 million. This compares to the \$209.8 million in interest deductions that was allowed under current law.
- To project future years, TY 2015 estimated results are adjusted for the impact of demographic changes.
- Tax exemptions impact the calculation of the local option income surtax for schools. As a statewide average, the surtax equals 3.2% of State income tax liability.

Fiscal Impact

Removing the current \$2,500 qualified student loan interest deduction limit and the income thresholds is projected to reduce net General Fund revenue by the following amounts:

- FY 2017 = \$-0.1 million
- FY 2018 = \$-8.1 million
- FY 2019 = \$-8.4 million
- FY 2020 = \$-8.9 million
- FY 2021 = \$-9.3 million
- FY 2022 = \$-9.8 million

Negative net General Fund revenue impacts are projected to continue beyond FY 2022. The expanded income tax exemption will also reduce the amount of revenue raised by the local option income surtax for schools by \$260,000 in FY 2018, with annual incremental increases above that amount.

Sources

Iowa Department of Revenue
Institute for College Access and Success 2014 Report
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.
