

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX K-12 Education Credit

March 31, 2004

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

Department of Revenue

Analysis of S.F. 2702 (Ortman), Delete-All Amendment (A04-1184)

	<b>Revenue Gain or (Loss)</b>			
	<b><u>F.Y. 2004</u></b>	<b><u>F.Y. 2005</u></b>	<b><u>F.Y. 2006</u></b>	<b><u>F.Y. 2007</u></b>
		(000's)		
Credit	\$0	(\$9,040)	(\$9,490)	(\$9,970)
Subtraction	<u>\$0</u>	<u>\$440</u>	<u>\$460</u>	<u>\$490</u>
General Fund Total	\$0	(\$8,600)	(\$9,030)	(\$9,480)

Assumed effective beginning with tax year 2004.

### EXPLANATION OF THE BILL

**Current Law:** The Minnesota income tax statute allows taxpayers to take a refundable credit on their income tax returns for some school expenses for students in kindergarten through 12<sup>th</sup> grade. If an expense is not used for the credit, then the expense might possibly be used as a subtraction on the return. The statute imposes income limits, expense limits, and limits on the types of expenses that can be used for the credit or the subtraction. The following five types of expenses are authorized under current law for both the credit and the subtraction: fees for enrichment programs, fees for individual instruction, cost of required school materials, some transportation expenses, and hardware and educational software for personal computers. Tuition expenses are eligible for the subtraction, but expenses for religious materials and instruction are not eligible for the credit or for the subtraction.

The credit is equal to 75% of eligible expenses. The maximum credit is \$1,000 per child and \$2,000 per family. The maximum credit is phased out for household income between \$33,500 and \$37,500, so that no credit is available for taxpayers with income over \$37,500.

**Proposed Law:** The proposed law authorizes tuition expenses for the credit and eliminates the maximum credit per family.

## REVENUE ANALYSIS DETAIL

- Census data for 2000 provided information about the number of students enrolled in private schools by income level in Minnesota. Using this data along with tuition information obtained from the Minnesota Independent School Forum, the likely distribution of tuition by income level was approximated by assuming participation rates and averages. This tuition expense information was input into a K-12 credit model which was developed. The family credit limit was eliminated from the model, but all other parameters were input as under current law. The resulting credit was reduced by 19% to account for the likelihood that some of the families that would claim the tuition credit under the proposal are already claiming the credit for currently-authorized expenses.
- Those claiming a tuition credit under the proposed law would no longer be eligible to claim a tuition subtraction. The expenses that would no longer be taken for the subtraction were estimated based on the estimate of the tuition credit. Five percent of those expenses were used as the estimate of the tax savings on the subtraction.
- For tax year 2002 the following costs for the provisions of the bill would be as follows:

○ Credit	\$8,200,000
○ Subtraction	<u>(400,000)</u>
Net	\$7,800,000
- A 5% annual growth rate over the base year was assumed.
- The costs for a particular tax year are reflected in the following fiscal year.

**Number of Taxpayers:** An estimated 6,500 returns would claim the credit for tuition expenses.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)