

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Deduction for Postsecondary Tuition

April 19, 2005

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

Department of Revenue  
Analysis of H.F. 1793 (Urdahl) / S.F. 1957 (Hottinger)

	<b>Fund Impact</b>			
	<u><b>F.Y. 2006</b></u>	<u><b>F.Y. 2007</b></u>	<u><b>F.Y. 2008</b></u>	<u><b>F.Y. 2009</b></u>
	(000's)			
General Fund	(\$2,180)	(\$3,150)	(\$3,180)	(\$3,210)

Effective beginning with tax year 2005.

### EXPLANATION OF THE BILL

**Current Law:** There is a federal deduction for tuition and fees for postsecondary tuition and related expenses paid by the taxpayer. This deduction was enacted at the federal level and adopted by Minnesota in 2001 and is scheduled to expire after tax year 2005. The education expenses can be for the taxpayer, spouse, or a dependent. For tax year 2005, two maximums apply: \$4,000 for taxpayers whose adjusted gross income (AGI) does not exceed \$65,000 (\$130,000 for a joint return) and \$2,000 for taxpayers whose AGI does not exceed \$80,000 (\$160,000 for a joint return). This deduction cannot be taken in the same year that the taxpayer claims the federal Hope Credit or Lifetime Learning Credit.

**Proposed Law:** A deduction would be allowed for qualified tuition and related expenses that were not deducted when determining federal taxable income. Two maximums apply: \$4,000 for a married couple filing joint returns if each spouse has qualified expenses and \$2,000 for all other filers. The deduction is reduced by 10% of AGI in excess of \$130,000 for married couples filing joint returns (\$65,000 for all other filers). This deduction only applies to students who cannot be claimed by someone else as a dependent, and for tuition paid for graduate or professional schools. Taxpayers who claim the Lifetime Learning Credit on their federal returns would be eligible for this deduction.

### REVENUE ANALYSIS DETAIL

- According to the Minnesota Higher Education Services Office, in 2003, there were approximately 56,000 graduate and professional students in Minnesota.
- It is assumed that 95% of these students are not claimed as a dependent.

**REVENUE ANALYSIS DETAIL (Continued)**

- It is assumed that 30% of graduate and professional students do not pay enough tuition or do not have enough income to receive a tax benefit from this deduction. These students are using scholarships, grants, fellowships, employer assistance, or a combination of these types of aid for their education expenses. It is assumed that 15% of graduate and professional students have an income too high to be eligible.
- An average deduction of \$1,750, a tax rate of 6%, and a growth rate of 1% are used for this analysis.
- Tax year 2005 is reduced by 30% to account for tuition deducted under the existing federal deduction.
- Tax year impact is allocated to the following fiscal year.

**Number of Taxpayers:** An estimated 29,000 students would be eligible for this deduction.

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)