

INDIVIDUAL INCOME TAX
Expand K-12 Credit and Subtraction

April 17, 2001

Department of Revenue
Analysis of H.F. 2256 (Bernardy) **As Proposed To
Be Amended (H2256A1)**

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

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
			(000's)	
General Fund	(\$6,200)	(\$6,500)	(\$6,800)	(\$7,200)

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. Expenses for extracurricular activities not tied to academic subjects do not qualify.

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. It would also allow expenses paid to public and nonpublic schools for participation in certain extracurricular activities listed in Sec. 123B.36, subd. 1, paragraph (b). These include supplemental field trips, personal physical education and athletic equipment and apparel, activities for which a fee is charged, and amounts paid for transportation to all such activities.

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.

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- Athletic equipment and apparel and supplemental field trips would be frequently claimed items and are estimated to increase the current subtraction and credit each by fifteen percent.
- The estimated fifteen percent increase was applied to the 1999 base year information, and annual growth of five percent was used.

NUMBER OF TAXPAYERS AFFECTED: An estimated 25,000 returns annually.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

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

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