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CORPORATE FRANCHISE INDIVIDUAL INCOME TAX Credit for Education Expenses

April 19, 2005

Preliminary Analysis

Department of Revenue
Analysis of H.F. 882 (Thissen) / S.F. 1382 (Pappas)

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

Fund Impact

	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
			(000's)	
General Fund Total	(\$4,700)	(\$4,900)	(\$5,200)	(\$5,400)

Effective for tax years beginning after December 31, 2004.

EXPLANATION OF THE BILL

Present law does not provide a credit for employer-paid education expenses. Employers can deduct these expenses as a business expense. If the employer-paid expenses are paid out under a qualified education assistance plan, employees can exclude the value of the benefit from their income.

The bill would allow employers to receive a tax credit equal to 30% of the value of employer-paid education expenses provided that certain conditions are met. The credit covers expenses paid for employees who earn less than \$12 per hour and work at least 30 hours per week. The maximum credit is \$2,000 per employee. The bill defines educational assistance the same as the definition in I.R.C section 127(c). Expenses covered by the credit must be for postsecondary education but do not include graduate studies.

REVENUE ANALYSIS DETAIL

- The revenue estimate is based on the employer-provided educational assistance item in the federal tax expenditure budget published in January 2005 by the Joint Committee on Taxation.
- The tax expenditure estimate was reduced to account for the effect of employer-paid assistance for graduate studies. It was also reduced to account for the maximum salary cap of \$12 per hour.
- The value of employer-paid assistance was multiplied by 30% to determine the credit.

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

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