

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Education Subtraction and Credit

March 22, 2004

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

Department of Revenue
Analysis of H.F. 1776 (Slawik)/S.F. 2031 (Hottinger)

	<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	(\$9,700)	(\$9,900)	(\$10,100)

Effective beginning with tax year 2004.

EXPLANATION OF THE BILL

Current Law: The Minnesota education expense subtraction and credit apply to qualifying children in kindergarten through 12th grade only.

Proposed Law: The proposal would allow expenses incurred for enrollment in prekindergarten learning programs to qualify for both the education subtraction and credit. Such programs include those run by school districts, Montessori programs, preschools, nursery schools and early childhood development programs licensed by the department of Human Services and holding current accreditation. Additionally, allowable expenses would include memberships in museums, zoos, and similar learning institutions if there is a child aged 18 or younger in the household.

REVENUE ANALYSIS DETAIL

- Estimated census information for 2001 indicated that there were about 330,000 children below age 5 in Minnesota.
- Information from the U.S. Department of Education for 2001 indicated that 56% of children ages 3 to 5 who had not yet entered kindergarten attended some kind of center-based early childhood care and education program. A spokeswoman from the Minnesota Department of Education said that the figure for Minnesota might be as high as 70%.
- The cost and time of these programs vary considerably. The cost can vary from \$50 per year to \$750 per month. The time can vary from 2 hours per week to 40 or more hours per week.
- The following assumptions were used for this estimate:
 - About 100,000 children and 75,000 families participate in some kind of learning program.
 - One-third of the families are eligible for a credit on an estimated average expense of \$400. This includes the allowable museum and zoo memberships, etc. The credit is 75% of expenses, which is \$300.

REVENUE ANALYSIS DETAIL (Continued)

- Forty percent of the families are eligible for an average subtraction of \$600. A marginal rate of 7% is applied.
- An adjustment of \$400,000 is subtracted from the credit to adjust for those taxpayers who are using programs that qualify for this more generous credit over the dependent care credit.
- It is estimated that an additional 30,000 filers who qualify for the education credit under current law will claim a credit for the cost of museum memberships, etc., estimated to average around \$60. The credit would be 75% of \$60 or \$45.
- An annual growth rate of 2% is used.

Number of Taxpayers: An estimated 85,000 returns annually could be affected.

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