

MINNESOTA • REVENUE

Individual Income Tax Corporate Franchise Tax Credit for Contributions to “School Tuition Organizations”

February 25, 2004

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

Department of Revenue

Analysis of H.F. 301 (Sykora), Delete-All Amendment (DE1) Preliminary Analysis

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
General Fund	\$0	(\$3,500)	(\$20,800)	(\$27,100)

Effective for taxable years beginning after December 31, 2003.

EXPLANATION OF THE BILL

Current Law: There is no provision in current law for credits for contributions to school tuition organizations (STO).

Proposed Law: The proposed law creates a new nonrefundable income tax credit for individuals and corporations who make contributions to STOs that in turn provide scholarships and grants to students attending elementary or secondary schools. The credit is equal to 75% of the contribution and has a maximum of \$1,000 per tax return. Since a deduction for such a contribution already exists under IRC section 170, there will be an addition to federal taxable income on the Minnesota return.

REVENUE ANALYSIS DETAIL

- It is unknowable at this time how many STOs will be established to take advantage of this credit and how effective they will be at encouraging contributions.
- The experience of the state of Arizona which has had a somewhat similar program since 1998 was used as a starting point for the analysis. The cost of their private school program is as follows:
 - 1998 - \$ 1,816,299
 - 1999 - \$13,706,611
 - 2000 - \$17,542,662
- The 2001 population estimates for Minnesota and Arizona are 4.97 million and 5.31 million respectively. The Minnesota to Arizona percentage is 93.6%.

REVENUE ANALYSIS DETAIL (Continued)

- In Minnesota, the income of the family of the recipient of the scholarship or grant must be below the statewide median income (\$70,553 for calendar year 2000). Arizona has no income limitation. In Minnesota for the year 2000, about 56.6% of households with students in private school had income below the median.
- The 1997-98 private school enrollment rates for Minnesota and Arizona are 9.2% and 5.3% respectively. The Minnesota to Arizona percentage is 173.6%.
- The maximum credit per taxpayer in Minnesota is \$1,000. The Arizona maximum credit per individual return is \$500 for a single filer and \$625 for a jointly filed return. The approximate Minnesota to Arizona percentage is 180.6%.
- It was assumed that the credit for corporations could increase the cost of the proposal by about 10%.
- It was assumed that the certification requirement for the STO and the requirement that no specific student could be designated as the recipient of the scholarship or grant could reduce the cost of the proposal by about 25%.
- A 2% growth was assumed.
- Phase-in rates based on Arizona's experience were used.

Number of Entities Affected: Unknown.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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