INDIVIDUAL INCOME TAX
Expand K-12 Credit and Subtraction

February 13, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 499 (Rhodes)/ S.F. 533 (Kelley)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
General Fund	($810)	($850)	($890)	($940)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

Current Law: The current K-12 education credit and subtraction both allow the rental but not the purchase of musical instruments used for regular school music classes as eligible expenses.

Proposed Law: The proposal would allow purchases of musical instruments to qualify for the subtraction and credit if they are used in classes offered as part of the school curriculum.

REVENUE ANALYSIS DETAIL

- The number of returns using the K-12 credit in tax year 1999 was 57,962; the number using the deduction is estimated to be 192,000 according to the preliminary 1999 Individual Income Tax Sample.
- The vast majority of music students currently lease, or 'trial purchase' their instruments for monthly amounts ranging from $15 to $40.
- It is unlikely a subtraction would provide much incentive to fully purchase an instrument. It will be assumed about 1,000 returns will use the subtraction for an average amount of $800 and an average tax savings of $56.
- Since the credit is available only at incomes under $37,500, is limited to $1,000 per child and is available for a variety of expenses, the use of it for purchases of musical instruments is estimated to be relatively low. An average credit of $750 for 1,000 returns will be used.
- Annual growth of five percent is applied.

NUMBER OF TAXPAYERS AFFECTED: An estimated 2,000 returns annually.

ADMINISTRATIVE/OPERATIONAL IMPACT

Because the department is currently formalizing a reengineered process for the income tax, the operational impact of this provision cannot be precisely estimated. However, this bill would require additional funds for compliance during processing which will be directly related to the increase in participation.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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