INDIVIDUAL INCOME TAX
Expand K-12 Education Subtraction

March 6, 2001

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

Department of Revenue
Analysis of H.F. 575 (Kuisle)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
General Fund	($350)	($365)	($385)	($405)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

Current Law: The current K-12 education subtraction can be taken for certain education expenses of the taxpayer's qualifying child. A qualifying child is the taxpayer's son, daughter, adopted child, grandchild, or stepchild who lived with the taxpayer for more than half of the year. The maximum subtraction is $1,625 per child in kindergarten through 6th grade and $2,500 per child in grades 7 through 12.

Proposed Law: The proposal would extend the subtraction to apply to education expenses paid by the taxpayer for the taxpayer's grandchild, step-grandchild, sibling, step-sibling, or child of a sibling or step-sibling, with no requirement that the child live with the taxpayer for any part of the year. The taxpayer would be allowed a subtraction for expenses paid, up to the maximum amount per child.

REVENUE ANALYSIS DETAIL

- The number of returns using the dependent education subtraction for tax year 1999 is estimated to be 192,000, according to the preliminary Individual Income Tax Sample. At an average of 1.5 school-age dependents per return this would equal 288,000 qualifying children.
- The average amount deducted was $1,080 and the total amount deducted was $207 million.
- There is an estimated total of 1,090,000 young people in the school-age group 5-18 in Minnesota.
- The effect of extending the subtraction to the wider group as proposed cannot be determined exactly but is estimated to increase the number of claimants by 5,000 with an average subtraction of $1,000 and an average marginal tax rate of 7%.
- A growth rate of five percent is applied.

NUMBER OF TAXPAYERS AFFECTED: An estimated 5,000 returns annually.

ADMINISTRATIVE/OPERATIONAL IMPACT

See fiscal note

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

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