

LEGISLATIVE FISCAL ESTIMATE
SENATE COMMITTEE SUBSTITUTE FOR
SENATE, No. 580
STATE OF NEW JERSEY
222nd LEGISLATURE

DATED: AUGUST 27, 2026

SUMMARY

- Synopsis:** Allows gross income tax deduction for certain student loan interest.
- Type of Impact:** Annual State revenue loss to Property Tax Relief Fund.
- Agencies Affected:** Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030
State Revenue Loss	\$11.9 million	\$12.2 million	\$12.5 million

- The Office of Legislative Services (OLS) estimates that the bill will reduce annual State gross income tax collections by approximately \$11.9 million in FY 2028, \$12.2 million in FY 2029, \$12.5 million in FY 2030, and growing by about 2.3 percent annually thereafter. This estimate assumes that the bill will be enacted in calendar year 2026.
- The federal pause in student loan interest accrual, monthly loan payments, and involuntary collections significantly reduced the number of taxpayers claiming the federal student loan interest deduction in the most recently available data. Assuming that the balance of student loan interest payments rebounds to pre-pandemic levels, the OLS estimates that about 266,000 taxpayers will make \$333 million in deductible student loan interest payments in taxable year 2027, which would reduce FY 2028 deposits into the Property Tax Relief Fund .

BILL DESCRIPTION

The bill provides a gross income tax deduction for interest payments paid on qualified education loans, up to \$2,500, to taxpayers with gross income of \$85,000 or less. The deduction applies to interest payments made during the taxable year on qualified education loans incurred by the taxpayer to pay higher education expenses on behalf of the taxpayer, the taxpayer’s spouse, or the taxpayer’s dependent, other than interest paid on a New Jersey College Loans to Assist State

Students Program loan for which a deduction is already allowed under current law. The deduction applies to taxable years beginning on or after January 1 next following the date of enactment.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the bill will reduce annual gross income tax collections by approximately \$11.9 million in FY 2028, \$12.2 million in FY 2029, \$12.5 million in FY 2030, and growing by about 2.3 percent annually thereafter.

Assuming the bill is enacted in calendar year 2026, the bill is not expected to reduce State revenues prior to FY 2028 because the bill provides the tax deduction for taxpayers who make interest payments on their student loans in taxable years beginning on or after January 1 next following the bill's date of enactment. If the bill is enacted in calendar year 2026, the deduction will first be available for qualified student loan interest payments made in taxable year 2027, which are due in April 2028, which is in FY 2028.

In the federal Statistics of Income publication, the Internal Revenue Service indicates that 360,100 New Jersey tax returns claimed \$426.2 million under the federal student loan interest deduction in tax year 2019. Between tax years 2013 and 2019, the total claim amount grew at an annualized rate of 1.8 percent.

In March 2020, the federal government suspended interest accrual, monthly loan payments, and involuntary collection on federal student loans. The interest accrual and payment suspension ended in September 2023, with borrower payments resuming in October 2023, while involuntary collection on defaulted loans resumed in April 2025. The average student loan interest deduction claimed declined by 6.1 percent from 2019 to 2022. In addition, the number of taxpayers claiming the deduction declined by 63 percent, from 360,100 claimants in 2019 to 133,920 claimants in 2022.

The federal pause in student loan interest accrual, monthly loan payments, and involuntary collections significantly reduced the number of taxpayers claiming the federal student loan interest deduction in the most recently available data. Assuming that the balance of student loan interest payments rebounds to pre-pandemic levels, the OLS estimates that about 266,000 taxpayers will make \$333 million in deductible student loan interest payments in taxable year 2027, which would reduce FY 2028 deposits into the Property Tax Relief Fund. However, to the extent that student loan payments, interest accrual, or taxpayer claims for the student loan interest deduction do not return to pre-pandemic levels, the revenue loss under the bill may be significantly lower than estimated.

This estimate is constructed using a marginal tax rate of 3.5 percent, given that eligibility for the deduction is capped under the bill at taxpayers with no more than \$85,000 in gross income. Taxpayers will receive varying tax benefits from the deduction under the bill because the applicable State marginal tax rate will depend on the taxpayer's income. For eligible taxpayers, the most likely State marginal tax rates would range from 1.75 percent to 5.525 percent.

The average federal student loan interest deduction was approximately \$1,206 in federal tax year 2022. At that average deduction amount, taxpayer savings under the bill would range from

\$21.11 for filers with taxable income between \$20,000 and \$50,000 to \$66.36 for filers with taxable income between \$80,000 and \$85,000.

Section: Revenue, Finance and Appropriations
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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).