

S. 68 Considerations

Senate Committee on Finance

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2/27/2023



Outline of Talk

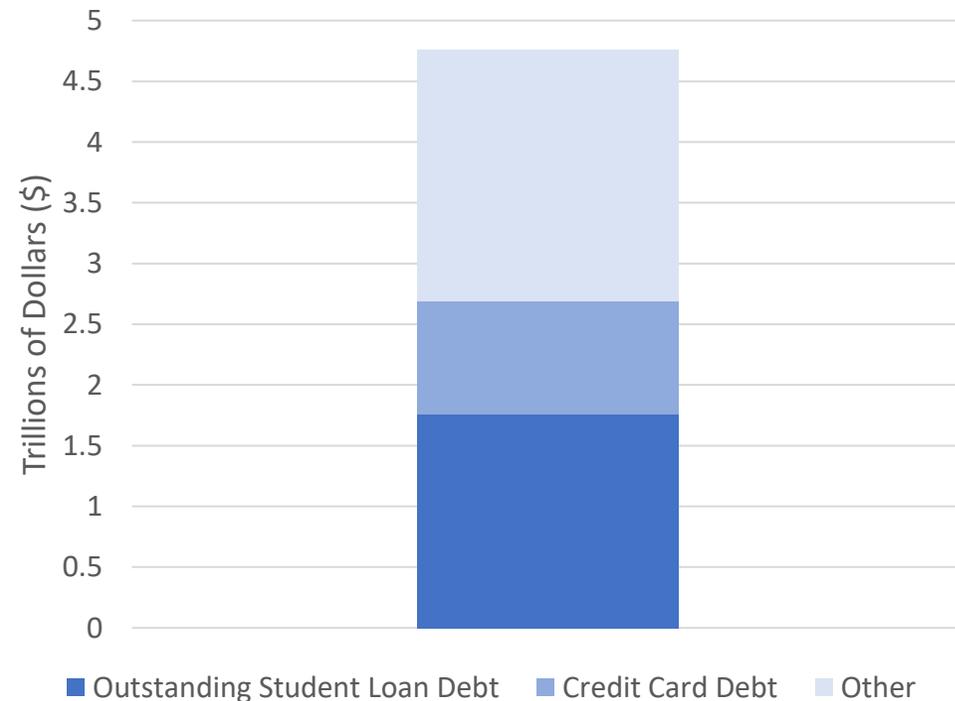
1. Overall snapshots of student debt
2. Current and proposed policy
3. Considerations



Student Debt Nationally

- Total amount of student debt in United States is \$1.757 trillion
- Student debt is 36.8% of all outstanding consumer debt
- Federal government holds 92.7% of all outstanding student debt

Outstanding Consumer Debt In United States



Source: Federal Reserve Economic Data (FRED)



Student Debt in Vermont

- \$2.9 billion of outstanding student debt in Vermont
 - Number has increased substantially with student loan payment pause
- 77,300 borrowers in Vermont have federal student debt
- Average borrower has \$37,516 in debt on average



Student Debt Tax Incentives

- Federal interest deduction
- Vermont interest deduction
- Proposed legislation – S. 68



Federal Student Loan Interest Deduction

- Lesser of \$2,500 or the amount of interest actually paid
- Can also include loan origination fees, capitalized interest, interest on credit cards (if used to pay for tuition)
- Qualify if Modified Adjusted Gross Income (MAGI) less than \$70,000 for an individual, \$145,000 for a joint return
 - Deduction phases out until MAGI reaches MAGI \$85,000 and \$175,000 for joint filers
 - Note, you cannot claim the deduction if your filing status is married filing separately.



Federal Student Loan Deduction

8484 VOID CORRECTED

RECIPIENT'S/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		OMB No. 1545-1576 2023 Form 1098-E	Student Loan Interest Statement Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2023 General Instructions for Certain Information Returns.
RECIPIENT'S TIN	BORROWER'S TIN	1 Student loan interest received by lender \$	
BORROWER'S name <div style="border: 1px solid black; height: 20px; width: 100%;"></div>		2 Check if box 1 does not include loan origination fees and/or capitalized interest, and the loan was made before September 1, 2004 <input type="checkbox"/>	
Street address (including apt. no.)			
City or town, state or province, country, and ZIP or foreign postal code			
Account number (see instructions)			

Form **1098-E** Cat. No. 25088U www.irs.gov/Form1098E Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

- Form sent to anyone who pays more than \$600 in interest
- Note NO information on principal payments



Vermont Student Loan Interest Deduction

- May deduct interest payments that are not captured by federal \$2,500 deduction
- AGIs cap of \$120,000 or less for single filers, \$200,000 or less for joint filers
 - Higher cap means that some borrowers can deduct full amount of interest on state returns
- Taxpayers cannot claim interest paid on a loan that is someone else's name (e.g. a dependent)
- Estimated to cost \$2.2 million per year in tax expenditures
 - First year of the deduction is Tax Year 2022, will have actual data once this tax year is complete.



S.68 Student Loan Deductions Examples

MAGI less than \$70,000:

Federal: Can deduct up to \$2,500 in interest payments

VT: Deduction of interest payments above \$2,500, deduction of full principal amount paid

MAGI between \$70,000 and \$85,000

Federal: Tax deduction of interest phases out

VT: Can deduct the difference between federal deduction and interest payments, can deduct full principal paid

Between MAGI of \$85,000 and AGI of \$120,000:

Federal: Do not qualify for interest deduction

VT: full amount of interest and principal payments are deductible



Estimation and Policy Considerations

Estimation:

1. Data not available for tax filers student loan payments AND we don't know what their income is to project potential tax impact.
2. Many different types of loans and ways to repay

Policy:

1. Federal policy is unresolved
 - a. Biden's loan forgiveness is playing out in court
 - b. The pause on federal student loan payments has not ended
2. By adding principal to current tax deduction will impact a different group taxpayers than the current policy does
 - a. Taxpayers are at different stages of loan repayment based on where they are in their loan amortization schedule
 - b. Taxpayers with capped loan payments wouldn't necessarily benefit because they are only making interest payments



Data Limitations

- Data on interest payments is reported on tax forms
- Data is far more limited on the amount borrowers pay in principal
- Size of monthly payments ultimately determined by interest rate, principal amount, repayment program, etc.



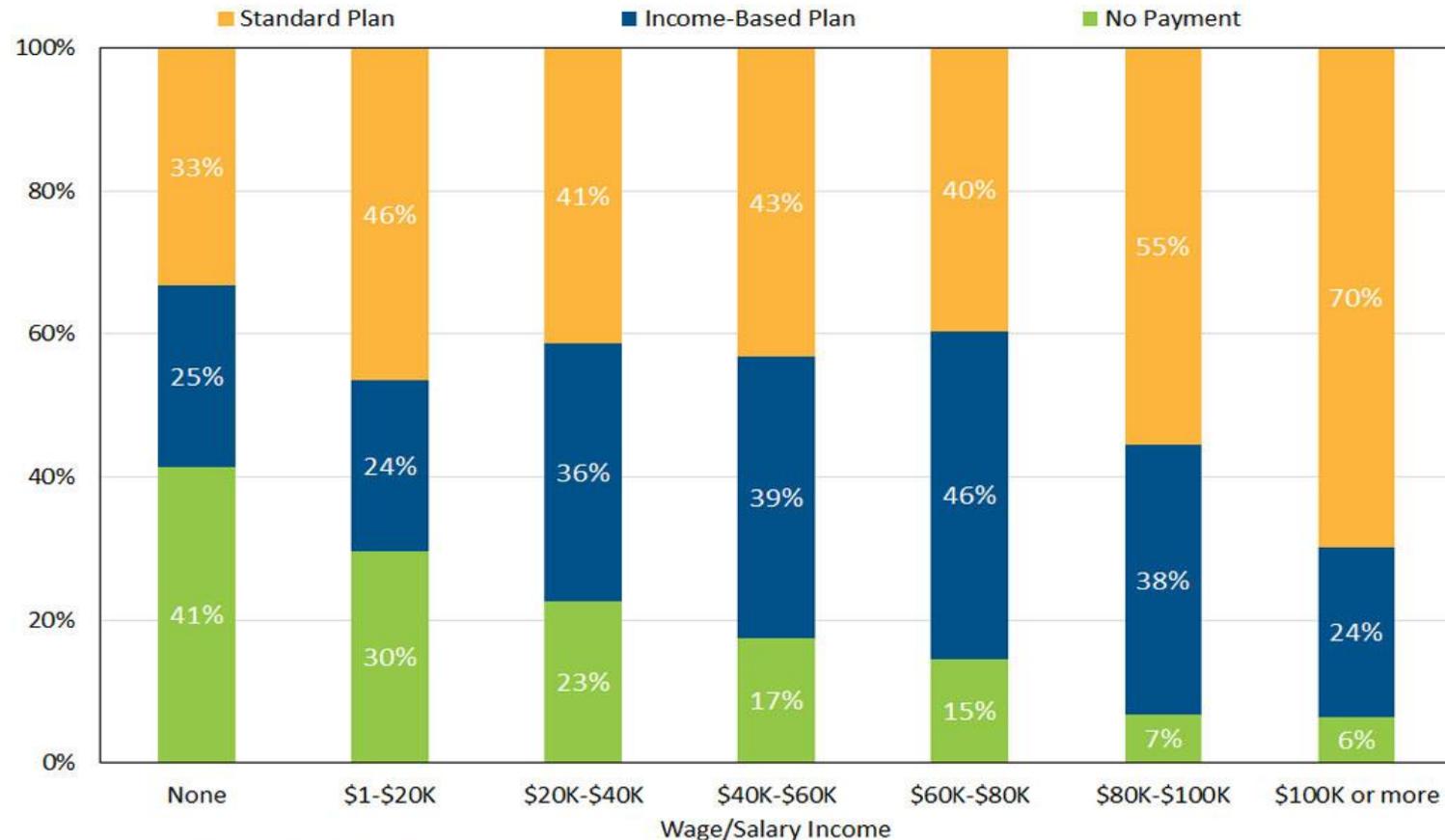
Different Types of Federal Loans and Repayment

- For federal loans
 - Direct Loans
 - Standard – fixed payments for 10 years
 - Graduated – lower initial payments that increase, paid off in 10 years
 - Extended – fixed or graduated, paid off within 25 years
 - Income dependent
 - Pay As You Earn (PAYE)
 - Revised Pay As You Earn (REPAYE)
 - Income-Based Repayment Plan (IBR)
 - Income-Contingent Repayment Plan (ICR)
 - Income-Sensitive Repayment Plan
- Other student loan types look different



Repayment Plan Participation Changes by Income

Figure 2: How Do Households Pay Back Their Student Loans?



Sources: Authors' calculations using the 2019 Survey of Consumer Finances.

Notes: Dollar amounts falling between two ranges (i.e., \$20,000, \$40,000, etc.) were included in the larger ranges. This figure is based on the first reported loan.

Source: Federal Reserve Bank of Richmond



Federal Policy is Unresolved – Payment Pause

- Payments on federal student loans are suspended
 - Originally tied to COVID-19 emergency
 - Supreme Court will hear arguments on Biden administration debt relief
 - Debt relief would forgive \$20,000 of debt to Pell Grant recipients, \$10,000 for everyone else
 - If legality of debt relief not resolved by June 30, payments will resume 60 days later
 - Tentatively set to resume September 1
- Timing of payment resumption will impact the amount that could be deducted in year 1, and then increase to reflect 12 months of repayment in tax year 2023.



Federal Policy is Unresolved – REPAYE Program

- Changes to current REPAYE program would expand who qualifies
- Would substantially reduce monthly debt burdens, and payments
 - Future borrowers would have payments per dollar borrowed decrease by 40%
 - According to Department of Education, a first-year teacher would save more than \$17,000 lifetime while pursuing Public Service Loan Forgiveness
 - Average graduate of four-year public university would save nearly \$2,000 per year compared to current REPAYE program



S.68 Considerations

- In traditional amortization, borrowers pay interest first then principal
 - Consequently, including principal in deduction will benefit those at later stages of repayment
- It will also benefit those with smaller balances
 - Including principal at any amount expands the number of borrowers and loans eligible
 - 15.4% of VT borrowers have less than \$5,000 in student debt
- How does this fit with potential federal policy changes?

