Discharged Student Loan Debt Subtraction

Tax Expenditure Initial Review - TEB 1.4.13

Tax Expenditure Facts

Year Enacted	2017
Statute	Minnesota Statutes 2025, section 290.0132, subdivision 24
Tax Type	Individual Income Tax
Provision Type	Minnesota Subtraction
Latest Fiscal Impact Estimate	Direct measure of this estimate is not currently available
Latest Claims Estimate	Direct measure of this estimate is not currently available
Expiration Date	None

Estimated fiscal impact is less than $50,000 per year through Fiscal Year 2027

Tax Expenditure Description

A subtraction from federal adjusted gross income is allowed for individuals with qualified student loan debt that was discharged under Minnesota's teacher shortage loan forgiveness program or certain federal income-driven repayment plans, to the extent that the discharged debt is included in federal adjusted gross income.

Additional Background Information

Qualifying student loan debt includes that which was discharged under certain programs. In statute, qualified student loan discharge includes a discharge of indebtedness eligible for exclusion from gross income under section 9675 of Public Law 117-2.[i] This includes discharges that occurred after December 31, 2025, but otherwise would qualify under section 967 of Public Law 117-2.[ii] These also include the Minnesota Teacher Shortage Loan Repayment Program and federal income-based repayment plans based on income and family size.[iii] Beneficiaries of this tax exemption include all taxpayers who are enrolled in certain income-based repayment plans or the Minnesota Teacher Shortage Loan Repayment Program and meet loan discharge requirements. This tax expenditure is administered by the Department of Revenue.

The Discharged Student Loan Debt subtraction reduces the amount of income tax revenue that would otherwise be generated. State income tax collections are deposited in the state General Fund, except as provided in the Minnesota Constitution or Minnesota Statutes, section 290.62.

During the 2017 Regular Session, HF882 introduced the tax subtraction, but did not pass.[iv] The tax subtraction was introduced again in the 2017 1st Special Session. It was included in the tax omnibus bill, HF1, and was passed into law.[v]

In the 2023 Legislative Session, HF1938 passed amending Minnesota Statutes 2022, section 290.0132, subdivision 24 to allow the subtraction of student loan debt to also include those who have debt discharged under the American Rescue Plan Act of 2021.

Proposed Tax Expenditure Objective for Consideration

The objective of the Discharged Student Loan Debt Income Tax Subtraction is to maximize the impact of student loan forgiveness programs by removing the resulting income tax liability.

Sources

An explicit tax expenditure objective was not identified in the legislative record. The tax expenditure objective is informed by literature on the American Rescue Plan Act of 2021, which expands relief to student loan borrowers by eliminating the tax liability associated with student loan debt being forgiven.

In 2022, seven states included student loan debt forgiveness as taxable income, including Minnesota. Minnesota was included in this metric, although it only exempted select types of student loan debt forgiveness.[vi] As of 2023, only three states still consider student loan debt forgiveness as taxable income, while a handful of other states have yet to act in either direction.[vii] Minnesota now conforms with the American Rescue Plan Act (ARPA) of 2021, expanding the tax subtraction enacted in 2017. While the federal ARPA exclusion was effective for tax years 2021 through 2025, this Minnesota subtraction permanently incorporates the ARPA exclusion for state income tax purposes.[viii]

Potential Metrics and Performance Measures

An analysis of the program's participation and individual subtraction amounts may identify trends in effectiveness and determine average individual savings as a result of the expenditure.

A comparative analysis of federal deductions and state subtractions for student loan debt forgiveness can illustrate the overall impact of the expenditure and identify uptake trends in Minnesota compared to other states and federally.

A qualitative survey of Minnesotans may assess whether this tax subtraction was influential in a decision to attend college, take out student loans, or in career track decisions.

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statutes 2025, section 3.8855, subdivision 4.

Notice: Proposed tax expenditure objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For more information, please visit the [Tax Expenditure Review Commission website].

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[i] 2025 Minnesota Statutes, Section 290.0132, Subdivision 24.

[ii] 2025 Minnesota Statutes, Section 290.0132, Subdivision 24; 2022 Minnesota Statutes, Section 136A.1791, Teacher Shortage Loan Repayment Program.

[iii] 1st Special Session Minnesota Session Laws, Chapter 1 – H.F. No. 1, Article 1, Sec. 8, Subd. 24 Discharge of indebtedness; education loans.

[iv] "Minnesota House File 882," 90th Legislature (2017-2018). https://www.revisor.mn.gov/bills/90/2017/0/HF/882/?body=house

[v] 1st Special Session Minnesota Session Laws, Chapter 1 – H.F. No. 1, Article 1, Sec. 8, Subd. 24 Discharge of indebtedness; education loans.

[vi] Airi, N; Hunter, L. (2022, September). "Which States Tax Student Loan Forgiveness, and Why Is It So Complicated." Tax Policy Center. https://www.taxpolicycenter.org/taxvox/which-states-tax-student-loan-forgiveness-and-why-it-so-complicated.

[vii] Gurudatt, A; Mcbride, W; Watson, G. (2023, August). "Inconsistent Tax Treatment of Student Loan Debt Forgiveness Creates Confusion." Tax Foundation. https://taxfoundation.org/blog/student-loan-debt-forgiveness/.

[viii] "Taxation of Student Loan Forgiveness," Minnesota House Research, August 2024, https://www.house.mn.gov/hrd/pubs/ss/sstxstudloan.pdf.